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**CHILE's BIG CHALLENGE:  
INFRASTRUCTURE &  
PRODUCTIVE DEVELOPMENT**

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Chile is geographically distant from the major world markets, though at the same time in a strategic position in the Pacific Basin. This, together with its irregular territory, its small open economy oriented to exports and to international integration, emphasize the importance of the role of its transport and communications infrastructure.

Over the past decade, Gross Domestic Product (GDP) increased at an average annual rate of 6.4%. This was accomplished thanks to a serious private investment effort in non-traditional areas -in both natural resources and manufacturing & services- which resulted in investment leaping from 13.3% to 26.5% of GDP in the ten-year period. Such performance has made possible the dramatic increase in exports, of an average 9.4% a year.

However, this export success is not to be ascribed only to the remarkable increase in productive investment. During the same period, the private sector has also invested in technology, eliminated inefficiencies by expediting, rationalizing, and modernizing administrative and production processes; it has gradually -though significantly- reduced production costs, thus improving the country's competitiveness to penetrate new markets.

Although this private sector modernization is not yet completed, there is general awareness in the country that its international competitive edge is being threatened mainly by the shortage and inadequacy of Chilean infrastructure, despite all the investment efforts displayed by the Government in the area during the past few years.

Inadequate infrastructure has a direct impact on the competitiveness of our exported products in world markets, resulting in losses that dwindle the National Product. For example, only in Santiago, the capital city, traffic congestion is estimated to cause a loss of US\$400 million a year.

The bad condition of secondary roads is the cause of damaged fruit -one of our main export products- while transported from the farm to the processing plants, resulting in estimated losses of nearly US\$100 million a year; while freight costs some additional US\$430 million a year because of road delays and the early wear-and-tear of vehicles due to lack of road maintenance and repair.

Moreover, some US\$120 million must be added to account for physical damages caused by road accidents.

The effects of bad infrastructure on the population's health are estimated at US\$200 million a year, to which another US\$100 million must be added to account for the gastrointestinal diseases that are caused each year by the lack of sewerage and, most particularly, of sewage water treatment.

Port congestion results in port delays, causing an annual loss of over US\$85 millions.

The above figures alone, which do not consider total losses from inadequate infrastructure, account for US\$1.44 billion a year, that is, close to 3.5% of GDP.

However, other areas of infrastructure show a very different situation.

Actually, the power sector's pricing and regulatory framework in application since 1980, has permitted the private sector to increase its participation in service concessions and power plant ownership.

Currently, 75% of annual investment in this area is accounted for by private companies which have shown sustained increases in both productivity and efficiency, a high coverage, and improved quality services, together with a sound financial situation and profitable operations.

Today, no energy shortages exist, and corporate development programs under application ensure their capability to meet expected medium and long term demand.

The success of the Chilean private power companies has allowed them to increasingly expand into neighbor countries such as Argentina and Peru, where substantial investments have been made and know-how and entrepreneurial capacity has been transferred.

The Chilean telecommunications sector, of which 92% was state-operated by 1984, was totally privatized between the years 1985 and 1990, and today it shows a strong participation of foreign capital.

This sector may be labeled the most dynamic of the Chilean economy over the past few years, for its remarkable efficiency and its great technological development.

Sector legislation has been improved in recent years, as well as its pricing and regulatory framework; and private companies are currently undergoing important investment programs that will ensure efficient sector development.

On the other hand, severe infrastructure deficits and service deficiencies exist in the transportation and sanitary sectors, particularly in connection with sewage water treatment which is mostly managed by State-owned companies.

In order to solve such deficits and carry out the required works, the current level of investment in public infrastructure of US\$900 million must be doubled.

The above circumstances considered, and since it is not possible to face such a challenge relying only on public resources, increased private sector participation is needed for the creation, construction, and management of infrastructure works, in accordance with the Public Infrastructure Investment Plan of the Government.

With respect to the sanitary services sector, for example, for the next four years an average investment of US\$450 million a year will be needed to carry out the sector's development plans, including the construction of sewage water treatment plants, which alone is estimated at roughly US\$1.5 billion, an investment that is essential if the country is to materialize new commercial agreements with developed countries and/or groups of countries.

On the other hand, since 1988 several legal bodies have been enacted that conform a new, complete, modern, and consistent legal framework for the sector's development, thus making it possible to transfer these services to private hands, leaving to the Government such functions as policy planning, regulation, and the supervision of quality and coverage.

Twenty concessionary sanitary companies are currently in operation, of which thirteen are state-owned adding up to a combined 93% share in the sector. The concessions of sanitary services operations grant the legal domain on them, which

may be transferred in whole or in part -a procedure incorrectly termed "subconcession"- provided such legal action has been previously approved of by the relevant legal authority.

Recently, three subconcessions have been tendered within the area of public works. A new strategy is being outlined that will determine both the system and the scope of private participation in this infrastructure area.

