





# Chile

**A Reliable Partner for U.S. Business**

by the U.S. Commercial Service, Santiago

From deserts in the north, through the majestic Cordillera with the tallest peak in the Western Hemisphere at 22,000 feet, to the arctic conditions of Tierra del Fuego, Chile is one of Latin America's most dynamic and promising markets. Its strength and attractiveness lie not in its size (population of 15 million people) but in the energy and professionalism of its entrepreneurs, the transparency of its regulation, and the predictability of its decision-makers. Market-led reforms adopted close to 30 years ago and an increasingly diversified economy with strong ties to buyers and suppliers in the Americas, Europe, and Asia have given Chile a wide range of options for sustained growth. Prudent economic policy-making has secured long-term stability unknown elsewhere in Latin America.

This article presents 12 of the most promising industrial and service sectors of this diverse economy. The latest *Country Commercial Guide* for Chile provides detailed information on how to do business in Chile and is available at [www.buyusa.gov/chile/en](http://www.buyusa.gov/chile/en).

## BILATERAL TRADE

U.S. exporters have over the past 10 years shipped as much merchandise to Chile as they have to India (a

nation of 1 billion people). Chileans, on a per-capita basis, buy two and three times more U.S. products as the average Argentinean and Brazilian, respectively.

The United States has enjoyed a \$500-million surplus in services trade with Chile over the last two years. U.S. private services exports to Chile in 2001 and 2002 totaled approximately \$1.3 billion, whereas U.S. services imports from Chile were about \$800 million. Business opportunities are available within the following service sectors: finance, insurance, telecommunications, education, law, accounting, advertising, engineering, express delivery, and investment.

## SUSTAINED ECONOMIC GROWTH

Chile is the only investment-grade economy in South America. In January 2003, Standard & Poor's gave Chile an "A-" rating. Over the last 15 years, Chile has witnessed the most impressive real growth rates in its history. From 1987 to 1997, the country's

GDP grew an average of 7.9 percent. While the world economy entered recession, the Chilean economy managed to grow at an average of 2.6 percent from 1998 to 2002. The government of Chile and several independent economists estimate the economy will grow 2.5 to 3.5 percent in 2003.

The domestic savings and investment rate has hovered at 20 percent of GDP and is fueled by private pension funds created in 1981. International reserves remain constant at just above \$15 billion, which enables the government of Chile to maintain its policy of a structural budget surplus of 1 percent.

A strong, independent central bank maintains prudent fiscal management that keeps the country's inflation within a target range of 2 to 4 percent. The 2002 rate of inflation was 2.8 percent. The latest unemployment figures for April 2003 came in at 8.2 percent, lower than the same period for last year. Single-digit employment rates in Chile are the envy of Latin America—a region that struggles with

## AN ANCHOR OF STABILITY IN LATIN AMERICA

Chile's GDP will expand 3.1 percent in 2003, according to forecasts by the International Monetary Fund in its latest *World Economic Outlook*. The same report scales Latin America's growth rate down to 1.5 percent from 3 percent. In a context in which "Latin America, as a whole, experienced in 2001–2002 its worst downturn in two decades, and prospects are still uncertain," the IMF estimates that Chilean GDP will grow 4.8 percent in 2004, thanks to an economic performance "underpinned by generally sound policies and high degrees of integration with the world economy."

### SSA TO OPERATE AT CHILEAN PORT

With over 3,000 miles of coastline, Chile is a “seaport country.” Stevedoring Services of America (SSA) saw an opportunity in May 2002 to provide cargo container services in Chile and found a local partner to bid on and win a concession for the rights to operate in the Port of San Antonio and San Vicente in Chile. Thanks to SSA’s efforts and the assistance provided by the U.S. Commercial Service in Santiago, SSA now operates the largest volume container port in Chile—surpassing older and better-known neighboring ports.



Photo courtesy of U.S. Commercial Service, Santiago.

On top of SSA’s new \$6-million crane, left to right: Commercial Service staffers Mary Lou Lathrop, Americo Tadeu, and Jim Rigassio with Peter McGivern, general manager of SSA Chile.

unemployment double or triple the Chilean rate.

### U.S.-CHILE FREE TRADE AGREEMENT

The United States and Chile concluded a free trade agreement (FTA) in December 2002. The FTA text is currently being prepared for signature by both countries. Expectations of the agreement remain positive. Although the United States remains Chile’s most important trading partner, U.S. goods and services have lost market share among other trading partners that now benefit from trade agreements with Chile. Chile has free trade agreements with Canada and Mexico, the United States’ two NAFTA partners, as well as with the European Union and South Korea, among others. The government of Chile remains active in negotiating other trade agreements around the world. Therefore, a U.S.-Chile free trade agreement, once approved by Congress, would put U.S. exporters on equal footing to enjoy very low import tariffs on most products. (Currently, U.S. exporters face a 6-percent tariff.) The full text of the

FTA can be viewed at [www.ustr.gov](http://www.ustr.gov). Read more about the U.S.-Chile FTA in the article “U.S.-Chile Free Trade Agreement: Comprehensive Gains,” published in the February 2003 issue of *Export America*.

