I. ECONOMIC ENVIRONMENT

(1) INTRODUCTION

1. Since its last Review in 1997, Chile's economy has grown at an average annual rate of 2.4%, including a recession in 1999. Economic growth has been accompanied by decreasing inflation, stable external accounts, strong international reserves, and increased openness of the foreign trade regime. Chile's macroeconomic policy framework has sought increasingly to minimize potential effects of external shocks on output and employment; the authorities indicate that the two most important changes in this regard were the floating of the exchange rate in 1999, and the introduction of the concept of a structural surplus in fiscal policy in 2001.

2. Since 1996, Chile's current account has posted a deficit each year except for 1999. However, the deficit has come down from the 1996-98 levels, mainly because the trade balance switched into surplus in 1999. The deficit has been largely financed by inflows of foreign investment capital, which have tended to fall in line with the decrease of the current account deficit. Chile's economy remains largely resource-based; mining exports, mostly copper, agricultural goods (including forestry and fishing), and related processed products continue to generate about 80% of merchandise export earnings. Chile's main trading and investment partners are the European Union and the United States; in addition, Argentina is an important supplier of imports.

3. Chile's per capita GDP was some US$4,340 in 2002. Chile has a remarkable record in reducing poverty. A combination of strong growth and social programmes reduced the poverty rate by half between 1987 and 1998, from 40% to 20%; about 5.7% of the population were in extreme poverty in 2000.

(2) MAIN ECONOMIC DEVELOPMENTS

(i) Output and employment

4. Between 1996 and 2002, Chile's real GDP grew at an average annual rate of 3.1% (Table I.1). Growth rates declined between 1996 and 1999, when Chile's economy entered its first recession since the early 1980s. Although GDP growth picked up again in 2000, growth rates have not attained their levels of the early 1990s, of more than 6%. The authorities consider that mainly cyclical factors have contributed to the slowdown of Chile's GDP growth, including low copper prices, increasing oil prices, and the impact of financial crises in East Asia, Argentina, and Brazil.

5. The GDP share of combined private and public consumption remained relatively stable over this period, between 74% and 77%, with an increasing trend for public consumption. The contribution of investment dropped from over 26% in 1998 to just under 21% in 1999, and has broadly remained at that level since. The contribution of the external sector to GDP was negative between 1996 and 1998, and has been positive since 1999; it amounted to 2.3% of GDP in 2002.

6. Agriculture contributes just over 4% to GDP, and agricultural goods are of key export importance (section (3)(i) below). The share of the manufacturing sector, which mostly centres around the processing of primary goods, has slightly declined to about 16% of GDP, despite growth in absolute terms. The mining sector has increased its contribution to GDP to more than 8%; copper exports remain Chile's most important single generator of foreign exchange. The services sector

contributes about 53% to GDP; growth rates have been particularly high for the transport and communications subsectors.[1]

Table I.1
Basic economic indicators, 1996-02

	1996	1997	1998	1999	2000	2001	2002
I. Gross domestic product (GDP)							
Current GDP (Ch$ billion)	31,237	34,723	36,535	37,139	40,393	43,344	45,763
Real GDP (1996, Ch$ billion)	31,237	33,301	34,377	34,115	35,537	36,626	37,412
Real GDP, rate of growth (%)	7.4	6.6	3.2	-0.8	4.2	3.1	2.1
Breakdown by expenditure (% of current GDP)							
Total consumption	74.3	74.4	76.4	76.8	76.3	76.5	75.8
Private	63.3	63.3	64.9	64.4	63.9	64.0	63.2
Public	11.0	11.1	11.5	12.4	12.4	12.5	12.6
Gross fixed capital formation	26.4	27.1	26.1	20.8	20.7	21.3	21.1
Exports of goods and services	27.3	27.1	26.3	29.6	31.8	33.5	34.1
Imports of goods and services	29.0	29.2	29.6	27.3	30.0	31.9	31.8
II. Fiscal indicators (% of GDP)							
Revenue	21.7	21.7	21.6	21.3	22.6	22.6	22.1
Expenditure	19.8	19.9	21.3	22.6	22.4	22.9	22.9
Overall balance	2.1	1.8	0.4	-1.4	0.1	-0.3	-0.8
III. Money and prices							
Consumer price index (% change)	7.4	6.1	5.1	3.3	3.8	3.6	2.5
M3 (end of period, % change)	24.9	19.6	17.2	8.5	7.6	9.1	7.4
Exchange rate (average of the year, Ch$/US$)	412.3	419.3	460.3	508.8	535.5	634.9	688.9
Real effective exchange rate (1995 = 100)	103.4	113.1	111.1	105.4	106.0	96.6	90.9
Deposit rate (%, p.a.)	13.5	12.0	14.9	8.6	9.2	6.2	3.8
Lending rate (%, p.a.)	17.4	15.7	20.2	12.6	14.8	11.9	7.8
IV. Memo items							
Population (million)[a]	14.4	14.6	14.8	15.0	15.2	15.4	15.1
Terms of trade	100	100.2	97.5	100.1	100.1	99.2	100.5
Gross international reserves (US$ million)	15,805	18,274	16,292	14,946	15,110	14,400	15,351

a Population figures for 2002 represent census results; figures for previous years are projections based on the previous census.

