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## Chile: A Country Profile

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# *Beyond NAFTA—Chile*

## *A Country Profile*

During the December Summit of the Americas, Chile was formally invited to become the fourth member of the NAFTA by the heads of state and governments of the three founding countries of the treaty.<sup>1</sup> Since then, Chile's functional status as a country has been subject to intense scrutiny, the results of which have been overwhelmingly favorable. What follows is a brief sketch of Chile's most notable features, many of which became critical factors in the decisive move to make Chile the first additional country to be considered for NAFTA membership.

### *I. The Current Administration*

On March 14, 1994, Chile's current President, Eduardo Frei Ruiz-Tagle, a member of the Christian Democrat Party (PDC), was inaugurated. President Frei has set the tone for his new eight-year-long administration.<sup>2</sup> His proposed focus was modernization, with particular emphasis on improvements in education, infrastructure, production and market-oriented economic policies.<sup>3</sup> In addition, President Frei launched a new mechanism for "overhauling the civil service as part of an ongoing anti-corruption drive."<sup>4</sup>

President Frei's continuous focus on fostering a healthy export-oriented economy for Chile has led to unprecedented economic progress.<sup>5</sup> Such dramatic success becomes particularly admirable when Chile's present status is contrasted to the lesser-developed economies of other states which have, similarly to Chile, recently returned to democracy after enduring years of dictatorship.<sup>6</sup> Indeed, Chileans have endured political oppression for 17 years under an extremist right-wing military regime under Pinochet.<sup>7</sup> Since civilian rule was restored in 1990, however, Chile has become unstoppable in its move towards its continued multifaceted development.<sup>8</sup>

### *II. Financial System*

One mark of Chile's relative economic maturity is its financial system, which has "the most advanced capital market and the highest savings rate in Latin America."<sup>9</sup> The central

1. BBC Summary of World Broadcasts, *Finance, Foreign Ministries Resolve Dispute Over NAFTA Negotiations* (Jan. 31, 1995), available on LEXIS.

2. Walden Publishing Ltd., *Country Reports: Chile*, p. 3 (Jan. 30, 1995).

3. *Id.* at 3.

4. *Id.* at 3.

5. *Id.* at 4.

6. *Id.* at 4.

7. *Id.* at 4.

8. *Id.* at 4.

9. *Id.* at 11.

bank, Banco Central de Chile, is "the supreme monetary authority."<sup>10</sup> It regulates the money supply, exchange rates and interest rates and sets the fiscal monetary and exchange rate policy.<sup>11</sup> The activities of Chilean banks and private financial houses (financieras) are under the supervision and control of the Superintendencia de Bancos y Instituciones Financieras (SBIF).<sup>12</sup> Once authorized by the SBIF, foreign banks may also operate in Chile through locally-established corporations, branches or representative offices.<sup>13</sup>

### *III. Economic Management: Implications for Foreign Investors*

Chile's government is known for its concentration on monetary, fiscal and exchange rate policies.<sup>14</sup> While Chilean foreign investment regulations are relatively liberal, the Banco Central de Chile and the Comite de Inversiones Extranjeras (CIE) will nonetheless examine foreign investment over US\$ 5 million.<sup>15</sup> Foreign investors have the benefit of enjoying virtual "national treatment" (having the same rights and obligations as nationals, except for access to local credit), and there is neither a limit as to foreign percentages of ownership in local private enterprises nor a maximum amount of time that foreign investment may remain in Chile.<sup>16</sup> In addition, although special permission is required for foreign investment in the news media and other public services, there are no sectors in the Chilean economy that are specifically reserved for Chilean investors.<sup>17</sup>

Because the Chilean peso can only fluctuate 10 percent on either side of a "reference rate" (which is calculated using an index of currencies, including the U.S. dollar, the Japanese yen and the German deutschemark), the Chilean government has allowed the peso to appreciate against the dollar, thus permitting inexpensive imports to compete with domestic products and prices.<sup>18</sup> However, these policies have resulted in a novel problem for the Chilean government: instead of having to attract dollars, the country finds itself with an "ever-growing queue of would-be investors."<sup>19</sup>

