Columbia FDI Profiles

Country profiles of inward and outward foreign direct investment
issued by the Vale Columbia Center on Sustainable International Investment
September 29, 2010
Editor-in-Chief: Karl P. Sauvant
Editor: Thomas Jost
Managing Editors: Zehra Gulay Kavame
and Ana-Maria Poveda-Garces

Inward FDI in Chile and its policy context

by
José Eduardo Alatorre and Carlos Razo *

At the time when many countries were following inward looking economic policies in the 1970s, Chile turned outward and sought foreign direct investment (FDI) as a part of its development strategy. Today, the country has the third largest FDI stock in Latin America, only behind the region's two largest economies. Chile has undertaken various policy efforts to use FDI to promote export diversification, encourage technology transfer and upgrade the country's production capabilities. As a result, Chile has attracted firms operating in more knowledge intensive sectors.

Trends and developments

Chile has been a trailblazer of economic reform in Latin America, and this also applies to policies regarding FDI. The country was one of the first ones in the region actively to seek FDI as a part of its development strategy, at a time when many countries were mostly following inward looking policies.

Today, Chile is the third largest recipient of FDI, in terms of stocks, in Latin America, only behind the two largest Latin American economies, Brazil and Mexico. In 2009, the country was the region's second most important recipient of FDI inflows, just behind Brazil. What is even more remarkable, in terms of FDI as a share of GDP, the country ranked number one.[1] The country's inward FDI (IFDI) stock has grown by 150% in less than a decade, outperforming other Latin American countries with larger economies and keeping up with other FDI magnets from either the developing world, such as Thailand, or the developed world, such as the Czech Republic (annex table 1).

---

* José Eduardo Alatorre (joseeduardo.alatorre@cepal.org) and Carlos Razo (carlos.razo@cepal.org) are economists at the Foreign Direct Investment Unit of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).

The authors wish to thank Mario Castillo, Michael Hanni and Miguel Ramírez for their helpful comments on this *Profile*. The views expressed by the authors of this *Profile* do not necessarily reflect those of Columbia University, ECLAC or their partners and supporters. *Columbia FDI Profiles* is a peer-reviewed series.

[1] This ranking excludes the Caribbean countries, where many small open economies report high ratios of FDI to GDP. In 2009, Chile's ratio of FDI to GDP was almost 8% compared to a ratio of 1.7% in Brazil (Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean 2009* (Santiago: ECLAC, 2010).

Country-level developments

At the end of the 1960s and the beginning of the 1970s, a set of reforms significantly changed the economic landscape of Chile. Nationalizations and the role of the State in the economic activity of the country limited the presence of private firms. This, coupled with a severe political and economic crisis, resulted in a contraction of FDI inflows. At the end of 1973, a *coup d'état* overthrew the democratically elected Government of Salvador Allende; the new regime drastically changed the country's economic policy. As a part of its attempts to move toward a market based economy, the Government enacted a new law to promote and protect FDI (Law Decree 600).[2] This law, together with instruments for debt conversion, led to a gradual increase in IFDI flows through the second half of the 1970s and the 1980s.

However, it was not until the 1990s and the return of a democratic regime, sound macroeconomic performance, and the globalization wave that started sweeping the world that FDI flows to Chile began their steep upward trend. From 1990 to 1999, IFDI flows grew from nearly US$ 700 million to almost US$ 9 billion, a 1,200% increase.[3] This trend was interrupted from 2000 to 2002, as a result of the combination of several factors, in particular the bursting of the dot-com bubble, relatively low commodity prices and the Argentinean crisis, and the contagious effects that undermined foreign investors' confidence. After the contraction, IFDI growth soon returned to its upward track, reaching its highest point in 2008 (annex table 2). In 2009, IFDI flows recorded their second highest level, a remarkable result considering the global economic crisis and the effects that it had on the flows to other countries of similar economic size that are also globally integrated, such as the Czech Republic and Thailand.