As for the ports sector, the country's export dynamism has already surpassed the achievements of the port modernization of the eighties, which permitted the private operation of some of its activities. All the main Chilean ports are state-managed and are currently exceeding accepted occupancy standards and showing signs of congestion.

Moreover, the present port capacity is bound to become pressured by: the increasing freight volumes that will be created by increased trade activity; the convenience of providing the service to neighboring countries, and the higher coastal sailing volumes once the planned surcharges to infrastructure use and environmental pollution come into force.

Although port performance has been improved by private participation, including system innovation and specially-designed machinery under international standards, efficiency in the use of wharf facilities must be improved, where private investment has been prevented to this date.

The country's geographical location, its political and economic stability, together with the availability of efficient companies operating various port services and the existing entrepreneurial know-how still give the country the comparative-advantage stand to become the passageway between Asia and the American continent.

In order to face such a challenge, the present in-port competition model must be complemented with competition between ports, focusing efforts on the private sector to ensure the compatibility between port development and foreign trade needs.

To this end, new legal and institutional modifications are being studied to establish a port authority not involved in port operations but only responsible for

issuing the rules; a maritime concession system with some ownership regulation; and a clear and pre-defined tariff system for port services.

As for railroad transportation -where Chile was pioneer in the continent- during the first half of the century there was a remarkable development that fostered the incorporation of vast isolated territories into the social and economic life of the country. However, with the construction of the Pan-American longitudinal highway, railroads relapsed into a declining process since then.

The railroad net, both constructed and operated by the State Railway Company (EFE) is used at barely 10% to 15% of its capacity, with low traffic density and high fixed costs, and is currently severely impaired by the lack of maintenance work due to the financial incapacity of the company, which for a long time has been experiencing operating losses that the State must absorb.

A couple of years ago, the new Railroad Act was enacted which allowed the participation of the private sector through the concession of freight operations and occasionally also passenger transport, upon the payment of a fee to EFE for the use of the railway line and associated services.

As of today, only an insufficient investment program is under way, of US\$80 million to restore lines and wagons, and recently a public tender for the concession of freight transport operations has been opened.

However, it is precisely in the Road System sector that major investments are needed, and to which the State must allocate its public infrastructure resources.

The Public Works Concessions Law has given private companies the possibility to share in the public infrastructure sector, particularly in relation to road development.

A project to improve the above mentioned Law is now under way to render it more operative and to allow the appropriate increase in the system's utilization.

With respect to the urban road system, serious problems exist in the main urban centers which will have to be solved. Here solutions include the combination

of several measures, to both encourage investment to increase supply and to discourage and rationalize demand. Investments needed in the urban road system for the next five-year-period alone is US\$1.7 billion, compared to the annual US\$140 million of today. The investment plan will be complemented with actions directed at improving transport and traffic management.

A new bill is being studied in Congress whereby a new road toll system will be established in order to decongest roads and collect the necessary funds to build and maintain infrastructure particularly streets- from the users themselves. This will apply regardless of the public or private nature of the projects.

Thus, the Chilean infrastructure sector is offering excellent business opportunities where substantial investments are urgently needed.

The government has explicitly given first priority to this sector's problem solution and is, therefore, focusing on rapidly implementing the necessary policies to attract foreign investment through both concessions and total or partial privatization of the public companies operating in the area. These opportunities are also available to foreign investors who may benefit from the Foreign Investment Code, which promotes investments through certain benefits and guarantees for capital inflow and return repatriation. The said code guarantees foreign investors a non-discriminatory treatment, free access to the foreign exchange market, and no State intervention.

The country's future development depends strongly on how much investment it will be able to attract in order to solve its public infrastructure needs, a task that will demand the joint efforts of the State and private investors, both foreign and domestic.

Chile, like Japan, overlooks the Pacific Ocean. Its national development strategy is therefore indelibly marked by its maritime nature and its particular geographic location. It is no surprise then that whereas the country's trade with the rest of the world tripled in the last ten years, trade with Japan increased almost fivefold in the same period.

In this new development stage that is now commencing, Chile will consolidate as the geographic platform for the trade between South America and the Pacific Basin, and Japan is our natural partner and bridge for all our operations with Asia.

Along with that, and beyond commercial trade, it is our belief that we can establish interesting links with Japan in some of our infrastructure areas where severe shortages exist.

Thus, for example, Japan has the most advanced technologies and one of the world's most efficient railroad systems, and therefore can contribute the necessary know-how that will help us recuperate this means of transportation, define the best solutions, and develop the required investments.

Likewise, as was previously mentioned, our ports offer an enormous potential for investment and for the creation of joint ventures between Chilean and Japanese companies.

Also welcome are investments in other infrastructure areas, as well as the participation in concessions for the construction of sewage water treatment plants and road operations.

In the past, we Chilean entrepreneurs have been able to overcome most of the obstacles we have encountered to place Chile on the path to development. We are certain that, once again, we will be successful in dealing with this new challenge; and the possibility of doing it through mutual cooperation with Japan make us feel very optimistic. Thank you.