

INSIDER VIEW

Latin America

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CHILE Trade deal opens major opportunities

GETTING CLOSER THE UNITED STATES REGARDS CHILE AS AN IDEAL PARTNER BECAUSE OF ITS SOUND MACROECONOMIC POLICIES AND LONGSTANDING COMMITMENT TO FREE TRADE AND DEMOCRACY. THE SIGNING OF A LANDMARK FREE TRADE AGREEMENT WILL BRING BENEFITS TO BOTH NATIONS

EXTENDING in a long, narrow ribbon down South America's west coast to the southernmost tip of the continent, Chile is a land of contrasts, encompassing desert, a great central agricultural region, snow-capped peaks, and glaciers.

However, it is more than its geography that distinguishes Chile from other Latin American nations. While its neighbors have struggled with recession and political and institutional crises, Chile's export-oriented econo-

my has produced the most consistent growth in the region. In the ten years up to 1997, the country's gross domestic product grew by an average of 7.9 percent.

The economy continued to expand at an average of 2.6 percent up to 2002. Despite the global downturn, a growth rate of up to 3.5 percent has been forecast for 2003.

Against a background of political and economic stability, successive Chilean administrations

have stuck to sound economic policies. The state's role in the economy has been reduced, foreign investment has been encouraged, and inflation has plunged to a historic low. Chileans enjoy a per capita income that is among the highest in Latin America.

Chile's success stems from a commitment to free market principles that goes back more than two decades. According to U.S. Trade Representative Robert Zoellick, Chile has be-



INVESTMENT is actively encouraged by the government

come "the freest, most competitive market in Latin America."

The Chilean economy is heavily dependent on international trade, with exports accounting for more than a quarter of GDP. The volume of Chilean exports has risen by 50 percent since 1997, although falling commodity prices have held back a comparable rise in value.

Since the 1990's Chile has been building a network of free trade deals, signing comprehensive agreements with Canada, Mexico, and Central America. Major deals with the European Union and South Korea were completed last year.

Continued on page 11

PARAGUAY At the start of a new era

MEETING THE CHALLENGES THE MAN ELECTED AS PARAGUAY'S NEW PRESIDENT PROMISES REFORM AND A FRESH APPROACH TO PUT THE ECONOMY BACK ON COURSE. THERE IS MUCH TO DO, BUT THE SMALL LATIN AMERICAN NATION HAS ENORMOUS POTENTIAL WAITING TO BE DEVELOPED

HOPES are high that Paraguay, a nation of 5.8 million people at the center of South America, is witnessing the dawn of a new era.

The focus of these hopes is Nicanor Duarte Frutos, a 46-year-old lawyer, whose victory in the May presidential election is regarded by many as the best

chance in recent years of resolving the political, social, and economic challenges facing the country.

Mr. Duarte begins his five-year term as President with the declared intention of giving Paraguay a fresh start. He is not part of the traditional economic

or political hierarchy, and has promised to reform the Colorado party, which has ruled the country without interruption since 1947. He has sworn to fight corruption, crack down on tax evasion, and put the nation's finances in order.

An advocate of free-market policies, Mr. Duarte's major task is to revitalize the Paraguayan economy.

As a clear sign that he has no intention of repeating the mistakes of the past, he is bringing in a new economic team, drawn from neither his own party nor the opposition. Mr. Duarte aims at nothing less than the introduction of a new model of economic development to put the nation back on course.

The key sectors of Paraguay's economy are agriculture, manufacturing, and the import re-export trade. At the same time, it is the world's biggest exporter of electricity, and there is consid-



NEW TEAM Changes are expected in economic policy

Continued on page 11

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Latin America

Chile U.S. gains preferential access to one of the world's fastest growing economies

Continued from page 1

However, the most significant development came in June of this year with the signing of a landmark U.S.-Chile free trade agreement, making Chile the second Latin American country, after Mexico, to become a preferred trade partner of the United States.

Designed to strip away barriers and facilitate trade and investment between the two nations, the deal will give a significant boost to Chile's economy. According to the Chilean-American Chamber of Commerce, Chile's GDP could rise between 1 and 3 percentage points as a result of the deal.

Chile's President, Ricardo Lagos, who has renewed the country's drive toward integration into the global economy since coming to power in 2000, has described the signing of the treaty as a historic moment.

He says it will allow Chile to increase its exports to the United States by 40 percent. Currently worth \$3.6 billion a year, they are expected to rise to \$5 billion over the next three or four years.

On the U.S. side, the deal gives preferential access to one of the world's fastest-growing economies. It removes tariffs on more than 85 percent of bilateral trade in consumer and industrial products, and

the remaining tariffs are to be eliminated within four years.