An analysis of the evolution of the sectoral composition of IFDI is limited by the data. Official statistics report the distribution by economic sector and industry only for IFDI entering the country under the Law Decree 600. Between 1974 and 2000, 96% of FDI entered through this scheme, but this figure fell to 66% by 2009, leaving 34% of the IFDI stock unspecified (annex table 3). The services sector stands out as the main recipient of FDI, with financial services and retail industries as the most important ones. However, the main recipient industry by far is mining, as the country's vast copper reserves make it a very attractive target for foreign investors.

FDI statistics on countries of origin suffer from the same limitation as mentioned above, but it is still possible to deduce the main investor countries. The United States has been the main foreign investor in Chile, at least since 1974, with investments in a large variety of industries; Spain follows with important investments in the services sector such as telecommunications, banking and electricity; and Canada, which ranks third, has important investments in the mining sector. FDI from developing regions, such as Africa, Asia or Oceania, is still limited. Investments from Latin American countries have increased, but their amounts are still much smaller than those from the main investor countries (annex table 4).

[2] Law Decree 600 was introduced in 1974 with the objective of providing a clear legal framework that ensured transparency and equal treatment to foreign investors.

[3] For an interesting and complete review of government policies and inward FDI in Chile during the second half of the 20th century, see chapter 2 in ECLAC (2010), op. cit.

The corporate players

The biggest investors in Chile are active mainly in the primary and services sectors (annex table 5). The country's natural resource endowments, especially copper, have made Chile an attractive destination for mining firms such as BHP Billiton, Rio Tinto, Xstrata, Anglo-American, and Antofagasta PLC. On the other hand, the country's good economic conditions prevailing during the past two decades have also encouraged very well known market-seeking investors. Financial services have been one of the main industries, with such globally known firms as Santander, BBVA, Scotia Bank, and ING Groep investing heavily in the local market. The utilities sector has also been the target of multinational enterprises (MNEs), with Spanish firms playing an important role; in particular Telefónica (telecommunications) and Endesa[4] (electricity generation and distribution) quickly became market leaders in the country. Other firms recently entering the Chilean market have been OTPPB (Canada) in the water utilities sector and AES (USA) in the electricity sector.

The importance of the services and primary sectors is also reinforced by analyzing the top mergers and acquisition (M&As) of the past three years (annex table 6). The largest M&A deal was by Wal-Mart (USA), which has succeeded in penetrating a market in which many MNEs previously failed. The second largest is Marubeni's (Japan) acquisition of 30% shares in two of Antofagasta PLC's (UK) mining projects, La Esperanza and El Tesoro. With this transaction, the Japanese firm made a significant step toward securing copper resources for producing a wide range of products.

The relevance of the mining industry for IFDI is also evidenced from the list of top greenfield investments (annex table 7). In addition, the list shows the growing importance of a relatively new industry: renewable energy. Wind conditions in some regions of the country, together with the proper policy framework and the global need for greener sources of energy, have unleashed the interest of foreign direct investors in wind farms.[5] Endesa (at the time Spanish), has been one of the pioneers, but other investors such as Enel (Italy), Mainstream Power (Ireland), Sowitec (Germany), and Statkraft (Norway) have followed. IFDI in this sector is likely to rise in the coming years.

It is important to note that the list of top greenfield investments does not adequately capture the growing importance of an industry with higher knowledge intensity than traditional sectors: the global services industry, i.e., business process outsourcing (BPO), IT outsourcing (ITO), knowledge process outsourcing (KPO), and innovation process outsourcing (IPO). At first, Chile started attracting firms in the BPO sector, such as Capgemini and Citigroup. However, more recently, the country has managed to attract more firms with higher levels of process sophistication and knowledge intensity. Now, Chile is the home of firms such as Accenture, Orion, GE, and JP Morgan in ITO; Bayer, ABB and Evalueserve in KPO; and, more recently, the country received investments of Pioneer and Monsanto ITO.

Effects of the current global crisis

[4] ENEL (Italy) acquired ENDESA at the beginning of 2009.

[5] For more details on the important role played by Chile's policy in unleashing such investments see UNCTAD, *World Investment Report 2010: Investing in a Low-Carbon Economy* (New York and Geneva: United Nations, 2010).

