



Dirección de Prensa

NOTES FOR THE STATEMENT BY H.E. MICHELLE BACHELET JERIA,  
PRESIDENT OF THE REPUBLIC,  
BEFORE THE U.S. CHAMBER OF COMMERCE

Washington, July 1, 2014

Dear friends:

Thank you for this invitation to talk about Chile and its current challenges. I see this primarily as an opportunity for dialogue to share experiences and outlooks directly and perhaps to dispel some doubts about the Chilean process.

I come from a country in which the strengthening of democracy has advanced in step with economic growth.

Chile is a country that has achieved sustained growth and has succeeded in maintaining the stability of its economy and fiscal responsibility, even amid global economic ups and downs whose effects are still being felt by many nations.

A country whose per capita GDP has more than doubled over the last 25 years and which has kept inflation down to a single digit, after experiencing very high levels in the 1970s and 1980s.

A country which has successfully reduced poverty levels: from 45 percent of the population living below the poverty line in the 1980s to 15 percent in 2011.



Dirección de Prensa

A country which has built up a system of social welfare and has guaranteed universal rights, such as health and security, without as a result ceasing to grow.

And despite the fact that current growth rates are more moderate, it is undeniable that Chile has made important progress in the social and economic spheres in recent decades.

This progress is the result of coherent economic policies, in a macroeconomic context characterized by a rules-based medium-term fiscal policy, a monetary policy designed to control inflation and a floating exchange rate policy.

Chile's policies and macroeconomic stability are widely recognized in academic and business circles throughout the world.

And this is reflected in the markets' confidence in our economy and our institutional arrangements. It is expressed in the low country risk confirmed by the classification agencies, the low interest rates on sovereign debt and the high level of foreign direct investment.

However, while acknowledging the progress made, we must also acknowledge those areas in which we have not succeeded. There are some obstacles to our development and to our ability successfully to meet the challenges of the future.

The biggest problem in Chile today is persistent high inequality. To be frank: Chile currently has the most inequality of all OECD countries.

Income inequality limits opportunities for the most vulnerable. In addition, the quality of access to public services, such as education and health, varies widely depending on people's socioeconomic level.

These are forms of inequality that we must tackle for ethical reasons. But also for economic reasons.



Dirección de Prensa

We know that greater equity also means greater trust and social capital.

This social capital is the basis for the stability and creativity of the political, civil and economic relations existing in a community. It is also the bedrock of the legitimacy of institutions and therefore of democratic governance.

In addition, we know that higher levels of inclusion and social cooperation are essential for sustainable and sound development.

In other words: to invest in equity, social cohesion, human capital and fully democratic institutions is to lay the foundations for dynamic and sustainable growth. And the most important thing is to make a serious commitment to the empowerment of people and the quality of social life.

This is what Chile needs today in order to make a quantum leap in its development, and this is the goal of my Government's program.

We are at a turning point, which is why we are currently holding a broad national debate on the best ways of achieving this transformation, the need for which is in no doubt.

As a Government, we have proposed a program of changes involving three structural tasks:

- Reducing educational and hence social gaps in Chile.
- Improving prospects for our economy.
- Enhancing our democratic framework.

The first task is the educational reform that we have instituted.

Education in Chile currently varies widely in quality and has considerable levels of segregation. In practice, socioeconomic status determines the quality of education received and future work prospects,



Dirección de Prensa

which impedes social mobility and deprives those who cannot pay of opportunities.

As a society, we have assumed that education is not another consumer good but a social right which must be guaranteed by the State. The goal is not minimal but optimal conditions of quality, access and integration.

In addition, this investment in training is the most intelligent way of ensuring development in the modern sense – in other words, knowledge-based development.

This reform is being implemented gradually and will continue beyond my mandate, showing real results in a few decades. But it is an investment that we must make now.

As regards pre-school education, access to kindergartens and day-care centers is provided without charge to 60 percent of the low-income population, serving children between 0 and 4 years of age.

At the primary and secondary levels, we shall abolish the system of copayment by families, selective schools and for-profit private education subsidized by the State.

At the tertiary or higher education level, a system of free education will be phased in, over six years.

In addition we are improving technical education and improving public education. We are in the process of creating two new State universities, with the goal of linking the production advantages of each area with education projects.

This is complicated, but we know that it is essential for our development.



Dirección de Prensa

In order to finance this education reform and other social policies, we are discussing tax reform to finance new ongoing expenses with ongoing income.