Even though one of Chile's laws requires foreign investment to remain within Chile for at least 12 months, Chile's recent economic and political stability continues to attract a steady stream of foreign investment.<sup>20</sup> In 1994, direct foreign investment rose by 60 percent to US\$ 2.2 billion and thus contributed to an amazing trade balance of US\$ 400 million surplus by December 1994.<sup>21</sup> The largest foreign investor in 1994 continued to be the United States (having US\$ 979.23 million worth of investment), with Canada and Mexico

10. *Id.* at 12.

11. *Id.* at 12.

12. *Id.* at 12.

13. *Id.* at 12.

14. *Id.* at 11.

15. *Id.* at 16.

16. *Id.* at 16.

17. *Id.* at 16.

18. *Id.* at 12.

19. *Id.* at 12.

20. *Id.* at 4.

21. *Id.* at 4.

following closely behind in ranking.<sup>22</sup> Chile's economic achievements are characterized by Economy Minister Alvaro Garcia as currently generating one-third of all Chilean exports.<sup>23</sup> Minister Garcia is fully convinced that since "practically all economic growth stems from the export sector . . . foreign investment is making a very significant contribution to growth."<sup>24</sup>

#### *IV. Negotiations with MERCOSUR*

In addition to its pro-active efforts in attracting foreign investors to its own economy, the Chilean government is also seeking to expand its trade arena by conducting negotiations with other trade blocs. Indeed, Chile was recently described as being "among the fastest-growing foreign investors in other parts of Latin America."<sup>25</sup> In a recent meeting of Chilean trade officials with representatives from the Southern Cone Common Market (MERCOSUR), June 30, 1995 was set as the date on which both negotiating parties would agree on a timetable for the reduction of MERCOSUR tariffs with Chile.<sup>26</sup> Although as a future member of the NAFTA Chile "could not become a full member of a separate customs union, a free trade agreement between Chile and [MERCOSUR] would nevertheless be feasible."<sup>27</sup> The eventual implementation of such a tariff-reduction program is one which promises to be mutually beneficial. In addition, Chile's participation in the MERCOSUR will only work toward accelerating the overall hemispheric trade integration process in the Americas.<sup>28</sup>

#### *V. Moving Towards Full Membership in the NAFTA*

Although there are some anti-NAFTA sentiments on the part of Chilean environmentalists and labor leaders, the majority of Chilean bankers and financial services groups eagerly await the positive effects that NAFTA accession is likely to have on Chile.<sup>29</sup> Indeed, leaders from export-based industries maintain that Chile's membership in the NAFTA "will stamp Chilean goods 'quality-assured,' prompting greater sales in markets outside the NAFTA zone."<sup>30</sup> The tourism and transportation sectors are expected to benefit from increased business and tourist travel revenues, while the obvious "domino effects" will likewise occur in other parts of the economy.<sup>31</sup>

22. 12 Int'l Trade Rep. (BNA), No. 4, at 175 (Jan. 25, 1995).

23. *Id.*

24. *Id.*

25. *Id.*

26. BBC Summary of World Broadcasts, *Chile and Brazil State "Firm Decision" on Chile's Association with Mercosur* (Mar. 6, 1995), available on LEXIS.

27. Walden Publishing Ltd., *supra* note 2.

28. 12 Int'l Trade Rep. (BNA), No. 1 at 17 (Jan. 4, 1995).

29. 12 Int'l Trade Rep. (BNA), No. 4 at 174 (Jan. 25, 1995).