Source: Central Bank of Chile; Ministry of Finance; and IMF *International Financial Statistics*.

7. Between 1996 and 2002, total employment increased from 5.18 million to 5.39 million (Table I.2). Unemployment rates averaged around 6.2% from 1996 and 1998, but increased to nearly 10% in 1999 and have remained around 9% since. Employment has shifted away from agriculture and manufacturing, and all services subsectors have increased their share.

8. Trade plays an increasingly important role in Chile's economy. Chile's exports of goods and services amounted to US$22.7 billion in 2002, whereas imports of goods and services were US$21.1 billion. The share of exports of goods and services in GDP increased from 27.3% in 1996 to 34.1% in 2002; the share of imports of goods and services increased from 29.0% in 1996 to 31.8% in 2002.

Table I.2

[1] Services as defined here include: commerce, hotels and restaurants; transport and communications; financial services; real estate; private and personal services; and public administration.

Employment indicators, 1996-02
(Per cent and thousands)

	1996	1997	1998	1999	2000	2001	2002
Rate of unemployment (%)	6.3	6.1	6.3	9.8	9.2	9.1	9.0
Labour force	5,532	5,625	5,728	5,827	5,847	5,861	5,914
Total employment	5,181	5,281	5,375	5,255	5,311	5,326	5,385
by sector (%)							
Agriculture	15.2	14.2	14.1	14.1	13.9	13.2	13.1
Mining	1.8	1.8	1.6	1.4	1.4	1.4	1.3
Manufacturing	16.3	16.3	15.7	14.5	14.3	14.2	14.2
Electricity, gas and water	0.8	0.7	0.6	0.6	0.6	0.6	0.6
Construction	7.8	8.6	8.9	7.3	7.3	7.8	7.9
Commerce	17.9	18.1	18.3	19.1	18.8	19.0	19.4
Transport and communications	7.5	7.7	8.0	7.8	8.0	8.0	8.3
Financial services	6.8	6.9	7.2	7.5	7.7	7.8	7.8
Public services	25.9	25.8	25.7	27.6	28.1	28.1	27.3

Source: Chilean authorities.

(ii) Fiscal policy

9. The formulation of fiscal policy is mainly the responsibility of the Ministry of Finance. The authorities indicated that the most important modification in fiscal policy formulation since Chile's last Review has been the introduction of the concept of a structural surplus in 2001. According to this concept, the authorities target an annual fiscal surplus equivalent to 1% of GDP, by assuming a level of economic activity consistent with normal capacity utilization and a hypothetical copper price equivalent to the long-term price of copper. This policy is aimed at ensuring medium-term fiscal stability, while permitting counter-cyclical measures in periods of slower economic growth.

10. According to Ministry of Finance figures, Chile has posted a fiscal deficit three times since 1996 (Table I.3). In addition, the Central Bank's balance has been negative for some time, and fairly stable at around 1% of GDP. As a share of GDP, government expenditure rose by about three percentage points between 1996 and 2002, whereas fiscal revenue has been more stable, oscillating around 22%.

11. With a view to reducing the volatility of fiscal income, the Government has operated a Copper Stabilization Fund since 1997. Thus, if copper prices exceed an annually determined baseline price by US$0.04 to US$0.05, 50% of the difference is paid into the Fund; if the copper price exceeds the baseline price by more than US$0.10, all the surplus is paid into the Fund. Likewise and with the same thresholds, resources are drawn out of the Fund to supplement current fiscal income when the price of copper falls below the baseline price.

12. Government revenue from import tariffs decreased from US$1.5 billion in 1996 to US$0.7 billion in 2002, reflecting reductions of MFN tariffs and of tariffs under preferential agreements (Table I.4). As a result of trade liberalization, the share of customs duties in total government revenue decreased from more than 12% in 1996 to just over 6% in 2002. VAT collected on imports increased to US$3.7 billion in 1998, but has been falling since then, to US$2.9 billion in 2002, reflecting in large measure the drop in the value of imports. The proportion of fiscal revenue derived from foreign trade (tariffs and internal taxes levied on imports) showed a falling trend between 1996 and 2001, when it amounted to just over 31%, but increased again in 2002, to over 35%, mainly due to weak total fiscal revenue.