The pact creates incentives for U.S. companies to enter the Chilean market virtually without restrictions. It gives new access to the fast-growing Chilean services market, and establishes a secure, predictable legal framework for U.S. investors in Chile, along with groundbreaking anti-corruption measures in government contracting.

Chile's record of consistent growth and stability is an attractive prospect for American companies. The Chilean government actively encourages investment with incentives, and promotes the country as a regional investment

platform for multinational corporations. Foreign and local investors are given equal treatment.

Chile is an associate member of the southern common market, Mercosur, and a full member of the Asia Pacific Economic Cooperation (APEC) organization. In 2004, Chile will have the opportunity to showcase its economy to the world, as APEC delegates gather in its capital, Santiago, for their 2004 summit.

President Lagos says that Chile is receptive to innovative and creative ideas, and eager to attract the investment flows that can multiply its financial and human resources.

"Chile's geographical position and trade agreements make it an attractive base for companies that are deploying regional strategies with global implications," he says.

Chile especially wants to attract U.S. firms that will help to facilitate the country's economic diversification and reduce dependency on copper and agricultural products.

Traditionally, mining—particularly copper mining—has dominated the economy. Chile is still the world's biggest producer of copper, and production has been rising due to expansions at several large mines.

Forty years ago, mining ac-

counted for 90 percent of the country's exports, while industry accounted for just 6-7 percent. However, the economy has been diversifying, and today both sectors account for around 40 percent of exports.

President Lagos wants to see Chile take a leading position among nations using information technology to drive development. He says the government is enthusiastically undertaking the task of inserting the country into the New Economy.

"In 2010, Chile will celebrate the bicentennial of its independence. By then we aim to be a leading country in the new digital world."



WINE is among Chile's top exports to the United States

Strengthening a special relationship

THE signing of the U.S.-Chile free trade agreement is a clear demonstration of the importance the two nations attach to their strong and ongoing alliance.

With its impressive record of economic growth, Chile is regarded by the United States as a model for other nations, an example of what can be achieved through market-oriented economic reform, good governance, and sound fiscal policies.

Relations warmed with the rebirth of democracy in Chile in 1990. When U.S. Secretary of State Warren Christopher visited Chile in 1996, he noted, "Chile's reforms have created one of the most open and successful economies in the world."

The relationship was recently

described by the U.S. State Department as "better now than at any other time in history."

The United States is Chile's largest trading partner and its biggest foreign investor. The two countries frequently consult each other on matters of mutual concern, and five bilateral commissions cover matters of defense, agriculture, trade, investment, and bilateral issues.

The new trade deal is regarded as an important step toward achieving the U.S. goal of a Free Trade Area of the Americas (FTAA), stretching from Alaska to Tierra del Fuego, by the year 2005. Washington sees Chile as paving the way for other more cautious nations, such as Argentina and Brazil.

Committed and competitive

GREAT EXPECTATIONS THE CEO OF THE SK GROUP BELIEVES CHILE IS ON THE PATH TO A BRIGHT FUTURE

PRODUCTIVITY, diversification, and competitiveness are the trends that have come to characterize Chile's economic development, and these are exemplified by the Sigdo Koppers group (SK).

Rámon Aboitiz, the group's Chairman and CEO, believes that Chileans have the right attitude to business. "We have developed a similar way of doing business to that of Americans and Europeans, which makes us different from other Latin American countries."

He says Chile should be regarded as "the best business doorway to Latin America," and highlights the country's political and economic stability, and developing infrastructure as advantages that make it a safe and attractive destination for foreign investment.

"We are a growing nation, we have the necessary potential and are on the right path," he says.

Mr. Aboitiz's confidence characterizes SK's own dynamic attitude. "Our expectations for the future are positive," he says. "As a company, we must always face new challenges."

Comprising more than 25 national companies, the SK group operates in four main areas of business: trade, services, manufacturing, and power. It employs more than 8,000 people and boasts consolidated sales of approximately \$1.2 billion.

The group originated with the foundation in 1960 of Ingeniería y Construcción Sigdo Koppers, a company specializing in industrial construction using the most advanced technology available at the time.

Strongly committed to playing



WIDE RANGING The Sigdo Koppers group operates in trade, services, manufacturing, and power



a significant role in Chile's development, the company has participated in some of the most significant industrial, mining, and energy projects in the country over the past forty years.

SK Comercial was created in 1975 and dedicated to the import and marketing of internationally recognized brands of goods for the mining industry, agriculture, and construction.