In 2009, the global economic and financial crisis had a moderate impact on FDI flows to Chile, which fell by 16% compared to the record level of 2008. Despite this decrease, IFDI reached its second highest level in history which is remarkable, especially considering the prevailing global economic conditions and the severe contraction of FDI flows in other developing countries.

This result can be attributed to two factors. For one, Chile's relatively good economic performance in previous years put the country in a good position to face the crisis and helped the recovery process - which in turn provided incentives to market-seeking investors. The second one is the fact that mining exploration or exploitation projects may not necessarily be correlated with the business cycle. Such projects require many years before they are ready to go on stream; thus, firms that still have the ability to invest do so even in recession periods, to be prepared for the boom years.[6] These two factors may have not only helped to cushion the effects of the economic crisis, but to keep FDI levels high.

The policy scene

For more than three decades, Chile has had a policy to promote and foster FDI. The combination of such a policy, economic and political stability and the country's natural resource endowments rendered positive results, as evidenced in the FDI statistics.[7] Chile's efforts to integrate into the global economy continue, and it has signed a number of free trade agreements (FTAs) and investment protection agreements with its main trading partners and other countries whose economies offer growth prospects.[8] In 2009, Chile's FTAs with Australia, Colombia and Peru came into force; Chile signed a free trade agreement with Turkey and initiated conversations with Malaysia and Vietnam. These agreements and the country's accession adherence to the OECD in January 2010 have been important for the development of exports, and may also have a positive impact on FDI flows.

In 2000, CORFO, Chile's economic development agency, launched *InvestChile*, a program to attract investment with a high technological content. The program started providing subsidies to foreign firms that produce goods or services in ICT or that make intense use of these technologies in order to build a critical mass of human capital in such sectors. Despite some resource limitations, the program has been successful, as evidenced by the number of firms attracted in the target sectors.[9] Since 2007, *InvestChile* has undertaken some changes aimed at broadening the type of investment it seeks to promote and to be more in line with the objectives of the country's National Council of Innovation for Competitiveness (NCIC). Today, besides promoting FDI in ICT, *InvestChile* actively seeks to attract investment in other industries, such as biotechnology, agribusiness, alternative energy, and the production of high-tech equipment for the mining and salmon clusters.[10] Since the launch of *InvestChile*, an important number of firms

---

[6] In fact, in Chile reinvested earnings in 2009 where much higher than in 2008.

[7] For a quantitative evaluation of FDI determinants in Chile, see for instance Miguel Ramirez, "Foreign direct investment and its determinants in the Chilean case: unit roots, structural breaks, and cointegration analysis," (Dublin: Trinity College, Department of Economics, September 2010) and Miguel Ramirez, "Economic and institutional determinants of foreign direct investment in Chile: a time-series analysis, 1960-2001," *Contemporary Economic Policy*, vol. 24, no. 3, 2006.

[8] The list of Chile's FTAs is available at: http://rc.direcon.cl/pagina/1897.

[9] For an economic evaluation of *InvestChile* and the list of firms it attracted see Manuel Agosin and Juan José Price, in Oscar Muñoz, ed., *Productive Development in Chile: CORFO Experience Between 1990 and 2009* (Santiago: CORFO, FLACSO, CATALONIA, 2009).

[10] For more details about *InvestChile*, see www.investchile.com/

in the target sectors (e.g. IT, renewable energy, agricultural R&D) have arrived, and the country has managed to position itself as an attractive destination in the growing industry of global services.[11]

Conclusions

Chile has become one of the main recipients of foreign direct investments of Latin America, keeping up with other FDI magnets from emerging markets of similar size in other regions of the world, such as the Czech Republic and Thailand. Chile's IFDI has had an outstanding performance in the past decade. In 2009, despite the global crisis, the country recorded its second highest inflow of FDI in its history, becoming the year's second most important FDI recipient in the region, just behind Brazil. What is even more remarkable, in terms of FDI as a share of GDP, the country ranked number one in the region.

Chile was one of the first countries in Latin-American to include FDI in its development strategy. Against the trends of the 1970s, the country enacted laws to promote the arrival of FDI, which started flowing gradually. However, it was not until the 1990s and the return of a democratic regime that economic and political stability and the globalization winds from the north caused a boom in IFDI. In the past decade, besides the high inflows received, Chile's FDI policy has made various efforts to use foreign direct investment not just as a mere capital flow, but as a means to promote export diversification, technology transfer and the upgrading of production capacities. As growth prospects for 2010 improve, domestically and internationally, it is very likely that IFDI in Chile will resume its upward trend.