Table I.3
Central Government finances, 1996-02
(Ch$ billion)

	1996	1997	1998	1999	2000	2001	2002
I. Revenue	**6,788**	**7,525**	**7,907**	**7,910**	**9,115**	**9,796**	**10,129**
1. Current revenue	**6,617**	**7,334**	**7,708**	**7,731**	**8,960**	**9,620**	**9,917**
Operational income[a]	440	471	560	650	912	653	665
Contributions to social security	403	449	497	527	577	628	679
Net tax income[b]	5203	5673	5952	5806	6616	7267	7709
Copper-related revenue[c]	213	306	208	251	279	334	346
Transfers	56	60	67	73	78	97	86
Other income	302	376	424	424	499	641	433
2. Capital revenue	**171**	**191**	**199**	**179**	**154**	**175**	**211**
II. Expenditure	**6,130**	**6,902**	**7,775**	**8,412**	**9,058**	**9,908**	**10,493**
1. Current expenditure	**4,972**	**5,576**	**6,325**	**6,882**	**7,556**	**8,270**	**8,713**
Personnel (wages and salaries)	1,159	1325	1491	1645	1778	1891	2011
Goods and services	516	569	633	577	634	671	713
Social security benefits	1,698	1898	2145	2442	2684	2925	3058
Interest payments	166	141	233	121	180	203	135
internal debt	65	63	178	36	81	91	10
external debt	101	78	55	85	99	112	125
Transfers	1,390	1594	1758	2041	2211	2498	2705
Other	42	50	65	56	68	81	91
2. Capital expenditure	**1,158**	**1,326**	**1,451**	**1,530**	**1,502**	**1,638**	**1,780**
Real investment	884	992	1074	1038	905	979	1033
Financial investment	148	207	199	177	205	174	178
Capital transfers	126	127	177	316	392	485	569
III. Balance							
Current expenditure and revenue (I.1-II.1)	**1,645**	**1,759**	**1,383**	**848**	**1,404**	**1,350**	**1,204**
Global (I.-II.)	**658**	**623**	**132**	**-502**	**56**	**-113**	**-365**
IV. Financing	**-658**	**-623**	**-132**	**502**	**-56**	**113**	**365**
Net external financing	-286	-174	-78	186	-105	275	450
Net domestic financing	-317	-175	-378	-278	-60	-219	-394
Change in cash flow and other	-55	-274	324	594	108	56	308
V. Memo items:							
Deposits in Copper Stabilization Fund	78	44	-162	-234	-64	-267	-290
Use of Petrol Stabilization Fund	19	17	-47	60	185	-8	-7
Public debt amortization	655	409	508	421	219	400	730
Recognition Bonds	210	260	304	369	416	493	487
CODELCO transfers to Armed Forces[d]	110	118	99	117	160	163	153

a Includes income from privatization.
b Net of tax deductions and devolutions.
c Includes transfers from CODELCO (profits and taxes) net of state contributions to the Copper Stabilization Fund; excludes CODELCO's transfers to the Armed Forces.
d Law No. 13.196 requires CODELCO to transfer 10% of its gross revenue to an extra-budgetary account maintained by the Central Bank and to be used by the armed forces.

Source: Ministry of Finance.

Table I.4
Import-related fiscal revenue, 1996-02
(US$ million)

Year	1996	1997	1998	1999	2000	2001	2002
Tariffs	1,528	1,615	1,597	1,033	1,067	862	711
VAT on imports	3,303	3,591	3,687	2,738	3,225	3,007	2,936
Specific taxes on imports	102	172	192	139	162	169	204
Total trade-related fiscal revenue	5,091	5,261	4,971	4,012	4,456	4,080	3,882
Total fiscal revenue	12,623	13,543	12,955	11,427	12,269	13,039	11,045
Share of trade-related revenue in total fiscal revenue (%)	40.3	38.8	38.4	35.1	36.3	31.3	35.1

Source: Chilean authorities.

13. The Budget for 2003, approved by Congress on 20 November 2002, provides for fiscal expenditure of US$16.5 million and an estimated revenue of US$16.1 million, projecting a central government deficit of 0.7% of GDP.

(iii) Monetary and exchange rate policies

14. The institutional framework for Chile's monetary policy is laid out in Articles 97 and 98 of the Constitution and in the Constitutional Organic Law of the Central Bank (Law No. 18.840 of 10 October 1989), both of which stipulate that the Central Bank is an autonomous institution. Pursuant to Article 6 of the Law, the Council of the Central Bank is the highest authority for the formulation of monetary policy in Chile. The Council is composed of five members designated by the President of the Republic and approved by the Senate for a renewable period of ten years. The President of the Council, who also serves as the head of the Central Bank, is designated by the President of the Republic from among the members of the Council, for a period of five years.

15. Pursuant to Article 3 of the Constitutional Organic Law, the Central Bank has as an objective to protect currency stability and the normal functioning of internal and external payments. The authorities confirmed that in practice price stability is the key objective of the Central Bank.