Increasing expansion and di-



RÁMON ABOITIZ
Chairman and CEO of
Sigdo Koppers

versification led to the creation of Sigdo Koppers S.A. in 1987. Today, the holding includes: Enaex, South America's leading producer of explosives for use in mining and civil engineering; CTI, Chile's main manufacturer of household appliances; and Sigdopack, a polypropylene film producer that provides containers for the food industry.

Sigdo Koppers is the official representative in Chile of automobile brands ranging from Chrysler, Daewoo, and Fiat to Mitsubishi, and of heavy machinery manufacturers Ingersoll Rand and Timbco.

"We are also present in the service industry with Puerto Ventanas, a general cargo port terminal which, among other services, is one of the main loading facilities for bulk copper concentrate," says Mr. Aboitiz.

A significant example of the company's willingness to form strategic alliances with other firms is its construction joint venture

with Bechtel, one of the world's largest engineering-construction firms, in order to pursue opportunities in the mining sector.

When Minera Escondida Limitada, owners of the world's largest copper mine, announced a \$400 million Phase IV expansion aimed at doubling throughput capacity, the obvious choice for the project was Bechtel Sigdo Koppers (BSK), whose joint venture had successfully completed an earlier expansion phase.

Sigdo Koppers is proud of the quality of its employees, and invests in training and risk prevention to improve and enhance their efficiency.

Mr. Aboitiz believes the company's future rests on solid foundations that will enable it to meet fresh challenges, both locally and in neighboring countries.

"We are constantly searching for new markets and continuously analyzing possibilities of expansion."

Latin America



Paraguay

A strategic position at the center of the Mercosur market

Continued from page 1

erable potential for development of the tourism industry.

A major advantage is Paraguay's strategic location at the center of South America, bordered by Argentina, Bolivia, and Brazil. Together with Brazil, Argentina, and Uruguay, it is a member of the southern common market, Mercosur, and, as such, part of a market of 200 million people.

The country is ideally situated as a low-cost base for international corporations wanting to export to its Mercosur neighbors. Low wage and energy costs, and low tax rates add to its attraction as a location for assembly and distribution facilities.

Paraguay's "Maquila Law" allows foreign companies to import raw materials and machinery with almost no duties under a system of temporary admission, in order to process, finish or add value to goods for re-export to regional and international markets.

The country is generally open to foreign investment, with no formal restrictions. Foreign investors receive equal treatment to local investors, and full repatriation of capital and profits is guaranteed.

The need for infrastructure development opens opportunities for U.S. goods and services—especially in power transmission and distribution, basic telecommunications, road, port, and civil aviation systems, potable water, and sewage treatment.

Central to Paraguay's economic growth is the development of the agricultural sector, the mainstay of

the economy—contributing 28 percent of GDP—and the largest export sector. Industry depends heavily on agriculture, the most important products being beef, vegetable oils, textiles, beverages, and processed goods derived from timber and leather.

Paraguay principally exports soybeans, cotton, timber, and meat products, carrying out most of its trade within Mercosur. Brazil, is the destination for almost a third of the country's exports. Other crops include sugarcane, tobacco, fruits, and vegetables.

Paraguay already ranks as the third largest soybean exporter, accounting for more than 6 percent of the world total. According to the Paraguayan Cereal and Oilseeds Chamber of Exporters (Capeco), cereals and oilseeds (soybean, wheat, corn, and sunflower) account for 52 percent of agricultural GDP. Cheap land, high yields, and low production costs have attracted billions of dollars in investment, and production has quadrupled since 1989.

Livestock rearing, mostly cattle, is also important, with some 8 million cattle being raised on mostly natural pastureland. Primary meat products are beef and veal, chicken, duck, goose, horse, lamb, pork, and turkey.

Forestry is another significant resource, and conservation and replanting has become a national priority in a drive to rebuild national timber reserves.

However, the sector of the

economy with the greatest potential is hydroelectric power. Paraguay is a major producer and exporter of electricity, and co-owns two of the largest hydroelectric dams in the world.

Argentina and Brazil rely on Paraguay's two large hydroelectric plants, Itaipu and Yacyreta, to meet 40 percent and 25 percent of their electricity demand respectively. Paraguay exports approximately 90 percent of the electricity it generates—almost 50 billion kilowatt hours.

The huge Itaipu dam, on the Paraná River along the border with Brazil, its joint owner, has been ranked along with the Golden Gate Bridge and the Empire State building as one of the seven marvels of the modern world.

