

Pinera Bullish on Chilean Growth Amid ‘Gloomy’ World Picture

By Michael Forsythe and Randall Woods - Sep 10, 2012

[Chile](#)'s economic growth may accelerate next year as the world's largest copper producer attracts ever increasing amounts of investment, President Sebastian Pinera said in an interview.

“My hope is that we will be able to not only match but surpass this year’s growth,” Pinera said yesterday from Vladivostok, [Russia](#), where he was attending a summit of the Asia-Pacific Economic Cooperation group of nations. “The Chilean economy is behaving in a very strong and sound way despite a very gloomy picture in the international economy.”

The government, which forecasts 4.7 percent growth this year following a 6 percent expansion in 2011, has estimated growth of 4 percent to 5 percent in 2013 barring a “spectacular” slowdown abroad, said Pinera, a Harvard University-trained economist.

The president, 62, entered office in March 2010 on promises to cut red tape, limit fiscal spending and double economic growth to an average of 6 percent a year. The economy has met that target to date with investment growing 15 percent a year, he said, while the [unemployment rate](#) has plunged to 6.5 percent in the three months through July from 9 percent.

“Unless something very spectacular happens in the international economy, I hope that next year the Chilean economy will keep performing very well,” Pinera said.

Popularity

The resilience of Chile’s economy to the global slowdown hasn’t been reflected in Pinera’s popularity in the polls.

His approval rating fell to 27 percent in August -- the lowest level of any president since Chile’s return to democracy in 1990, according to Santiago-based polling company CEP. The survey of 1,512 people had a margin of error of plus or minus 3 percentage points.

The country has been convulsed by more than a year of student protests in favor of lower cost and higher quality education. Student leaders such as Camila Vallejo have attracted attention globally while pushing the government to boost spending and limit the role of private industry in education.

Revenue is pouring into government coffers from the [mining industry](#), which is driving economic growth. Mining projects are “extremely profitable” and are not dependent on copper prices remaining at current levels, Pinera said.

Mining Boom

Copper prices have averaged \$3.60 a pound so far this year, compared with \$1.79 a pound from the beginning of 2000 through the end of 2009.

“The mining sector in Chile is booming, and I think it will continue growing at a very fast pace,” Pinera said.

High copper prices are helping to increase Chile’s total sales abroad even as some exporters suffer from a strong peso, Pinera said. Chile’s peso has been the best-performing global currency tracked by Bloomberg so far this year, rising 9.2 percent against the [U.S. dollar](#).

The biggest impediment to Chile’s growth may come from the electricity industry. Power supply shortages threaten productivity as authorities block development of new generation projects, central bank President Rodrigo Vergara told reporters last week in Santiago.

Chile needs to double its electricity generating capacity in 12 years, Pinera said, as mining companies such as [BHP Billiton Ltd. \(BHP\)](#) and state-owned Codelco plan \$100 billion of expansions, according to Chilean mining society Sonami.

Mining Threat

Reaching that goal has become increasingly difficult after Pinera during his first year in office asked [GDF Suez \(GSZ\)](#) SA to scrap plans to build a 540-megawatt coal-fired power plant on the coast following environmental opposition. And this year an investor in Chile’s largest energy project, the HidroAysen series of hydroelectric plants, said it wanted to delay the project over a lack of political support to proceed.

Mining companies are threatening to delay \$18 billion in projects because of high energy prices, water-supply and labor shortages as well as a deceleration in [China](#), Santiago-based newspaper Diario Financiero reported Sept. 8, citing industry sources it didn’t identify.

Pinera downplayed the threat of power shortages slowing investment in the mining industry. The government will promote investment in new plants by establishing a 20-year national energy strategy and accelerating the development of renewable energies, he said.

“It is not easy because we are facing a lot of problems with community organizations, environmental groups and also with the judiciary,” he said. “Chile is not a rich country in terms of gas, or oil or coal, but we are extremely rich in terms of the energies of the future.”

Poverty Pledge

Pinera needs to maintain economic growth in order to meet his election pledge to eliminate extreme poverty by the time he leaves office in 2014 and set the stage for Chile to eradicate poverty this decade.

The percentage of Chileans living below the poverty level fell to 14.4 percent last year from 15.1 percent in 2009, while extreme poverty, or the percentage of people who can't afford the basic basket of foods, fell to 2.8 percent in 2011 from 3.7 percent three years ago, according to government data.

"Before we took office, the economy was not growing at a fast pace and we had some problems in terms of growth, [job creation](#), investment and productivity," Pinera said. "Our main commitment was to recover our capacity to grow, create jobs, to increase our productivity, to recover our exports and basically to increase our investment as a percentage of GNP."

To ensure growth, Chilean authorities have created a contingency plan that would entail tapping a \$15 billion sovereign wealth fund to boost growth if the global slowdown worsens, Finance Minister Felipe Larrain told reporters in Santiago on May 17. The stimulus would target [employment](#), liquidity and investment.

Wealth and Wine

While in Russian, Pinera signed a free trade agreement with [Hong Kong](#). Chile, which has trade accords with more than 50 countries, wants to double annual trade with Hong Kong to more than \$1 billion.

The pact is part of a strategy to increase ties with China, which is the biggest buyer of [Chilean copper](#). Chile will consider investing money held in its sovereign wealth funds in Chinese assets, and is exploring ways to diversify its exports to the Asian market, Pinera said.

One strategy would be to increase the sale of wine from companies like Santiago-based [Vina Concha y Toro SA](#), which produces the Casillero del Diablo brand. The nation's wine exports last year totaled \$1.7 billion, or 2 percent of total sales abroad, according to [central bank data](#). By comparison, the mining industry accounted for 61 percent of exports.

"If we can convince the Chinese to drink one glass of wine a week, we can grow our wine industry at a faster pace than our mining industry," said the billionaire entrepreneur-turned-politician. "Wine is very healthy, particularly red wine."

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