16. The Central Bank has been successful in keeping inflation rates low; the average rate decreased from 7.4% in 1996 to 2.5% in 2002. Since January 2001, the Central Bank has been following an annual inflation target of 2% to 4%, centred on 3%, and measured by increases of the consumer price index. For 2003, the Central Bank expects an inflation rate of 2.9%.

17. With a view to lowering inflation, the Central Bank tightened its monetary policy between 1996 and 1999; it was tightened in particular during the second half of 1998, but was relaxed in the first months of 1999.

18. A large share of prices in Chile are indexed, i.e. expressed in Unidad de Fomento or Unidad Tributaria. The authorities indicated that this is mainly due to inflation rates being high in the past, and consider that indexation does not impact on the efficiency of monetary policy.

19. There are two foreign exchange markets, the formal and the informal. The exchange rate is the same in both markets, and agents may sell or purchase foreign exchange in either market, except for capital transactions, which must be conducted through the formal foreign exchange market. The foreign exchange market consists of commercial banks and other entitities licensed by the Central Bank.

20. Since 1998, interest rates have been decreasing. The Central Bank's monetary policy rate fell from nearly 13% in October 1998 to below 3% in January 2003; in June 2003 the rate was 2.75%. The average spread between lending and deposit rates has ranged between 3.7% and 5.7% since 1996.

21. Since September 1999, the Central Bank has been following a free floating policy. While it does not pursue an exchange rate goal as such, the Central Bank may intervene exceptionally in the foreign exchange market in situations of strong volatility and uncertainty, defined as an overshooting of the exchange rate leading to contractions in the economy.[2] The authorities indicate that since the introduction of the floating policy, the Central Bank has intervened in the exchange market twice, between August and December 2001, and between October 2002 and January 2003. From 1992 to September 1999, Chile's exchange rate policy was based on a crawling band, whereby the reference nominal currency value was pegged to a basket of key currencies.

22. A number of factors contributed to the abandonment of the band and the adoption of a flexible exchange regime.[3] First, after reaching its inflation target of around 3% in 1999, the prevailing inflation targeting scheme was modified in order to accommodate the subsequent goal of keeping inflation low and stable, rather than reducing it each year. As part of this upgrade in the inflation targeting scheme, a free floating system was considered as much more consistent and immune to conflicts with inflation targets than an exchange rate band. In addition, the significance of imported inflation during the 1998-99 depreciations had proved to be much smaller than previously thought, so fluctuations in the exchange rate were seen as having a lesser impact on inflation. Furthermore, the development of a foreign exchange derivatives and hedging instruments market allowed domestic enterprises to reduce some of the possible costs of exchange rate flexibility.

23. Since 1996, the exchange rate of the Chilean peso has been characterized by recurrent depreciation against the U.S. dollar. The depreciation was particularly marked in 2001, against the background of various international currency crises. However, inflows of foreign capital have helped to keep these changes at an annual average of 7.6% over this period. As of June 2003, the U.S. dollar exchange rate was Ch$703. The peso's real effective exchange rate (REER) has depreciated considerably since 1997, after a phase of marked appreciation in the mid 1990s: the accumulated depreciation since 1997 is almost 20%.

24. With a view to reducing Chile's exposure to short-term capital flows and warding off appreciating pressure on the exchange rate, Chile applied short-term capital controls until 1998. The “unremunerated reserve requirement” (URR), introduced in 1991 and more commonly known in Chile as the *encaje*, required foreign investors to make a non-interest-bearing deposit in the Central Bank valued at a certain percentage of their investment. The deposit was required for portfolio inflows such as foreign currency deposits in local banks and foreign borrowing (excluding trade credits). The URR was set at 20% until 1992 and at 30% between 1992 and 1998; against the background of decreasing capital inflows and the increasingly important policy objective of financial integration, it was reduced to 10% in July 1998, and then to 0% in September 1998.

25. For investments made under the Investment Law (Decree Law No. 600), there are restrictions on the repatriation of capital (Chapter II(3)).

(iv) Balance-of-payments

26. Chile's current account has posted a deficit in each year since 1996, with the exception of 1999 (Table I.5). The deficit was particularly marked between 1996 and 1998, when it exceeded

[2] Central Bank of Chile (2003) January, pp. 42-44.
[3] Morandé and Tapia (2002).

US$3 billion. In 2002, the deficit narrowed to US$550 million, equivalent to 0.8% of GDP. It has been largely financed by inflows of foreign investment capital.

