



**THE CONFEDERATION OF INTERNATIONAL
CONTRACTORS' ASSOCIATIONS
(CICA)**

**5th. CICA INTERNATIONAL CONFERENCE
on
WORLD CONSTRUCTION MARKETS**

Key Markets: Latin America

CHILE

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**CAMARA CHILENA DE
LA CONSTRUCCION
Centro Documentación**

**Speech addressed by
Mr. Alfredo Schmidt Montes
Chilean Construction Chamber**

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Chile is a small country located on the Southwestern end of South America, with a population of 13.8 million inhabitants and a surface of 296,000 square miles of continental territory.

Its geographic location, distant from the great international markets along with its export-oriented development strategy makes it a small and open economy and emphasizes the important role played by its transportation and communication infrastructure.

I've brought some charts with important information related to macroeconomics, construction and infrastructure investment indicators, for the people who wish to have some more information about the Chilean situation. You may find these charts at Gross Internal Product has increased at an average annual rate of 6.4% in the last ten years, raising product rate per inhabitant from less than US\$ 2,000 in 1983 to US\$ 3,164 in 1993. This has been essentially due to exports growth which have recorded an annual rate of nearly 10%.

The above achievement has been possible through a real effort of private investment which has permitted to start-up production in non-traditional areas both in the natural resources as the manufacturing and services areas, all of which explains the great increase recorded by the investment rate from 13.7% in 1983 up to 27.4% in 1993.

Together with this significant increase of productive investment, the private sector has also invested in technology; has eliminated inefficiencies by expediting, rationalizing and modernizing administrative and production proceedings; has gradually but significantly reduced production costs consequently gaining in competitiveness, which has made possible to penetrate new markets.

Nowadays, people in Chile are, however, aware that our international competitiveness is being threatened mainly by the shortage and inadequacy of the country's infrastructure, in spite of the investment efforts displayed by the Government in this area during the last years.

The Chilean Construction Chamber has estimated costs associated to such inadequacy or shortages in Chile's infrastructure - some of which directly affect our competitiveness and others representing resource losses which reduce the

national product rates - in some US\$ 1,500 million per year, in other words, almost 3.5% of the Gross Internal Product.

However, the infrastructure situation in other sectors is quite different.

ELECTRIC POWER

The regulatory and tariff framework ruling the electric power sector have permitted the increasing incorporation of the private sector to the concession of services and to the ownership of facilities. At present, 75% of the investment in this area corresponds to private companies which have recorded sustained productivity and efficiency increases, high coverage and substantial progress in the quality of service, in addition to a sound financial situation and a profitable operation. Subsequent to such modernization, the sector has generated the necessary electric power that the country's growth requires and the development programs of these companies guarantee the fulfillment of requirements foreseen for the future.

Success achieved by Chilean private electric power companies has made it possible for them to increasingly expand their activities to neighbouring countries such as Argentina and Perú, where important investments are being made.

TELECOMMUNICATIONS

The Chilean telecommunications sector, 92% of which was operated in 1984 by State companies, has been privatized and at present is entirely in private hands, with a strong participation of foreign investors. This has probably been the economy's most dynamic sector during the last years showing a remarkable level of efficiency and significant technological development. Already in 1991 telephone switchboards were 100% automatic, more than 65% used highly-technological digital lines, whereas in 1982 those systems were not available in Chile.

The legislation ruling the sector has been improved in recent years, as well as its regulatory and tariff framework. Private companies have important investment programs ensuring an efficient development of the sector.

PUBLIC INFRASTRUCTURE SHORTAGES

On the contrary, the transportation as well as the sanitary service infrastructure sectors show serious deficiencies and severe shortages, particularly in connection with sewage treatment which is mainly managed by State companies.

In order to solve those deficiencies and to carry out works required, the present investment levels should be doubled.

In view of the existing circumstances and since it is not possible to face such a challenge based only on public resources, it has become necessary to make room for private participation in the generation, construction and management of infrastructure works.

SANITARY WORKS

Investments required, for example, in the sanitary works area to pursue the development of regional companies may amount to US\$ 450 million per year, while the construction of sewage treatment plants which are necessary to conclude commercial arrangements with country blocks or developed countries, such as NAFTA - where these sanitary conditions will be an essential requirement - represent US\$ 1,500 million investments.

There are several legal bodies presently in force which, among others, regulate the concession system and the conditions for providing sanitary services, establish the new tariff system and reimbursable contributions, created a technical supervisory institution and determined a system of subsidies for low-income home users, all of which conform a new, complete, modern and consistent legal framework for sector

development. The above enables the transfer of these services to the private area, the Government keeping the functions of policy planning, regulation and supervision of quality and coverage.