30. *Id.*

31. *Id.*

However, in lieu of the economic crisis in Mexico, general concerns have arisen with respect to the extent that it will affect Chile's progress towards becoming a full member of the NAFTA. Chilean Finance Minister Eduardo Aninat recognized that the Mexican crisis could delay the Chilean entry into the NAFTA. Nevertheless, Minister Aninat stated that such a delay might even favor Chile "as it would then have more time to prepare itself and to respond under better conditions 'to the future challenge' of joining NAFTA."<sup>32</sup> Perhaps a more pending issue is the Summit of the Americas' specific intent to achieve hemispheric integration by the year 2005, a feat which requires the current NAFTA members to look beyond Mexico's economic crisis in order to successfully continue the "ongoing process of hemispheric integration."<sup>33</sup>

Although the devaluation of the Mexican peso may lead to some decrease in foreign investor confidence across Latin America, Chile's strong economy, stable currency, and commitment to continued economic growth are critical factors that will in all likelihood ensure Chile a smooth welcoming into the NAFTA.<sup>34</sup> Indeed, while U.S. Trade Representative Mickey Kantor has warned that caution must be taken throughout the accession process because of its precedential value to future prospective NAFTA members, he has also urged that the process continue as scheduled.<sup>35</sup> Hence, in February 1995 representatives from the three NAFTA signatories have already met for the second time in Mexico City in an attempt to work out some of the "modalities" for Chile's entry into the NAFTA.<sup>36</sup> In addition, the NAFTA signatories agreed at the Summit of the Americas that "a ministerial meeting would take place in May with full accession negotiations beginning shortly thereafter."<sup>37</sup>

Thus, as U.S. Congressional "fast-track" authority needs to be renewed for future trade agreements, including Chile's accession to NAFTA, a Congressional vote is expected to resolve the issue of whether to grant that authority later this year.<sup>38</sup> Under "fast-track" authority, "bills implementing international trade agreements are not amendable once they have been introduced. Before introduction, however, the administration and Congress work together on developing the legislative language in 'mock mark ups' of the draft legislation."<sup>39</sup> On April 6, 1995, Senate Finance International Trade Subcommittee Chairman Charles Grassley (R-Iowa) asserted with confidence that Congress would pass fast-track authority for Chile's membership to the NAFTA "if the issue did not get bogged down with

32. BBC Summary of World Broadcasts, *Regional Political Reaction: Chilean Finance Minister Reassures Investors; Crisis Not to Stop NAFTA Talks* (Jan. 17, 1995), available on LEXIS.

33. 12 Int'l Trade Rep. (BNA), No. 3 at 111 (Jan. 18, 1995).

34. BNA Int'l Trade Daily, *Chile: Grassley Confident on Chile Fast-Track if Labor and Environment are Kept Out* (Apr. 7, 1995), available on LEXIS. 12 Int'l Trade Rep. (BNA), *supra* note 33.

35. BBC Summary of World Broadcasts, *supra* note 32. See also 11 Int'l Trade Rep. (BNA), No. 50 at 1957 (Dec. 21, 1994).

36. BNA International Trade Daily, *USTR Official Hopes Chile Talks on NAFTA Can Be Concluded in 1995* (Mar. 8, 1995), available on LEXIS. 12 Int'l Trade Rep. (BNA), No. 9 at 421 (Mar. 1, 1995).

37. 12 Int'l Trade Reporter (BNA), No. 12 at 550 (Mar. 22, 1995). The Christian Science Monitor, *Assessing the Consequences of the Peso Crisis* (Mar. 23, 1995), available on LEXIS.

38. *Supra* note 37. BNA Int'l Trade Daily, *supra* note 34.

39. *Id.*

labor and environmental considerations.”<sup>40</sup> Representative Kantor, on the other hand, noted that it would be “strange and asymmetrical” for Chile to be allowed to join NAFTA without having to sign labor and environmental agreements similar to ones signed by Mexico.”<sup>41</sup>

Whether or not fast-track authority is approved for Chile’s accession into the NAFTA becomes a mere side issue given that Chile’s “enormously impressive economy” is assurance enough of Chile’s NAFTA membership.<sup>42</sup> From a hemispheric perspective, there is no doubt that Chile’s inclusion in the NAFTA will put additional pressure on the other nations of the Caribbean, South and Central America to facilitate the opening of their markets.

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40. *Id.*

41. *Id.*

42. 11 Int’l Trade Rep. (BNA), *supra* note 35.