Table I.5
Balance-of-payments, 1996-02
(US$ million)

	1996	1997	1998	1999	2000	2001	2002
1. Current account	-3,082.6	-3,660.2	-3,918.4	99.5	-766.3	-1,192.2	-553.1
A. Trade in goods and services	-1,072.5	-1,563.4	-2,492.0	1,690.1	1,471.0	1,136.4	1,556.3
(a) Goods	-1,071.9	-1,427.6	-2,040.2	2,427.2	2,118.9	2,054.4	2,513.2
1. Exports	16,626.8	17,870.2	16,322.8	17,162.3	19,210.2	18,465.8	18,339.9
2. Imports	-17,698.7	-19,297.8	-18,363.1	-14,735.0	-17,091.4	-16,411.4	-15,826.7
(b) Services	-0.6	-135.8	-451.8	-737.2	-647.8	-918.0	-956.9
1. Receipts	3,588.0	3,891.8	3,952.0	3,869.0	4,077.9	4,105.4	3,960.2
2. Payments	-3,588.6	-4,027.6	-4,403.8	-4,606.2	-4,725.7	-5,023.4	-4,917.2
B. Investment income	-2,517.6	-2,617.1	-1,888.7	-2,233.1	-2,795.3	-2,756.6	-2,535.7
1. Remuneration of employees	-14.0	-20.5	-15.8	-14.4	-14.3	-15.0	-16.0
2. Investment income	-2,503.6	-2,596.6	-1,872.9	-2,218.7	-2,781.0	-2,741.6	-2,519.7
Income from foreign direct investment	-1,760.2	-1,942.6	-1,135.7	-1,412.8	-1,894.4	-1,788.7	-1,697.4
Receipts	132.2	242.8	265.6	54.3	567.5	467.4	458.8
Payments	-1,892.4	-2,185.4	-1,401.3	-1,467.1	-2,461.9	-2,256.1	-2,156.2
Income from portfolio investment	-281.4	-355.5	-362.4	-347.5	-402.1	-501.5	-500.3
Income from other investment	-462.0	-298.6	-374.8	-458.5	-484.5	-451.4	-322.0
C. Current transfers	507.5	520.3	462.4	642.5	558.0	428.0	426.4
1. Receipts	665.1	835.0	809.9	840.9	765.3	678.4	698.1
2. Payments	-157.6	-314.7	-347.5	-198.4	-207.3	-250.4	-271.7
2. Financial account	3,063.7	3,422.0	4,160.3	974.7	490.6	2,356.2	799.5
1. Foreign direct investment	3,681.2	3,808.7	3,144.3	6,203.1	-347.7	3,044.9	1,139.3
Outflows	-1,133.5	-1,462.7	-1,483.5	-2,557.9	-3,986.5	-1,431.6	-463.7
Inflows	4,814.6	5,271.4	4,627.8	8,761.0	3,638.8	4,476.5	1,603.0
2. Portfolio investment	1,134.1	1,625.1	-2,468.6	-3,217.4	638.8	46.0	-1,875.5
3. Derivative financial instruments	-21.7	165.2	-59.3	-5.6	2.2	-85.7	-123.7
4. Other investment	-607.9	1,142.7	1,349.8	-2,742.9	534.1	-1,245.1	1,858.0
5. Change in reserves	-1,122.0	-3,319.7	2,194.1	737.5	-336.7	596.1	-198.6
3. Errors and omissions	18.9	238.2	-241.9	-1,074.1	275.7	-1,164.0	-246.5

Source: Central Bank of Chile.

27. Chile's merchandise trade balance has shown a noticeable surplus since 1999, after posting sizeable deficits between 1996 and 1998. Despite positive GDP growth, imports of goods have been declining since 1997; exports have shown a slightly positive trend. Fluctuations in merchandise exports are strongly linked to the evolution of the terms of trade and world copper prices, given the continued importance of copper in Chile's exports. Since 1996, Chile's balance of trade in services has posted a deficit, on a widening trend.

28. FDI inflows amounted to about US$5 billion a year between 1996 and 1998, reached a peak in 1999 with nearly US$8.8 billion, and dropped to just over US$1.6 billion in 2002. The large stock of foreign investment in Chile's economy, makes profit remittances an important contributor to Chile's current account; in 2002 they were, for the first time, superior to inflows of new FDI.

29. Chile's external public debt stood at US$8.3 billion in June 2003, equivalent to about 12.3% of GDP; international currency reserves of the Central Bank amounted to US$15.5 billion. Private external debt was at US$33.1 billion.

(3) MERCHANDISE TRADE AND INVESTMENT FLOWS

(i) Composition of trade

30. Chile's exports continue to consist mostly of primary goods, including processed mining and agricultural products. Mining products, mostly copper, still account for more than 42% of Chile's merchandise exports, although this share has declined slightly since 1996; the various copper products alone made up 37% of Chile's exports in 2001 (Chart I.1 and Table AI.1). Agricultural goods account for some 37% of Chile's exports, the same share as in 1996; they include mainly wine, fruits, and fish, and agricultural raw material consisting mostly of various forestry products. Within agricultural exports, wine and various fresh and frozen fish products have increased their shares, whereas the share of fish flour has decreased.