Additional readings

Economic Commission for Latin America and the Caribbean (ECLAC), "Chile: foreign direct investment and corporate strategies," chapter II, in ECLAC, *Foreign Direct Investment in Latin America and the Caribbean 2000* (Santiago: ECLAC, 2001).

Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean 2009* (Santiago: ECLAC, 2010).

Muñoz, Oscar, *Productive Development in Chile: CORFO Experience between 1990 and 2009* (Santiago: CORFO, FLACSO, CATALONIA, 2009).

Useful websites:

FDI data:

Chile's Central Bank: http://si2.bcentral.cl/Basededatoseconomicos/951_portada.asp?idioma=E

http://www.cinver.cl/english/estadisticas/estadisticas.asp

[11] According to rankings from AT Kearney, Global Services, KMPG, Gartner, and the Black book of outsourcing, Chile is among the top destinations for offshoring services.

Markets and trade agreements

http://www.investchile.com/the_chilean_advantage/markets_and_trade_agreements

http://www.cinver.cl/english/regulaciones/acuerdos.asp

* * * * *

For further information please contact: Vale Columbia Center on Sustainable International Investment, Zehra G. Kavame, (212) 854-0638, Zkavam1@law.columbia.edu.

The Vale Columbia Center on Sustainable International Investment (VCC), led by Dr. Karl P. Sauvant, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. VCC focuses on the analysis and teaching of the implications of FDI for public policy and international investment law.

Statistical annex

Annex table 1. Chile: inward FDI stock, 2000, 2008, 2009

(US$ billion)

Economy	2000	2008	2009
Chile	46	101	122
Memorandum: comparator economies			
Argentina	68	76	81
Colombia	11	67	74
Ecuador	6	11	12
Peru	11	30	37
Czech Republic	22	114	116
Philippines	18	21	24
Thailand	30	105	99

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. Chile: inward FDI flows, 2000-2009

(US$ million)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Chile	4,860	4,200	2,550	4,307	7,173	6,984	7,298	12,534	15,181	12,702
Memorandum: comparator economies										
Argentina	10,418	2,166	2,149	1,652	4,125	5,265	5,537	6,473	9,726	4,895
Colombia	2,436	2,542	2,134	1,720	3,016	10,252	6,656	9,049	10,583	7,201
Ecuador	720	1,330	783	872	837	493	271	194	1,001	312
Peru	810	1,144	2,156	1,335	1,599	2,579	3,467	5,491	6,924	4,760
Czech Republic	4,984	5,639	8,493	2,022	4,979	11,603	5,459	10,437	10,731	2,725
Philippines	2,240	195	1,542	491	688	1,854	2,921	2,916	1,520	1,948
Thailand	3,349	5,061	3,335	5,235	5,862	8,048	9,460	11,330	8,570	5,949

Source: The authors on the basis of official figures of the Central Banks of each country, UNCTAD, *op. cit*. and ECLAC, *Foreign Direct Investment in Latin America and the Caribbean 2009* (Santiago: ECLAC, 2010).

Annex table 3. Chile: distribution of inward FDI stock, by economic sector and industry, 2000, 2009[a]

(US$ million)

Sector / industry	2000	2009
All sectors / industries	45,753	113,691
Primary	16,041	25,622
Agriculture, forestry, and fishing	770	1,073
Mining, quarrying and petroleum	15,272	24,549
Secondary	5,901	8,560
Services	22,098	40,800
Retailing	1,054	4,267
Financial services	5,873	7,255
Others	15,171	29,278
Unspecified other sectors/industries	1,712	38,709

Source: The authors on the basis of official figures of the Chilean Central Bank.

[a] The stock figures presented are the sum of net inward FDI flows since 1974.

