

25/11/1997

Chile's economy spreads its wings

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IF ONE is to look at the world today, one would notice two very dynamic regions - South America and South-East Asia. However, these two regions had almost no bilateral ties until very recently.

In the case of Chile in South America and Malaysia in South-East Asia, the road ahead still stretches far into the horizon.

Chilean Economic Minister Alvaro Garcia Hurtado said his country has always enjoyed a very special relationship with Malaysia.

"Chile is very grateful for Malaysia's support in many areas, particularly its leading role in the G-15 group of developing countries (G-15) and in South-South relations, as well as in the Asia Pacific Economic Cooperation (Apec), the World Trade Organisation (WTO) and other multilateral forums.

"Malaysia played a very crucial role in enabling Chile to join Apec and I think its support was a display of great vision," he told Business Times.

Garcia, who was in Kuala Lumpur to represent Chile at the G-15 meeting last month, said although bilateral ties are strong, the Santiago-Kuala Lumpur relationship is just beginning to take its first steps unaided.

Trade is one aspect which has not been of great significance between the two countries but the situation is changing and trade is slowly beginning to grow.

"We have been experimenting with some interesting methods of investing in each other's countries. Both Malaysian and Chilean entrepreneurs have been visiting each other.

"Prime Minister Datuk Seri Dr Mahathir Mohamad has been to Chile twice. Although this is only my fourth year with the Chilean Government, this is my third trip to Malaysia.

"(International Trade and Industry Minister) Datuk Seri Rafidah Aziz has been to Chile at least three times. On each of these occasions, we travelled with businessmen from both countries. This is one of the things we can do to bring our business communities together," Garcia explained.

He also said that when Chile joined Apec, the country did more than just strengthen its ties with Asia. Almost every single country in the Southern comb of Latin America saw Chile as a gateway to economic ties with South-East Asia as a result.

"A year after we joined Apec, we signed a free trade agreement with Mercosur. One of the provisions in this agreement involves the building of roads that will link the Atlantic and Pacific coasts of Latin America. This link will greatly enhance economic ties between the Latin American countries and their counterparts in South-East Asia." Chile is expected to play an important role in this project.

Mercosur is the Common Market of the Southern Cone. Established in January 1995, it groups Brazil, Argentina, Paraguay and Uruguay in a single market with 200 million people and a total Gross National Product (GNP) of almost US\$800 billion (US\$1 = RM3.48).

Garcia added that in its efforts to promote Latin America, Chile has also signed trade agreements with all its countries.

"The next step naturally, will be to bring Latin America and South-East Asia together. The next century will be the century of the Pacific.

"In order to do this, we have to know each other better ... and I have dedicated a lot of time towards this effort."

In the G-15, Garcia said Chile does not play an individual role but shares the position of the other members. He believed, however, that the 16 countries in the grouping should strengthen their political ties since all its members have certain common interests in world affairs.

"It is crucial to create a good information network between our countries so that people can know the capabilities, possibilities and problems of each country. This then would enable the countries and their people to work more closely with one another," he said.

In order to liberalise trade and ensure that the interests of developing countries are represented, Garcia said that the G-15 should agree as much as possible on positions that would represent the G-15 as a group to the WTO.

There is also a pressing need to identify the relationship between foreign direct investment (FDI) and financial speculative capital "so that we can benefit from the first and isolate ourselves from the second," Garcia said.

As Latin American countries are now increasingly becoming the focus of fund managers and investors, Garcia said Chile has and will continue instituting measures to prevent excessive speculation especially after seeing this activity cause the downfall of Asian stock markets and currencies.

"Like Malaysia, we are also trying to maintain healthy macro-economic accounts. Chile has had a surplus on the fiscal account of about 2 per cent of GNP per year for the past 10 years. We generally finance our investment trade with domestic savings and we have a positive balance of payments as well," Garcia said.

Chile has a small amount of foreign debt which, in turn, is mostly private. The country also has large foreign reserves.

Garcia said that Chile is in the process of instituting a surveillance system within the financial systems. In line with this policy, the Government has placed some hurdles in the path of speculative activities.

Chile's Central Bank imposes a service charge of 30 per cent if money brought into the country is not intended for long-term direct investment. At the end of the year, investors get their money back with no interest. Relative cost is about 3 per cent a year.

This may lead to the presumption that Chile receives very little financial capital since it is one of the few Latin American countries which imposes such a charge. Funds should therefore, flow into other more obliging Latin American countries.

"However, contrary to this assumption, the regulation has not prevented Chile from attracting FDI at all. In the last three to four years, the total amount of FDI we received was between 8 and 9 per cent of the GNP.

"If foreign investors come in with long-term investments in mind, the regulation will not affect them at all," Garcia said.

Garcia is an economist by training and entered Chile's political arena at a very young age. He has served in the Government since democracy came into force in 1990. "My experience as a minister has been an interesting personal one," he said. He has been the Economics Minister since 1994.

He added that his greatest reward has been the support he has always received from the Chilean Government