31. Chile's imports in 2000 and 2001 were below their 1996 level, although import patterns remained relatively stable over the period. Imports are dominated by a wide range of manufactured goods and crude petroleum. Fuels, office machines, chemicals, and other semi-manufactures increased their share in Chile's imports, whereas imports of machinery and transport equipment have fallen since 1998, including a sharp drop during the 1999 recession, in line with the decrease in the share of investment in GDP (Table AI.2).

(ii) Direction of trade

32. Chile's main export market in 2001 was the European Union, which absorbed 25% of its exports, up from 24.2% in 1996 (Chart I.2 and Table AI.3). The share of exports destined for the United States increased to nearly 19%, from around 15%, while Japan's share fell by more than four percentage points, to just over 12%.

33. The share of other Asian countries in Chile's exports declined from more than 18% to just below 14%, despite an increase of more than three percentage points in exports to China, to nearly 6%. Chile's export industries were particularly hit by the Asian financial crisis: from 1997 to 1998 the share of exports destined to Asian countries dropped from over 35% to below 28%; the dollar value of Chile's exports to Asian countries fell from US$5.36 billion in 1996 to US$4.89 billion in 2001.

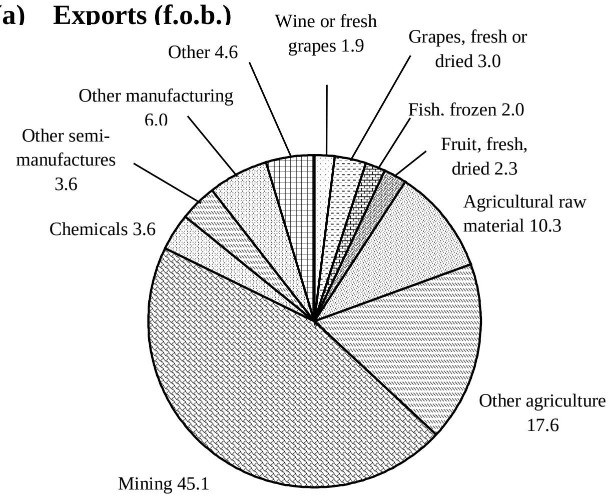
34. Chile's largest supplier in 2001 was Argentina, just ahead of the United States and the European Union (Table AI.4). While the share of Chile's imports from the United States fell to just over 18%, Argentina's share constantly increased, by more than nine percentage points to over 19% in 2001. Other countries that increased their shares in Chile's imports include Brazil and China.

Chart I.1 Chile
Merchandise trade by product, 1996 and 2001

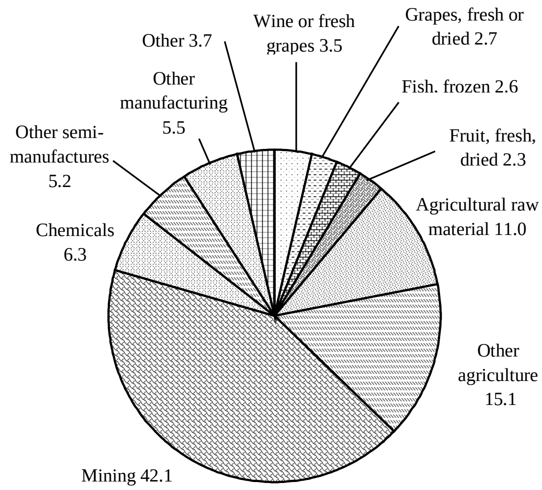
Per cent

1996 | **2001**

(a) Exports (f.o.b.)