Annex table 4. Chile: geographical distribution of inward FDI stock, 2000, 2009 [a]

(US$ million)

Region/economy	**2000**	**2009**
World	45,753	113,691
Developed economies	41,067	69,537
Europe	18,260	30,530
Spain	8,962	14,555
Netherlands	1,322	1,831
France	1,232	1,590
Others	6,744	12,554
North America	19,776	32,807
Canada	6,881	13,015
United States	12,894	19,793
Other developed economies	3,032	6,200
Australia	1,392	3,526
Japan	1,487	2,515
Others	153	159
Developing economies	2,769	5,088
Africa	360	431
Asia and Oceania	137	180
China	83	85
Others	54	95
Latin America and Caribbean	2,264	4,463
Mexico	131	1,341
Panama	198	322
Brazil	249	456
Argentina	523	534
Others	1,163	1,810
International organizations	204	358
Unspecified destination	1,712	38,709

Source: The authors on the basis of official figures of the Chilean Central Bank.

[a] The stock figures presented are the sum of net inward FDI flows since 1974.

Table 5. Chile: principal foreign affiliates in Chile, ranked by sales, 2009

(US$ thousand)

	Name	Home economy	Industry	Sales
1	Enersis	Spain	Electricity	6,076,108
2	Minera Escondida (BHP Billiton, Rio Tinto)	Australia/ United Kingdom	Mining	3,585,729
3	D&S (Wal-Mart)	USA	Retail	2,299,639
4	Telefónica Móvil	Spain	Telecommunications	1,474,672
5	Banco Santander	Spain	Financial services	977,170
6	AES Gener	USA	Electricity	838,499
7	Farmacias Ahumada	Mexico	Drugstores	831,955
8	BBVA	Spain	Financial services	446,691
9	Coca Cola Embonor	USA	Beverages	270,980
10	Metlife (Life Insurance)	USA	Financial services	237,961
11	Embotelladora Coca Cola	USA	Beverages	216,599
12	Scotiabank	Canada	Financial services	211,162
13	Chilena ConsolidadaSeguros de Vida (Zurich)	Switzerland	Financial services	187,429
14	Transelec (Hydro-Quebec)	Canada	Electricity	184,710
15	Compañía Chilenade Tabacos (British AmericanTobacco Chile)	United Kingdom	Tobacco	163,645
16	Votorantim Andina	Brazil	Financial services	160,574
17	ING Seguros de Vida	Netherlands	Financial services	159,406
18	Santander Seguros de Vida	Spain	Financial services	135,320
19	AFP Capital	Netherlands	Financial services	134,797
20	Banco Itaú	Brazil	Financial services	123,294
21	Esval	Canada	Water	109,307
22	Telmex	Mexico	Telecommunications	96,642

Source: The authors on the basis of *Capital Magazine*, no. 275, pp. 58 – 61.

Annex table 6. Chile: main M&A deals, by inward investing firm, 2007-2009

Year	Acquiring company	Target company	Target industry	Source economy	Estimated/ announced transaction value (US$ million)
2009	Wal-Mart Stores Inc	Distribucion y Servicio SA	Grocery stores	United States	1,551
2009	Wal-Mart Stores Inc	D&S	Grocery stores	United States	433
2009	Inversiones Breca SA	Lafarge Chile SA	Ready-mixed concrete	Peru	404
2009	Petrobras	Esso Chile Petrolera Ltda	Petroleum refining	Brazil	400
2009	Mitsubishi Corp	CAP SA	Cold-rolled steel sheet, strip and bars	Japan	171
2008	Marubeni Corp	Antofagasta PLC-Esperanza & El	Copper ores	Japan	1,310
2008	MorganStanley Infrastructure and the Ontario Teachers' Pension Plan	Saesa	Electric services	Canada	1,287
2008	Telefonica SA	Compania de Telecomunicaciones	Telephone communications, except radiotelephone	Spain	869
2008	Nexans SA	Madeco SA-Cable Business	Drawing and insulating of nonferrous wire	France	794
2008	Global Via Infraestructuras SA	Autopista del Aconcagua SA	Inspection and fixed facilities for motor vehicles	Spain	710
2008	ING Groep NV	AFP Bansander	Pension, health, and welfare funds	Netherlands	654
2008	Kinross Gold Corp	Minera Santa Rosa SCM	Gold ores	Canada	242
2008	Fonterra Coop Grp Ltd	Soprole SA	Dry, condensed and evaporated dairy products	New Zealand	202