A National Association of Manufacturers study estimates that the FTA will provide an additional 12,500 U.S. jobs annually. The University of Michigan states that the FTA could increase U.S. GDP by \$4.2 billion annually. Chilean news agencies predict that the FTA could increase trade between Chile and the United States by as much as 30 percent in its first year. Other significant gains will be in the area of investment. The U.S. Commercial Service in Santiago is drafting a series of opportunities for U.S. companies once the FTA takes effect. Stay tuned and visit [www.buyusa.gov/chile/en](http://www.buyusa.gov/chile/en) for current news and hot topics.

### OPPORTUNITIES BY SECTOR

#### Environmental Technologies

Opportunities exist in the privatization and upgrading of municipal water and wastewater treatment facilities. Chile

offers excellent opportunities for suppliers of air, solid waste, and water pollution control equipment. For example, new regulations require that by 2010 all water in Chile must be treated (only 20 percent of waste water is currently treated). Specifically, a total of \$2.5 billion will have to be invested in water infrastructure, \$400 million in water treatment, \$700 million in rainwater collection, and \$1.4 billion in potable water production. The two largest sanitation companies are Aguas Andinas and ESVAL, which were privatized and control more than 50 percent of the water supply market. Aguas Andinas plans to invest \$563 million in infrastructure and technologies for water supply and wastewater treatment by 2010. Aguayambiente, the largest environmental trade show in Chile, takes place in Santiago, June 25–28, 2003. Visit [www.aguayambiente.cl](http://www.aguayambiente.cl) for more information.

#### Telecommunications Equipment and Services

In 1988, Chile became the first country in Latin America to begin privatization of the telecommunications sector. The telecommunications sector in Chile is the most deregulated, advanced, and transparent in Latin America. The total market value of the telecommunications sector in 2002 was \$485 million. U.S. telecommunications products are well regarded. Total U.S. exports for this sector reached \$270 million. The lion’s share of investment was in mobile and fixed telephone services. Competition is fierce among telecommunications operators. The current market trend is to integrate services and to provide state-of-the-art products and services to consumers. In June 2002, Internet connections totaled almost 800,000, an increase of 39 percent over the previous year. Increasing telecommunications penetration rates—especially Internet access—is one of the highest government priorities.

#### Medical Equipment and Services

An aging population, a strong private

hospital sector, and planned hospital construction make this a dynamic sector. Chile currently spends approximately 7 percent of its GDP on health care, making it one of the largest areas of government expenditure. The Chilean government guarantees health care coverage as a constitutional right and is committed to improving the national public-health system that provides care for approximately 70 percent of the population. Several programs for large-scale purchases of modern equipment have received government approval as part of an effort to upgrade the public and private health sectors. The United States has for years been Chile's most important supplier of medical equipment. U.S. companies hold about half of the medical equipment market.

#### **Computer Hardware, Software, and Services**

Technologically advanced U.S. computer products find a receptive audience among IT buyers. The Chilean government has eliminated tariffs on computer equipment imports in order to support the development of high-tech skills and jobs.

Chile has Latin America's second-lowest software piracy rate (51 percent),

according to a recent study conducted by the Business Software Alliance and International Data Corporation. The report also indicates that cutting Chile's piracy rate from 51 to 41 percent could add another \$200 million to its economy, causing the local IT industry to grow to nearly \$ 1.6 billion by 2006. TecnoInternet-Softel is the largest IT trade show in Chile. It takes place in October. See [www.tecnointernet.cl](http://www.tecnointernet.cl) for more information.

#### **Architectural, Engineering, and Construction (AEC) Services**

This is an untapped market for U.S. firms. The AEC services market is estimated conservatively at \$200 million a year. European companies dominate this market. They provide architectural services for high-rise buildings, construction services for new public works, and engineering services for industries such as mining, water treatment, and waste management. The projected 2003 growth for construction is 4 percent—slightly higher than Chile's estimated GDP growth for this year. Sustained economic growth, an orientation towards U.S. construction standards, and expanding business and infrastructure needs provide a strong base for AEC service providers. The main trade events

## **Getting Closer to the United States**

January and February are summer vacation months in Chile, where moss grows on the south side of trees and the water spins down the drain clockwise. Does this sound like a distant place to visit? The good news is that Chile is in the same time zone as Washington, D.C. The bad news is that Santiago is an eight-hour flight from Miami.

The U.S. Commercial Service in Santiago helps American firms get to know Chile without having to embark on an international flight. Videoconferencing is an excellent way to explore market potential and meet prospective business partners.