In addition, this reform will have three other goals.

Chile's existing tax system is not improving income distribution and the country has a low tax burden compared with OECD countries at similar stages of development.

Unlike the situation in more developed countries, our tax system is characterized by an emphasis on indirect taxes and this limits their progressiveness.

The tax reform project being discussed in the National Congress would increase fiscal revenue by 3 percent of GDP when implemented.

The goal is also to further improve the impact of taxes on income distribution and we shall introduce more effective mechanisms to stimulate investment and saving.

More specifically, with the tax reform we shall continue to coordinate corporate and individual income tax.

Consideration is being given to a gradual increase in corporate income tax (from the current 20 percent to 25 percent over a four-year period) and to taxation of profits on an accrual basis rather than on the current cash basis.

In addition, the top marginal individual income tax rate will be reduced from 40 percent to 35 percent.

In order to combat tax evasion and avoidance, our Domestic Tax Service will be given new powers and resources to provide effective auditing and the tax authorities will have better access to information.



Dirección de Prensa

We know that the roll-out of the reform coincides with a downturn in the economy.

This is why the corporate income tax changes will be introduced gradually and there will be transitional measures to promote investment, such as a one-time depreciation allowance for businesses for one year.

We know that the development and expansion of rights and the quality of public services depend not only on a better tax system but also on dynamic and sustained growth. For this reason, we are at the same time providing strong incentives to increase our productivity and competitiveness.

Without growth there is no development or equality. But we are also sure that not any type of development will work: it must be sustainable, inclusive and socially legitimate.

Chile is a country with considerable riches and the rapid growth in exports of copper and other minerals, in addition to fruit, processed food, seafood, salmon, wine and forest products has enabled us steadily to expand our economy.

This has been possible since the return to democracy, with the strong international confidence in investing in Chile. Another factor has been an active policy of open trade practices and enhancement of the financial system, lowering inflation and interest rates.

There are grounds for satisfaction after years of effort. But we must also be prepared to acknowledge that we have not completely developed the full potential of our economy and that we are still vulnerable to commodity price fluctuations.

The strategy which we have followed so far is not sufficient if we want to grow steadily over the next 30 to 50 years and if we want the benefits of growth to be more fairly distributed.



Dirección de Prensa

We have set ourselves the challenge of growing at a good rate but also increasing our productivity, being more competitive, diversifying our economy still more, being less vulnerable to international ups and downs and, at the same time, offering better jobs, more wellbeing and more opportunities to our people.

In facing this challenge, we are relying on a comprehensive policy and diversification of our production structure, encouraging new stakeholders to participate and expanding new sectors of development.

We are counting on improving our productivity and competitiveness through innovation.

For this purpose, we want to strengthen the role of the State, stimulating new productive sectors, enhancing skills and investing in public infrastructure.

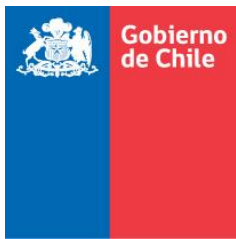
But we know that the work of the State is not enough; a modern economy can be built only if there is close coordination and interaction between the capacities of the private sector and those of the public sector.

And the Agenda for Productivity, Innovation and Growth is designed to identify space for cooperation in each of its strategic areas.

What are we trying to do with this Agenda?

Firstly, we are trying to stimulate sectors with high growth potential and comparative advantages, such as mining, tourism, agriculture and livestock, fisheries and aquaculture. We shall recreate clusters and have a strategic investment fund to finance significant investment projects, focusing on sectors with a high potential for growth and job creation.

Secondly, we are trying to guarantee the development of future-oriented public infrastructure, so as to facilitate the growth of our businesses and project them towards the outside market.



Dirección de Prensa

Thirdly, we are trying to encourage entrepreneurship and innovation, which are crucial for the creation and development of businesses and need support from the State, especially in the start-up phase.

In addition, we intend to build capacity and empower businesses using development, management, financing and other tools.

Based on these principles, we have proposed a list of specific measures. I shall not go into them in detail but I should like to refer to the ones that are most significant in this context.

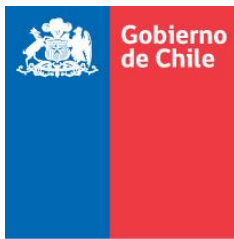
I know that the first of these will be of particular interest to you: the repeal of Law 600 concerning the Foreign Investment Statute, new investment projects and a tax invariability clause.