The plant is in the process of adding two additional generating units to its existing 18 and its total installed capacity of 12,600 MW. The Yacyreta plant, with 20 turbines and an installed capacity of 3,200MW, is jointly owned with Argentina.

A project approved by the governments of Paraguay and Bolivia to build a 3,300-mile pipeline across Paraguay, to transport natural gas from Bolivia to Brazil, could be completed by 2005.

The plan envisages the construction of a 200 MW thermoelectric plant at Loma Lata, about halfway along the pipeline, and a 750 MW thermoelectric plant outside the Paraguayan capital, Asunción.

The greatest potential for development is in hydroelectric power



CATTLE raising is an important activity, with around 8 million cattle being reared on largely natural pasture

U.S. encourages economic reform

RELATIONS with the United States have strengthened considerably since Paraguay's return to democracy in 1989.

Since then, with U.S. encouragement, Paraguay has adopted a new constitution, established freedom of expression, and developed a transparent and free election process, as recently demonstrated during the presidential and parliamentary elections in May.

At the swearing in of the new U.S. Ambassador to Paraguay, John Keane, in January, Deputy Secretary of State Richard Armitage said Paraguayans should be proud of their democracy, and that the country stood "on the threshold of a promising future."

The United States would provide encouragement to the introduction of market-oriented reforms, which would attract investment and generate new growth, he pledged.

Mr. Armitage praised Paraguay as "a staunch member of the international coalition against terrorism."

According to Leila Rachid, who has served as Paraguayan Ambassador to the United States, "Paraguay has been the only country in the continent to make radical and firm decisions, and take measures to support the U.S. fight against terrorism."

She emphasizes that Paraguay's stance, both on terrorism, and on combating other international evils, results from its sense of national and international responsibilities.

"Our political agenda—our fight against terrorism, against



ACCESS to North American markets is a priority for Paraguay

piracy, against money-laundering, and against drugs—is not carried out because any country requires us to do it. We are committed to it to prove to the world that we are an honest and reliable country," she says.

Ms. Rachid makes the point, however, that economic issues are closely linked to political ones, and bolstering its position as a friend of the United States can only benefit Paraguay in terms of trade and investment.

The United States is Paraguay's fifth largest bilateral donor, after Japan, Germany, the European Union, and Spain. U.S. assistance toward Paraguay's development dates back to 1937.

The U.S. Government is committed to helping to consolidate and fortify Paraguay's democracy, and encourage the process of economic reform.

The U.S. Agency for International Development (USAID) has provided support for a number of programs to strengthen the country's democratic institutions.

For Paraguay, however, the key to the further development of its relationship with the United States is trade. U.S. imports from Paraguay totaled just \$43.7 million in 2002, while U.S. exports to Paraguay were almost ten times as much—\$433 million.

Access to North American markets for its meat, clothing, organic sugar, and confectionery is high on Paraguay's wish list.

As a senior government official puts it, "The United States is one of the countries with the most influence in Paraguay, but our commercial relations are almost nil. What we must talk about is what the United States can buy from us."



Paraguay lies right in the heart of South America, half way between the Atlantic and the Pacific and flanked by mighty rivers. Its undisturbed ecosystem offers beautiful landscapes, green prairies, and a unique fauna and flora.

The indigenous people still work on traditional crafts, and enjoy the fruits of a sub-tropical climate. There are unique settings for water sports and marvelous fishing; the soft mountain ranges and lush plains make trekking almost a must.

You'll find just about everything in magical Paraguay!



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IV

Latin America

Nature and the past are key attractions

WELCOMING VISITORS DEVELOPMENT OF PARAGUAY'S TOURISM INDUSTRY HAS BEEN GIVEN HIGH PRIORITY IN NATIONAL STRATEGY

SITUATED at the heart of South America, rich in flora and fauna, and offering the visitor a variety of natural, cultural, and historical attractions, Paraguay has great potential for tourism.

Awareness of the extent to which the sector could contribute to the Paraguayan economy, has made the development of the tourism industry a top priority of economic strategy. A Tourism Secretariat has been established, and every effort is being made to position Paraguay in the international tourism market.

"Tourism is an integrated part of central administration projects such as roads and airports, all of which are planned to develop the industry," says Hugo Galli Romañach, Secretary of Tourism. "Everything is being structured to convert tourism into a tool for national development."

At the same time, tourism management is being decentralized. The country's 17 administrative departments are being encouraged to become involved in the promotion of tourism in their own areas, and to act as custodians of their local natural and cultural resources. A number of departments have already set up their own tourism development councils.

Paraguay's geographical location gives it a considerable advantage in attracting visitors.