Twenty sanitary service companies are presently operating, thirteen of which are State-owned with a 93% share in these services. Three services sub-concessions have been recently tendered within the area of public works concessions. A new strategy for the sector is presently being outlined to determine the way and scope of private participation in this area of infrastructure.

PORTS

In the ports sector, export dynamics has already gone beyond the limits of progress achieved in the 80's through ports modernization, which permitted the private sector to participate in the operation of some port activities. Main Chilean ports, all State-managed, are already showing "bunching" levels. In addition, the present port capacity will suffer the pressure of : increasing freight requirements derived from higher foreign trade volume; the convenience to provide service to neighbouring countries and higher internal coastal sailing volume to be recorded when highway freight transportation is required to pay for their infrastructure and environmental costs.

Private sector has improved port yield through innovative systems and the incorporation of specially-designed machinery. With regard to the maritime concessions system, it has developed some new privately-used ports. New investments are, however, required in order to keep on improving efficiency.

Our geographical location, along with our political and economic stability, the availability of efficient handling cargoes, procurement of ships and customs, communications and corporate know-how and dynamics, place Chile in an advantageous position to become the passageway between America and Asia.

In fact, a new General Port Law which is presently under way will introduce legal, ruling and institutional changes intended to establish a regulatory Port Authority not involved in port operation; to offer guarantees of a subsidiary State in port and investing operation; to establish a maritime concession system providing some type of regulated ownership; and to establish a clear and pre-defined tariff system for the different types of port services, all of which will permit, in a couple of years, the development of attractive opportunities for private investment.

RAILWAYS

Chile was the first country in South America to use railway transportation. The importance of this means of transportation decreased, however, starting its decline process when the Panamerican Longitudinal Highway was constructed. Railway network constructed and operated by the State Railways Company is only being used at 10 or 15% of its capacity, with a low traffic density and high fixed costs. In addition, as a consequence of the lack of maintenance due to the company's financial incapacity - for many years recording operational losses that the State must absorb - the railway network has severely deteriorated.

A couple of years ago, a new Railway Law was enacted allowing the participation of the private sector through freight, and eventually passenger transportation concessions paying a fee to SRC (State Railway Company) for the use of the railway line and related services. At the same time, an investment program for US\$ 100 million for the restoration of the railway line and wagons is presently in force. In a few days a tender for the concession of freight transportation will be opened.

ROAD SYSTEM

It is precisely in the Road System sector, however, where the highest deficits have been recorded and greater investment efforts are needed.

At this time, the Law for the Concession of Public Works has opened the possibility of private participation in the public infrastructure sector.

In spite of the evident interest of the private sector to participate in this area, the start-up of the concession system of public works has been slow, because it is a new mechanism with no former experiences in Chile.

A project to improve the Law for the Concession of Public Works is presently under way to make it more operative and to allow a more massive system, reducing those risks restraining the possibility of an adequate and competitive financing; resolving some tax difficulties associated to business flows; legally protecting concessionary companies and, finally, providing investors some reasonable assurance that future State decisions will not significantly alter the original conditions under which the project was studied, tendered and contracted.

With regard to the Urban Road System, there are serious problems in the main urban centers which must be solved. In this area, solutions combine several steps, both to expand offer through the increase of investments and to slow down and rationalize demand. Investments required by the urban road

system considering only the next five-year period will amount to US\$ 1,700 million, whereas per year investment at present amounts only to US\$ 140.

A law project is presently being studied at Congress whereby a road tariff system will be established in order to collect from users the funds required to construct and maintain the road infrastructure, either public projects or strictly private initiatives.

OPPORTUNITIES IN INFRASTRUCTURE SECTOR

Chile provides in the near future excellent business opportunities within the infrastructure sector: this sector requires important and urgent investments, and the Government has specifically assigned first priority to the solution of this problem and is, therefore, concentrated on the fast implementation of measures improving the current legislation in order to attract higher flows of private investments, both through concessions as well as through the total or partial privatization of public companies operating in the area.

Foreign investors interested in investing in Chile may benefit from the Foreign Investors' By-Laws. This is a set of provisions promoting investment through certain advantages and

guarantees for investors to bring capitals into the country and return them abroad. The State guarantees that these provisions will not vary through a contract jointly subscribed with the investor, whereby non-discriminatory treatment is assured, together with free access to foreign exchange purchase and a minimal or no State intervention in the investors' activities.

Chile's future development greatly depends from our ability to channel investment towards public infrastructure - a task which will demand a joint effort from the State and both from Chilean and foreign private investors.