2008	Brookfield Infrastructure	Nueva Transelec SA	Electric services	Bermuda	111
2007	Bank of Nova Scotia,Toronto	Banco Del Desarrollo	Banks	Canada	829
2007	AEI	Chilquinta Energia SA	Electric services	United States	685
2007	Ontario Teachers' Pension Plan	Esval	Water supply	Canada	579
2007	Grupo Financiero	Securitizadora La Construccion	Personal credit institutions	El Salvador	550
2007	Ontario Teachers' Pension Plan	Essbio	Water supply	Canada	342
2007	Organizacion Terpel SA	Repsol YPF SA-Petrol Service	Petroleum bulk stations and terminals	Colombia	210
2007	Inversiones y Desarrollo	Indura SA	Industrial gases	Peru	195
2007	Citigroup Venture Capital Intl	Moller y Perez Cotapos Ltda	Residential construction	Cayman Islands	100

Source: Thomson ONE Banker, Thomson Reuters.

Table 7. Chile: main greenfield projects, by inward investing firm, 2007-2009

Year	Investing company	Target industry	Source economy	Estimated/ announced transaction value (US$ million)
2009	Antofagasta	Metals	UK	2,300
2009	Enhol	Alternative/renewable energy	Spain	1,000
2009	Mainstream Renewable Power	Alternative/renewable energy	Ireland	1,000
2009	Quadra Mining	Metals	Canada	704
2009	Enel	Alternative/renewable energy	Italy	322
2009	Sowitec	Alternative/renewable energy	Germany	322
2009	Abertis	Transportation	Spain	300
2009	GeoPark Holdings Limited	Coal, oil and natural gas	Bermuda	299
2009	Xstrata PLC	Metals	Switzerland	293
2009	Sowitec	Alternative/renewable energy	Germany	289
2009	Sowitec	Alternative/renewable energy	Germany	289
2009	Agbar	Industrial Machinery, Equipment & Tools	Spain	285
2009	Element Power	Alternative/renewable energy	USA	235
2009	Acciona	Alternative/renewable energy	Spain	230
2009	Enel	Coal, oil and natural gas	Italy	229
2008	Endesa	Alternative/renewable energy	Spain	3,000
2008	Nippon Mining Holdings	Metals	Japan	1,700
2008	Endesa	Alternative/renewable energy	Spain	710
2008	Methanex	Coal, oil and natural gas	Canada	600
2008	Endesa	Coal, oil and natural gas	Spain	525
2008	Goodyear	Rubber	USA	400
2008	Apache	Coal, oil and natural gas	USA	277
2008	Endesa	Alternative/renewable energy	Spain	225
2008	Endesa	Alternative/renewable energy	Spain	192
2008	Experian	Financial services	Ireland	181
2008	Ritrama	Paper, printing and packaging	Italy	161
2008	Statkraft	Alternative/renewable energy	Norway	140
2008	Investika	Metals	Australia	130
2008	Jindal Organization	Warehousing and storage	India	107
2008	Kimco Realty	Real estate	USA	60
2007	Anglo American	Metals	UK	1,700

2007	Agbar	Industrial machinery, Equipment and tools	Spain	342
2007	Abertis	Transportation	Spain	254
2007	McCain Foods	Food and tobacco	Canada	200
2007	Relacom	Communications	Sweden	85
2007	Xstrata PLC	Metals	Switzerland	70
2007	Alfa Romeo	Automotive OEM	Italy	44
2007	Munchis	Food and tobacco	Argentina	41
2007	Den Norske Bank (DnB NOR)	Financial services	Norway	31
2007	Goodyear	Rubber	USA	30
2007	Oracle	Software and IT services	USA	23
2007	Lanix	Business machines and equipment	Mexico	16
2007	Teléfonos de México (Telmex)	Communications	Mexico	15
2007	Worley Parsons	Business services	Australia	9
2007	Baby's Dream	Consumer products	USA	6

Source: fDi Intelligence, a service from the Financial Times Ltd.