Since launching videoconferencing with the help of the U.S. Commercial Service Western Hemisphere team, the Santiago Commercial Service has hosted more than two dozen videoconference market briefings to link it with various Export Assistance Centers across the United States. After participating in a video market briefing, many firms choose to use matching services like the Gold Key, which makes traveling to Chile in person very worthwhile. Those executives not willing to add about 10,000 miles to their frequent-flier accounts can choose to "travel" by videoconference.

#### **LENEL MARKETS VIA U.S. COMMERCIAL SERVICE**

In March 2003, the Commercial Service in Santiago organized a single company promotion for Lenel Systems International, Inc., of Rochester, N.Y. The event, held over breakfast at a Santiago hotel, included more than 30 guests invited for their interest in Lenel's state-of-the-art automatic identification and access control integration software. Todd Smith, Lenel's vice president of international sales, and Victor Merino, Lenel's sales director for Latin America, were very impressed with the event. Todd Smith wrote in a follow-up e-mail: "Yes, the promotion was a great success. We had about 30 prospects in attendance. We did write almost immediately approximately \$50,000 in business (some of the orders arrived within a day of the seminar), thanks to your efforts in conjunction with our local partner. More importantly we have been able to prospect some substantial projects worth approximately \$250,000, which we are actively working on. That is in addition to the marketing goodwill the program has provided, which is as you can appreciate difficult to estimate in tangible terms. The professionalism and prestige afforded by our association with the U.S. Commercial Service has helped us in many areas of the world including Santiago. Lenel will continue to include Commercial Service resources as a valuable plank in our marketing platform."

## SECRETARY EVANS' TRADE MISSION TO CHILE

U.S. Secretary of Commerce Donald L. Evans visited Santiago, December 4–5, 2002, leading a delegation of 14 U.S. companies interested in starting or expanding business in Chile. During the visit, Secretary Evans had a successful meeting with Chilean President Ricardo Lagos, spoke at a breakfast sponsored by the American Chamber of Commerce, discussed investment and FTA issues with Santiago businesspeople, and visited a children's burn clinic supported by ExxonMobil. While the trade mission was not planned to coincide with the final round of U.S.-Chile FTA negotiations, the presence of Secretary Evans in Chile during this crucial time in negotiations was interpreted in Chile as a sign of U.S. government commitment to the economic welfare of the country.



Photo courtesy of U.S. Commercial Service, Santiago.

U.S. Secretary of Commerce Donald Evans meets with members of Chile's national youth basketball league—a league created and sponsored by the U.S.-based energy company PSEG Global.

where U.S. exporters may exhibit are Expohormigon (October 2003, Santiago, [www.expohormigon.cl](http://www.expohormigon.cl)) and Expomin (May 2004, Santiago, [www.expomin.cl](http://www.expomin.cl)).

### Food Processing Equipment and Services

Natural and phytosanitary conditions, worldwide demand, entrepreneurial experience, infrastructure, and off-season production have enabled Chile to become a key player in the export of agricultural and processed food products. Chile is a world leader in producing and exporting high-quality fresh fruit (\$1 billion in annual exports), and the world's second-largest producer and exporter of salmon and trout (\$1 billion in annual exports of this non-native species). Increasingly, Chilean wines are winning major international competitions. Chile exports \$600 million worth of wines a year. Chile's pork,

poultry, and exotic meats industries, as well as its dairy industry, have plans for export expansion. Chilean producers are all too aware that to remain competitive, they must maintain and update their processing and packaging plants. Especially given the trend toward producing value-added goods, significant commercial opportunities exist in the areas of cost reduction, production standards, safety, and final product quality.

### Financial Services

Chile's domestic capital market has a value of more than \$50 billion. The privatized social security system represents the largest institutional investor, with nearly \$40 billion in assets under management. With assets of \$5 billion, the mutual funds industry is growing more than 20 percent annually. The factoring industry is also growing rapidly. Capital market reform in 2001

deregulated the industry, making it the most open and modern marketplace in the region.

### Mining Equipment and Services

Mining is Chile's largest industry. It represents a \$700-million market. Imports total approximately \$450 million, of which U.S. companies supply more than 60 percent. Chile's principal mineral is copper, and it comprises 40 percent of all Chilean exports. Given the relatively low price of copper on the world market, solutions to save costs and thus increase profitability are in high demand. As the price of copper rebounds from current lows, investment in this sector will follow. Expomin is Latin America's largest mining show. In 2002, more than 200 American firms exhibited at the U.S. pavilion, which attracted buyers from all over the region. Visit [www.expomin.cl](http://www.expomin.cl) for more information.