7. oct. 94

CHILE
MACROECONOMICS INDICATORS
1983 - 1994

		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
POPULATION	Thousands	11,717	11,919	12,122	12,327	12,536	12,748	12,961	13,173	13,386	13,599	13,813	14,026
GROSS DOMESTIC PRODUCT (GDP)	Millions US\$ 93	23,400	24,828	25,697	27,136	28,927	31,038	34,204	35,231	37,380	41,230	43,703	45,451
	Annual growth rate	-3.5%	6.1%	3.5%	5.6%	6.6%	7.3%	10.2%	3.0%	6.1%	10.3%	6.0%	4.0%
GDP per capita	US\$ 93	1,997	2,083	2,120	2,201	2,307	2,435	2,639	2,674	2,793	3,032	3,164	3,240
GROSS FIXED CAPITAL FORMATION	Millions US\$ 93	3,042	4,047	4,317	4,640	5,612	6,301	7,901	8,667	8,111	9,771	11,586	12,049
	% GDP	13.3%	15.4%	16.8%	17.1%	19.4%	20.3%	23.1%	24.6%	21.7%	23.7%	26.5%	26.5%
SAVING (1)	% GDP	4.4%	3.4%	7.8%	11.5%	17.3%	22.3%	23.7%	22.4%	22.3%	22.1%	21.3%	23.0%
EXPORTS (Fob)	Millions US\$ E/Y	3,831	3,651	3,804	4,191	5,224	7,052	8,080	8,310	8,929	9,986	9,202	10,700
IMPORTS (Fob)	Millions US\$ E/Y	2,845	3,288	2,920	3,099	3,994	4,833	6,502	7,037	7,354	9,237	10,181	10,800
INTERNATIONAL RESERVES	Millions US\$ E/Y	2,023	2,056	1,867	1,778	1,871	2,550	2,948	5,358	6,641	9,009	9,767	12,090
	% Import.	71.1%	62.5%	63.9%	57.4%	46.8%	52.8%	45.3%	76.1%	90.3%	97.5%	95.9%	111.9%
EXTERNAL DEBT	Millions US\$ E/Y	17,431	18,877	19,444	19,501	19,208	17,638	16,252	17,425	16,364	18,242	19,186	19,900
INFLATION	Dec/Dec rate	23.1%	23.0%	26.4%	17.4%	21.5%	12.7%	21.4%	27.3%	18.7%	12.7%	12.2%	11.0%
LABOR FORCE	Thousands	3,768	3,891	4,019	4,270	4,354	4,552	4,675	4,729	4,794	4,990	5,219	5,250
EMPLOYED	Thousands	3,216	3,349	3,537	3,896	4,011	4,266	4,425	4,460	4,540	4,773	4,986	5,000
UNEMPLOYMENT	% Labor Force	14.6%	13.9%	12.0%	8.8%	7.9%	6.3%	5.3%	5.7%	5.3%	4.4%	4.5%	4.8%
NOTES : Relations between differents variables with GDP (% GDP) were calculates from current series in each year Dollars (US\$ E/Y) (1) SAVING : Gross National Saving 1994 figures are Estimated or Projected.													
SOURCES : CENTRAL BANK OF CHILE and NATIONAL BUREAU OF STADISTICS.													

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CHILE
CONSTRUCTION INDICATORS
1985 - 1994

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
NATIONAL ACCOUNTS										
	Millions US Dollars of 1993									
Value Added	1,227	1,347	1,470	1,596	1,870	1,954	2,029	2,289	2,609	2,661
Gross Addition to Fixed Assets	2,391	2,557	2,842	3,084	3,601	3,743	3,830	4,292	4,883	4,982
Residential Buildings	671	798	906	1,079	1,308	1,327	1,487	1,807	2,079	2,003
Non-Residential Build.	261	295	290	397	445	523	575	721	850	893
Engineering Works	1,459	1,464	1,646	1,608	1,848	1,893	1,768	1,764	1,954	2,087
PUBLIC INVESTMENT										
IN CONSTRUCTION										
Housing	299	281	283	309	274	275	324	355	337	355
Public Works and Others	385	430	413	459	472	490	577	723	859	977
NEW BUILDING										
CONSTRUCTION AUTHORIZED										
	Number									
Dwellings	61,233	52,082	60,316	77,501	83,891	78,904	88,481	105,669	117,383	113,500
FLOOR AREA										
	Thousands M ²									
Residential Buildings	3,055	2,897	3,554	4,014	4,827	4,495	5,213	6,877	7,054	6,631
Non-Residential Build.	848	1,144	1,219	1,571	1,709	1,748	2,430	2,577	2,920	3,270
All Buildings	3,903	4,041	4,773	5,585	6,536	6,243	7,642	9,454	9,974	9,901
EMPLOYMENT										
	Thousands Workers									
Labour Force	170.1	216.8	238.7	293.6	329.9	325.2	342.3	364.1	401.2	405.0
Employed	122.3	164.4	196.7	253.7	290.5	282.5	297.8	331.5	371.3	360.0
Unemployed	47.8	52.4	42.0	39.9	39.4	42.7	44.5	32.6	29.9	45.0
	% Labor Force									
Unemployment Rate	28.1	24.2	17.6	13.6	11.9	13.1	13.0	9.0	7.5	11.1
NOTE :	1994 figures are Projected or Estimated.									
SOURCES	CENTRAL BANK OF CHILE , NATIONAL BUREAU OF STATISTICS, MINISTRY OF HOUSING AND URBANISM AND MINISTRY OF PUBLIC WORKS.									