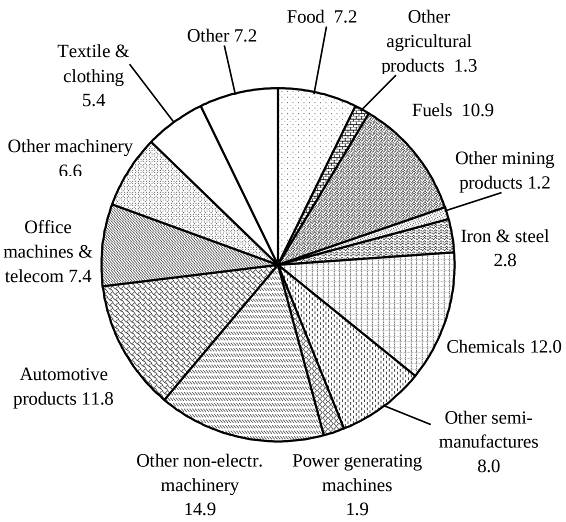


Total: US$15,406.8 million

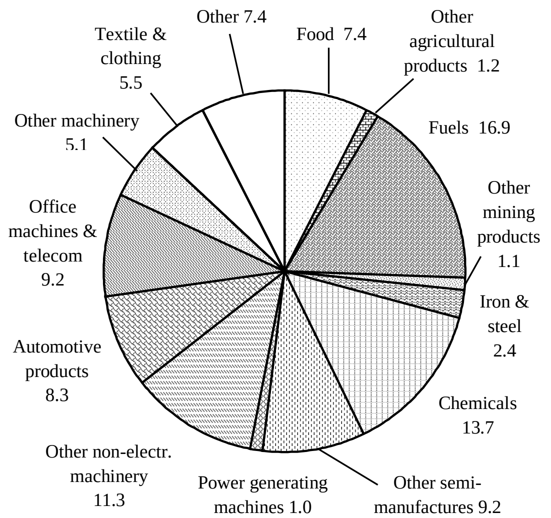


Total: US$18,745.4 million

(b) Imports (f.o.b.)



Total: US$16,810.0 million



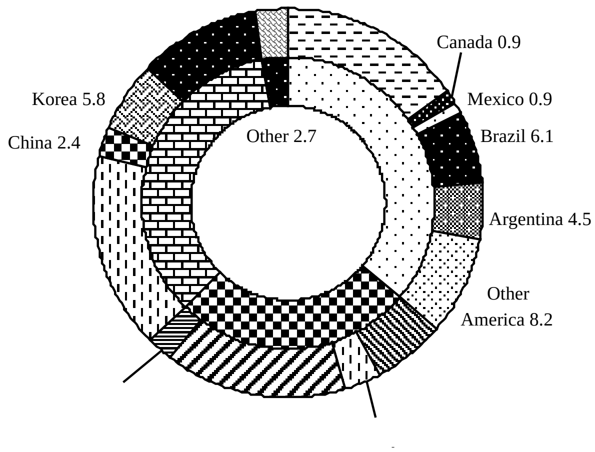
Total: US$16,136.2 million

***Source*: UNSD, Comtrade database (SITC Rev.3).**

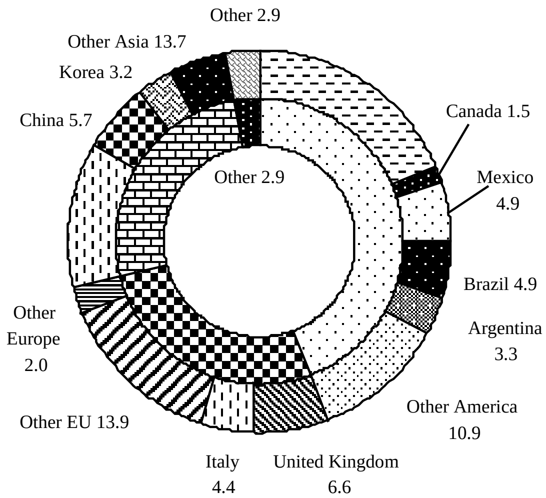
Chart I.2 Chile
Merchandise trade by partner, 1996 and 2001
Per cent

1996 **2001**

(a) Exports (f.o.b.)