"We are at the center of Mercosur, at the axis of the waterway system, and of the bi-oceanic corridor that joins the Atlantic and the Pacific oceans," points out Mr. Galli.

"All of the southern hemispheric strategic development plans cross Paraguayan territory. We occupy a strategic, geopolitical stratum that provides us with

The Chaco is one of South America's most untouched wildlife habitats



THE REMAINS of some of the largest Jesuit missions settlements, or reducciones, in South America are to be found in Paraguay

a unique opportunity, through well-directed tourist management, to rapidly position Paraguay within the international market."

Various projects are planned and are underway to promote the country and add variety to what it has to offer the visitor. The Tourism Secretariat has been working on projects centered on the legacy of the Jesuits and the Franciscans with Spain's International Cooperation Agency.

"We also have other plans, such as the restoration of the 18th-century Spanish forts in the northern region of the country," says Mr. Galli.

The historic Central Railway

Station in Asunción is being restored, and converted into a central information office and database of tourism for the whole country. Paraguay boasts the oldest railway in South America, and historic steam trains are still in use transporting passengers and goods between Asunción and Aregua, on the banks of the Ypacarai lake.

Paraguay's natural resources are among its strongest selling points. The country boasts 600 to 700 species of birds, more than 200 species of mammals, around 100 species of snakes and reptiles, 60 kinds of amphibians, and 8,000 different types of flora.

"We consider nature to be one of our principal resources, and



HUGO GALLI ROMAÑACH
Secretary of Tourism

eco-tourism, adventure tourism, and rural tourism could become our great products," says Mr. Galli.

An eco-tourism master plan is being formulated with the Inter-American Development Bank.

Bounded and divided by rivers, Paraguay has two distinct regions—the Oriental Region and the larger Occidental Region—separated by the Paraguay River.

Around 97 percent of Paraguay's 5.8 million population lives in the fertile, semi-tropical eastern region, where most of the major cities are to be found, including Asunción.

East of the capital, the Lake Ypacarai district offers one of the best sites for tourism and outdoor recreation, with lakeside resorts, abundant facilities for visitors, and summer houses.

By contrast, the vast flat area of the country's western region, known as the Chaco Paraguayo,

comprises approximately 60 percent of national territory, but is home to just 3 percent of Paraguayans.

Primarily agricultural, with huge cattle farms, the Chaco is one of the most untouched wildlife habitats in South America. It is an eco-tourist's dream, home to flamingos, storks, hawks, alligators, wild boars, jaguars, and pumas.

The small human population of this remote region includes some of the last hunter and gatherer peoples to be found on the continent. It is also home to the Mennonites, a religious community of mostly German and Canadian settlers who welcome visitors to their well-ordered colonies, notably Filadelfia and Loma Plata, two of the main cities.

Among Paraguay's eight national parks, Parque Nacional Ybycuí preserves one of the few remaining areas of tropical forest in the country, while Parque Nacional Cerro Corá offers many important cultural and historical features, including pre-Columbian caves.

At 4.8 miles long and more than 600 feet high, the Itaipu dam, on the Paraná River, has become one of the greatest tourist attractions in South America, while just across the border is one of South America's leading natural attractions, the Iguazu Falls.

Legacy of colonial past

PARAGUAY declared itself an independent state in 1811, around 300 years after the arrival of the first Spanish settlers.

By that time, the indigenous people and colonialists had merged to produce the most ethnically homogenous population of South America. Today, 90.8% of Paraguayans are "mestizos", of mixed Spanish and Guarani Indian descent. The two national official languages are Spanish and Guarani.

Asunción, the capital, today a thriving modern city, dates back to the earliest years of the colonial period. Founded on the banks of the Paraguay River by Juan de Salazar y Espinoza in 1537, seven years after the arrival of Sebastian Cabot, it began as a fortified town and was used by the conquistadors as a base in their search for Eldorado.

Christianity came with the Franciscan priests who accompanied the conquistadors, and flourished after the arrival of the Jesuits. Given official recognition in 1608 by virtue of an order from Philip III of Spain, the Jesuits took responsibility for the welfare of the indigenous people, and protected them from slave-traders.

They founded mission settlements, or "reducciones", where the Guarani worked the land, enjoyed the benefits of schools and hospitals, and produced remarkable handicrafts, including remarkable church altarpieces, sculptures, and paintings.

Seven of the largest Jesuit reducciones in South America are in Paraguay, and those in Jesus de Taravangu and Trinidad del Paraná have been declared Universal Patrimony of Humanity by UNESCO.



PARAGUAY has potential for eco-tourism, with natural attractions both within and just across its borders

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