CHILE
INFRASTRUCTURE ESTIMATED INVESTMENT 1990 – 1993, AND
INFRASTRUCTURE INVESTMENT REFERENCE FOR 1994 – 1998
(In Millions US\$ Dollars of 1993)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
SECTORIAL INVESTMENT									
Airports	4.9	6.2	12.1	34.9	13.0	20.0	29.0	9.0	10.0
Architecture	81.4	60.5	54.3	57.3	61.5	65.1	69.0	73.0	77.3
Ports Works	3.3	15.8	25.9	38.1	24.0	28.0	18.0	13.0	8.0
Irrigation Systems	9.8	16.3	41.6	52.2	50.0	40.0	49.0	60.0	64.0
Interurbans Roads	183.3	240.6	273.4	294.5	343.0	511.0	585.0	629.0	640.0
Urbans Roads	62.4	52.5	87.6	114.6	152.0	217.0	231.0	267.0	300.0
Subtotal	345.1	391.9	494.9	591.6	643.5	881.1	981.0	1,051.0	1,099.3
OTHER GOVERNMENT INVESTMENT									
National Found of Regional Development	38.6	48.8	54.4	56.3	59.6	63.2	67.0	71.0	75.3
Municipalities	34.0	39.7	45.4	45.4	48.1	51.0	54.0	57.3	60.7
Subtotal	72.6	88.5	99.8	101.7	107.7	114.2	121.0	128.3	136.0
STATE'S COMPANIES									
State Ports Company	8.4	9.4	7.5	10.2	5.7	6.0	6.4	6.8	7.2
State Railroad Company	1.5	2.0	1.9	2.0	35.0	35.0	35.0	5.0	6.0
Santiago Subway Company	10.3	2.0	10.4	26.0	37.0	90.0	90.0	83.0	30.0
State Water & Sewage Companies	52.0	82.7	108.8	127.4	179.0	136.0	123.0	119.0	107.0
Subtotal	72.2	96.1	128.6	165.6	256.7	267.0	254.4	213.8	150.2
SUBTOTAL PUBLIC INVESTMENT	489.9	576.5	723.3	858.9	1,007.9	1,262.3	1,356.4	1,393.1	1,385.5
PRIVATES COMPANIES									
Privates Water & Sewage	11.3	11.3	11.3	17.0	17.5	18.1	18.6	19.2	19.7
Privates Ports	2.3	15.0	25.0	10.0	22.0	57.0	52.0	23.0	15.0
Roads Concessions	0.0	0.0	0.0	9.1	53.0	224.0	295.0	210.0	211.0
Interurbans	0.0	0.0	0.0	9.1	53.0	188.0	213.0	137.0	138.0
Urbans	0.0	0.0	0.0	0.0	0.0	36.0	82.0	73.0	73.0
Airports Concessions	0.0	0.0	0.0	0.0	16.0	8.0	0.0	5.0	5.0
Irrigation Systems	0.0	0.0	0.0	0.0	2.0	28.0	38.0	38.0	23.0
Privates Railroad Cargo	0.0	0.0	0.0	0.0	22.7	22.7	34.0	34.0	35.0
State Water & Sewage Companies	0.0	0.0	0.0	0.0	23.0	60.0	86.0	105.0	325.0
W & S Subconcessions	0.0	0.0	0.0	0.0	8.0	13.0	21.0	30.0	38.0
Waste Water Treatment Plants	0.0	0.0	0.0	0.0	15.0	47.0	65.0	75.0	287.0
SUBTOTAL PRIVATE INVESTMENT	13.6	26.3	36.3	36.1	156.2	417.8	523.6	434.2	633.7
TOTAL INFRASTRUCTURE INVESTMENT	503.5	602.8	759.6	895.0	1,164.1	1,680.1	1,880.0	1,827.3	2,019.2
SOURCE : Infrastructure and Transport Government Programme.									

07160



Schmidt Montes, Alfredo

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Chile

TITULO

FECHA

NOMBRE

FIRMA



Autor.: Schmidt Montes, Alfredo

Título: Chile

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