THE CHILEAN ECONOMY

Chile's stable political system and predictable reglulatory environment have encouraged the expansion of both foreign investment and trade. A contributing factor is the healthy state of its public finances. In 1995, there was a budget surplus amounting to 2.6 percent of gross domestic product (GDP), whereas net foreign debt was only about 10 percent of GDP. However, the poor prospects of copper exports, the interest rate hikes of January and February 1998 and the planned budget spending cuts in 1998 will cause economic activity in Chile to slow down during 1998. Despite Chile's forcasted growth of only 5% in 1998, the country is still well above the regional average of around 3%.
Chile was the first Latin American country to unilaterally liberalize trade and dismantle barriers to foreign investment. It reduced its maximum tariff from 220 percent to 140 percent in 1974, to 65 percent in 1976, and achieved 10 percent in 1979. The number of commodities with import prohibitions was chopped from 187 in 1973, to 6 in 1976. Currently, tariffs are a uniform 11 percent, and Chile trades more than half its GDP. Tariffs will be reduced to 10% as of January 1, 1999. They will subsequently go down by 1% point per year until they reach 6% in 2003.

The policies that Chile adopted in the mid-1970s were considered radical at the time, but are now being copied by many other Latin American countries. Mexico, for example, adopted similar policies more than a decade later. One result of Chile's head start is that the consistent pursuit of market-oriented policies over a 20-year period eventually led to a philosophy of saving and investment that is unique in Latin America. Chile's internal savings rate is predicted at just under 28 percent for 1996, making it the envy of its Latin American neighbours.

A strong internal savings rate combined with a hospitable environment for foreign investment have helped sustain Chile's GDP growth at an average 7 percent over the ten years ending in 1997. Real growth in 1997 was 6.8 percent, according to official central bank estimates. Unemployment fell to 7.5 percent in and real wages grew by about 3 percent in 1997. Government policies have also been successful in controlling inflation, which fell to 6.2 percent in January 1997 compared with 27 percent in 1991. Chile's widespread indexing system, a legacy of previous high levels of price escalation, has institutionalized some inflation. Nonetheless, the rate of increase in the consumer price index was 6.3 percent in 1997. In 1995, real growth exceeded inflation for the first time in 35 years 1997 saw a continuation of this trend.

IMPORT-EXPORT MEASUREMENTS

The measurement of the magnitude of merchandise trade between any two countries presents some interesting statistical problems. Trade is measured twice, once by the government of the exporting country and once by the customs authorities of the importing