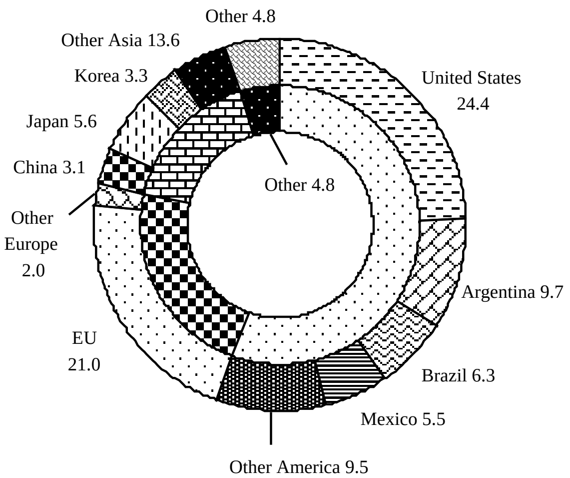


Total: US$15,406.8 million

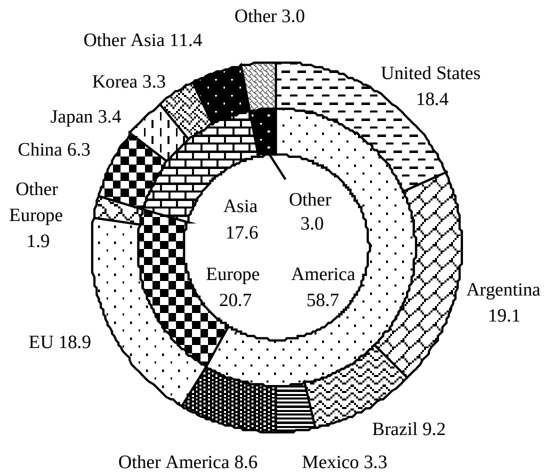


Total: US$18,745.4 million

(b) Imports



Total: US$16,810.0 million



Total: US$16,136.2 million

Source: **UNSD, Comtrade database (SITC Rev.3).**

35. Due to the growing importance of preferential agreements in Chile's trade policy, the share of trade under MFN conditions has been declining since its last Review in 1997. Trade with countries with which Chile has preferential trade or partial scope agreements (as at May 2003) accounted for a combined share of 49% of exports and 59% of imports in 2001, the last year for which figures were available. Taking into account trade agreements that have been signed but have not entered into force (see Chapter II(4)(iii)), these shares rise to 72.4% and 81.7% respectively.

(iii) Foreign direct investment

36. Foreign investment continues to play a crucial role in promoting growth and foreign trade by increasing productivity, contributing to import demand, and triggering exports. According to data provided by the Foreign Investment Committee, the accumulated inflow of foreign investment capital (excluding portfolio investment) between 1996 and 2002 amounted to US$36.3 billion, of which 26% went to the mining sector; 25% to electricity, gas and water; and 24% to services (not including transport and communication). In contrast, the manufacturing sector receives a very small proportion of foreign direct investment (Table I.6).

37. As regards long-term trends in the composition of FDI, there has been a decrease in the relative importance of inflows in the mining sector since the early 1990s, counterbalanced mainly by higher investment in the transport and communications subsector, and the electricity, gas, and water industries.

Table I.6
Foreign direct investment by sector, 1996-02
(US$ million)

Sector	1996	1997	1998	1999	2000[a]	2001[a]	2002[a]	1996-02
Agriculture	16	14	12	21	22	10	2	99
Fishing and aquaculture	21	12	9	1	94	5	0	142
Forestry	20	29	37	19	4	1	1	111
Construction	26	114	280	215	29	164	138	967
Electricity, gas and water	406	1,395	495	4,560	860	908	490	9,113
Mining	999	1,706	2,393	1,221	242	1,024	1,935	9,519
Industry	917	593	530	780	191	754	209	3,972
Transport and communication	459	171	211	359	870	1,281	335	3,687
Services	1,958	1,197	2,005	1,910	665	700	212	8,648
Total	**4,822**	**5,230**	**5,973**	**9,086**	**2,977**	**4,848**	**3,322**	**36,257**

a Provisional figures of December 2002.

Source: Foreign Investment Committee.

38. The main source countries for investment capital flows into Chile between 1996 and 2002 were the United States (26%), Spain (24%), Canada (13%), and the United Kingdom (9%) (Table I.7).

39. Chile's regulatory framework for FDI appears to have strongly encouraged inflows (Chapter II(3)); the privatization of the telecommunications and electricity industries in the early 1990s opened up these subsectors to foreign capital and private competition. In addition, a programme launched in 1993 to sell concessions for the construction and operation of roads and airports opened the way for the participation of private foreign capital. Furthermore, the privatization of water management and a related concessions programme have captured important FDI inflows in recent years.

Table I.7
Foreign direct investment by selected country of origin, 1996-02
(US$ million)

Country	1996	1997	1998	1999	2000[a]	2001[a]	2002[a]	Total 1996-2002
Argentina	97	60	97	47	82	27	9	418
Australia	109	181	385	6	42	499	169	1,391
Belgium	80	0	103	105	20	22	132	463
Canada	571	811	899	450	713	218	895	4,559
France	66	63	150	608	43	57	20	1,007
Holland	121	363	169	181	104	88	41	1,068
Italy	325	19	6	51	96	920	30	1,446
Japan	148	164	323	224	56	133	45	1,092
South Africa	74	476	330	40	1	12	0	935
Spain	488	1,498	896	4,583	723	388	242	8,818
United Kingdom	232	201	412	311	180	424	1,499	3,258
United States	2,264	935	1,358	1,909	751	1,760	530	9,506
Total (all countries)	**4,822**	**5,230**	**5,973**	**9,086**	**2,977**	**4,848**	**3,322**	**36,287**

a Provisional figures of December 2002.

Source: Foreign Investment Committee.

40. According to the Central Bank's balance-of-payments statistics, Chile's direct investment abroad amounted to US$12.5 billion between 1996 and 2002. The major destinations are Latin America and the Caribbean; the most important sector is financial services with more than 60% of the investment capital.

(4) OUTLOOK

41. The Central Bank expects a growth rate of between 3% to 4% for 2003, an inflation rate of 2.9%, and a current account deficit of about US$600 million, equivalent to 0.8% of GDP. Available figures for the first four months of 2003 indicate a growth rate of 3.5% over the same period of 2002 and a current account surplus of US$291 million.