### Power Generation

Power generation has not kept pace with demand. Supply shortages are creating new investment and trade opportunities. The Ministry of Economic Affairs is planning new projects to keep up with future demand. Some examples include two new 400 MW, gas-fired, combined-cycle power plants valued at \$400 million each. Major U.S. power companies are already in the power generation and distribution market.

### Security Equipment and Services

The total market size for 2002 was \$34 million, of which imports made up 88 percent. The United States supplies 30 percent of all imports; China supplies 16 percent. The local market demand for this industry extends from personal safety products to industrial security solutions, such as access control, alarms, detectors, perimeter protection, security equipment for prisons, security equipment for airports and seaports, fire-fighting equipment, and more. There is no specific local trade event for this industry. However, Edifica ([www.edifica.cl](http://www.edifica.cl)) is an international trade fair for construction

machinery and equipment. The show is held in Santiago, September 24–27, 2003, and is a great regional show for U.S. companies.

### **Material Handling Equipment and Logistics**

The development of logistics, including the material-handling equipment industry as well as related services, is a key component of economic activity. Logistics has grown impressively over the last few years, covering the entire supply chain: airfreight, ocean transportation, warehousing, inventory management, surface transportation, management software, and more. Chilean companies require increasingly sophisticated processes and technologies to be cost-effective and efficient, improve economies of scale, and provide just-in-time delivery to domestic and international customers. The most important local trade show in this sector is Logisti-k, which is scheduled for October 14–17, 2003. Visit [www.logistik.cl](http://www.logistik.cl) for more information.

### **E-Business Services**

The government of Chile sees future job growth and prosperity tied to the digital sector. A new digital signature

law is helping business streamline operations by eliminating paper contracts. While business-to-consumer services are limited by a per-capita Internet penetration rate of 28 percent, business-to-business (B2B) services provide the engine for sales in this sector. The government is seriously looking to fulfill its modernization commitments agreed upon in the free trade pacts with the European Union, South Korea, and the United States. A Santiago Chamber of Commerce study states that B2B transactions in 2002 totaled \$2.47 billion within its 22 B2B e-marketplace sites. The study estimates that this year businesses will focus on digital technology to make traditional processes more efficient, and that traditional companies will augment their investment in digital technology.

This is not an all-inclusive list of commercial opportunities in Chile. For more information on Chile and to find out about the products and services offered to help American firms evaluate the market and develop successful relationships, contact the U.S. Commercial Service in Santiago at [www.buyusa.gov/chile/en](http://www.buyusa.gov/chile/en). ■

### **DSC IN COPPER MINING DEAL**

In November 2002, Dredging Supply Co., Inc. (DSC) of Reserve, La., reported a new-to-market contract to supply two custom-made mining dredges with a combined value of \$2.8 million to a copper mine in Chile. To finance the cost of their construction, DSC obtained a \$1.2 million export working capital line from Bank One, secured by an U.S. Export-Import Bank guarantee.

DSC has a reputation for reliable, state-of-the-art equipment. Chile holds future sales opportunities with other mine operators. "In Chile, we have seen tremendous export activity, and we are currently negotiating several other contracts as well," notes Robert Wetta, chief operating officer of DSC.

DSC enjoys a solid working relationship with the U.S. Export Assistance Center in Baltimore, where the firm's international sales director is based. It is also on good terms with the U.S. Export Assistance Center in New Orleans, which is convenient to its shipyard and headquarters in Reserve. The U.S. Commercial Service office at the U.S. embassy in Santiago supported the Export Assistance Center trade specialists with market research, business briefings, and business referrals. "We appreciate the help, guidance, and advocacy we receive from the U.S. Department of Commerce in identifying and closing new export opportunities, such as our recent Chilean success," says company official Charles Sinunu.

### **U.S. Commercial Service in Santiago**

Bookmark this site to monitor what we are doing for U.S. exporters, including information on the products and services available to meet your market entry needs.

[www.buyusa.gov/chile/en](http://www.buyusa.gov/chile/en)

### **U.S. Embassy in Santiago**

Find out what the U.S. mission in Santiago is doing. Read about the latest developments regarding the U.S.-Chile Free Trade Agreement.

[www.usembassy.cl](http://www.usembassy.cl)

### **U.S. Trade Representative**

This site contains a full text of the U.S.-Chile Free Trade Agreement. See if your product qualifies for immediate tariff relief under the FTA.

[www.ustr.gov](http://www.ustr.gov)

### **Foreign Investment Committee**

This is a Chilean government-sponsored, English-language site that highlights international approval and favorable Wall Street analysis of Chile's economy.

[www.foreigninvestment.cl](http://www.foreigninvestment.cl)

### **Chilean-American Chamber of Commerce**

This is the premier U.S. business association in Chile. The Web site provides information on how U.S. firms will benefit from a bilateral free trade agreement.

[www.amchamchile.cl](http://www.amchamchile.cl)