



## Why Chile?



# CHILE

Chile has built its credentials on the rigorous application of countercyclical fiscal and monetary policies.

In a world of constant change, Chile is a beacon of economic and institutional stability. In international comparisons of competitiveness and economic freedom, Chile is at the forefront of Latin America, and despite its emerging status, ranks alongside the most developed economies in the world. It has one of the world's most business-friendly environments and has attracted a number of well-known multinational and foreign investors with its open and competitive economy. The reason for this superior performance is due to the success of its reforms and the strength of its institutions, which have allowed Chile to build a robust macroeconomic framework. This situation had been reflected in its rating credit:

- In June 2010, Moody's upgraded Chile's credit rating to Aa3 from A1 with positive outlook because "The upgrade reflected the country's demonstrated economic and financial resilience even in the face of major adverse shocks, including February's historic earthquake".
- In December 2010, Standard & Poor's revised the outlook to positive because "Chile's strong financial profile, growing economic stability, and good growth prospects support the positive outlook". Previously, in December 2007, Standard & Poor's upgraded Chile's credit rating to A+ from A with stable outlook, lauding the strength of its economy and saying its economy was "more resilient than ever".

- In February 2011, Fitch upgraded Chile's credit rating to A+ from A with stable outlook because features of Chilean economy “have allowed Chile to remain very resilient despite the two severe shocks emanating from the global credit crisis and the 2010 devastating earthquake”.

Chile has built its credentials on the rigorous application of countercyclical fiscal and monetary policies, backed by strong institutional and legal framework that enjoy broad political support. The government is committed to achieving and maintaining a structural fiscal balance that offsets cyclical fluctuations in economic activity and in prices for leading export, copper.

Chile's [structural surplus](#) rule, implemented before the three-year commodities super-cycle that ended in mid-2008, allowed Chile to take advantage of those years of windfall copper profits to build its sovereign wealth funds better than any other country in the region. It used the revenues to build a Pension Reserve Fund (PRF) and an Economic and Social Stability Fund (ESSF) with a combined total of over US\$16.6 billion as of December 2010. Including cash investment, [assets](#) total is over US\$20.4 billion.

Chile's economic framework includes an independent central bank, whose monetary policy is carried out based on [inflation](#) targets and a floating [exchange rate](#). Chile's banking system, based on sound regulatory framework, also helps to reduce domestic economic volatility, with Chilean banks continuing to grow while maintaining asset quality and adequate capitalization levels in spite of the global financial crisis.

Chile's economic reforms have focused on the key areas of the private pension system, free trade, and the liberalization of financial markets.

In the early 80s Chile became the first country in the world to phase out a strapped pay-as-you-go system and replace it with an individually funded private pension system run by competing, private fund managers. In 2008 significant reforms were passed, including:

- The creation of a new and better system of government pension subsidies;
- The inclusion of self-employed workers in the system;
- Increased competition among the private pension fund managers.

These reforms have led to a substantial increase in aggregate savings and contributed to the further development of domestic capital markets.

Chile, one of the most open economies in the world, has signed more free trade agreements (FTAs) than any other nation. It had FTAs with more than 90% of its trade partners in 2008, including Australia, China, India, Japan, Mexico, the US, the EU and South Korea.

It has developed its trade integration with the world through:

- Unilateral [tariff](#) reductions (currently a flat rate of 6% and an effective rate of about 1%);
- Free trade agreements (FTAs); and
- Multi-lateral agreements.

In addition to Chile's success in international free trade and macroeconomic management, it has also made remarkable progress in reducing poverty: since 1990 it has slashed its poverty rate to 13% from over 40 percent in the early 90s. This dramatic improvement is the result of ambitious and effective social policies and economic growth that has averaged 5.5% since 1990.

Chile is wired, globally connected, and able to offer investors a low-cost business-friendly environment, a high quality of life, and a talented and educated work force.

The recognition of nearly two decades of democratic reform and sound economic policies, Chile became the OECD's 31st member and its first in South America under an accession agreement signed on 11th January of 2010. For the OECD, Chile's membership is a major milestone in its mission to build a stronger, cleaner and fairer global economy.

Chile was ranked No. 1 in Latin America and 19th in the world in terms of e-readiness and investment attractiveness for the 2008 – 2012 period, according to the Business Environment Rankings published by the Economist Intelligence Unit. The ranking was led by Canada, Singapore and Denmark, with Chile falling between Norway and France and ahead of Spain, Israel, South Korea, China and India.

From 2005 to 2008 Chile's capital Santiago has been in the top three Latin American cities to do business along with Sao Paolo and Miami in the yearly rankings of The Best Cities to do Business in Latin America, published by the business magazine *AméricaEconomía*. In May 2009 the Economist magazine put Chile at position 17 in the ranking that measured the environment for business in 82 countries. Chile appears in the position 15, ahead of France (17) and Spain (23), and as a leader in Latin America.

Chile's advanced communications systems, logistics, and world-class air and sea ports have helped connect it to world markets and bridge distances with other global business centers.

Its economic development and global integration have also been supported by its strong financial services sector. Many of Chile's finance executives have received graduate degrees from leading international business schools, including those in the United States and Europe. However, high-quality advanced education is also available in Chile. Four of Latin America's top 10 business schools, according to *AméricaEconomía*, are in Chile.

The World Competitiveness Report 2010, prepared by the IMD-International Institute for Management Development in Switzerland, measures how an economy operates all of its resources and expertise to increase the welfare of its population, according to four factors: economic performance, government efficiency, business efficiency and infrastructure. In South America, Chile remained the leading country but declined from 25 to 28, Colombia has improved its position considerably, from position 51 to 45, and Brazil jumped from 40 to 38, Peru fell four positions ranking 41.

According to Global Trade Facilitation Index 2010, produced by World Economic Forum (WEF), Chile is the Latin America's country that provides the best facilities for international trade, surpassing even the United States. The Index analyzes policies, institutions and services

that facilitate the trade, focusing in four areas: [market access](#) (domestic and external), customs administration, transport and communications infrastructure, and business environment. Chile is in second place globally in terms of markets access, after Singapore. His biggest weakness is the transport and communications infrastructure, which ranked 42.

Chile was the Latin American country with the highest position in the digital economy ranking 2010, according to The Economist Intelligence Unit, ranking 30. The study measures the development and advancement of ICT –Information and Communications Technology–, considering both connectivity and use. Chile ranked first in the region for all the aspects of study: politics and vision of government, adoption by consumers and businesses, connectivity and technology infrastructure, social and cultural environment, legal and commercial environment.

Chile is an extremely competitive location for foreign investors to do business, with low costs, high-quality support services, effective investor protection measures and high standards of corporate governance.

Upgrade May 2012.