I should like to explain to you the political and historical context in which that legislation was adopted. We are talking about 1974, when there was a dictatorship in Chile and our international prestige was very low. The lack of democracy, lack of freedom and unreliability of our institutions meant that mechanisms such as this were needed in order to encourage foreigners to decide to invest.

Forty years later, after 25 years of democracy, with our solid international prestige, in a context of governance, democracy and freedom, we no longer need this mechanism to make foreign investors look favorably on the idea of investing in our country.

Indeed, the economic and political stability of Chile has made us one of the world's most successful countries in attracting foreign direct investment.

Chile has 23 trade agreements with 61 countries. These countries account for 63 per cent of the world's population and 85 per cent of global GDP. In addition, Chile ranks 34<sup>th</sup> out of 144 economies in the World Bank's Doing Business index.



Dirección de Prensa

As regards Chile as a place for doing business, I should like to say that in 2013 our country was among the first 20 economies receiving foreign direct investment; it ranked 18<sup>th</sup>, according to the United Nations Conference on Trade and Development.

As you know, this is no coincidence, because we have been working on this for decades. To quote just one example: under the Free Trade Treaty with the United States – which is ten years old in 2014 – we have quadrupled our trade, tripled our exports to the United States and increased imports from the United States to Chile sixfold.

And next year we shall have one hundred percent free trade with the United States!

However, we know that, in a more competitive international scenario, we need to be more active and coordinated in order to remain in the lead and maintain high investment flows. I refer both to policy-making and to the promotion and attraction of foreign direct investment.

It is also important to move towards selective attraction of foreign companies that can bring new know-how, technology and better labor practices and connect with our Chilean businesses as partners, customers or suppliers.

The connection with foreign businesses is essential in order to obtain and disseminate know-how and for the insertion of Chile in global value chains.

We are designing a strategy to promote and attract foreign investment and a new institutional framework with powers and resources to perform these tasks and create closer ties between the public and private sectors

This is why we are enhancing the functions and structure of our Foreign Investment Committee, creating an agency that will assume responsibility for promoting and attracting foreign direct investment in Chile.



Dirección de Prensa

In addition to a full portfolio of public investment, we shall be creating a new portfolio of infrastructure concessions, in which private effort, which has been so successful in the past, is crucial.

This is strategically linked to another urgent growth requirement for Chile: energy. We are accompanied on this tour by the Energy Minister, Máximo Pacheco, and plan to encourage new projects of collaboration with the United States in this area.

In recent years, investment has been slow and projects have led to court cases, which has brought several of them to a standstill. This has resulted in a sizeable shortfall in generation and transmission infrastructure.

In Chile, most electricity generation and transmission is privatized. This means that we need a broad public/private partnership in order to lay the foundations for long-term energy development, with more and better generation and transmission projects.

We want to encourage projects to deal with the shortfall and we have said that we shall strongly support all initiatives that comply with the rules in force and are a good fit in the territories. Because we need a great deal of investment, but quality investment.

This creates two important challenges: we need to strengthen the energy institutional framework and we need to work to reconcile the interest of the local communities with the projects to be implemented in them. In other words, to take early action, based on clear and logical rules for cooperation, so that the development of these projects will be reliable and legitimate for all in the medium and the long term.

In order to move in this direction, we are working on a land use plan which will show us which projects can be located in which territories.

Another challenge is how to become more competitive in the energy market and bring new players into that market.



Dirección de Prensa

During this visit, we hope to study the United States experience, from which we have much to learn as regards gas distribution, non-conventional renewable energies, energy efficiency and good practices

We have started work on an Energy Agenda to ensure that the country will have a diversified, balanced and sustainable energy mix.

This will enable us:

- To decrease marginal electricity costs by 30 percent by 2017 for the system supplying 90 percent of the population.
- To reduce the prices of tendering for household electricity supply by 25 percent over the next decade.
- To ensure that 45 percent of the electricity generation capacity that we install between 2014 and 2025 will come from non-conventional renewable energies, which in ten years should account for 20 percent of Chile's energy mix.

In this way we shall reduce energy prices, ensuring more competition, efficiency and diversification in the energy market.

In addition, we have proposed that energy efficiency should be a State policy and that it should be the rule rather than the exception. Our goal is to be able to reduce our consumption by 20 percent by 2025. We are speaking of a total of 20,000 gigawatts/year.

And I know that, here too, we can learn from you since the Energy Policy Act of 2005 places emphasis on efficiency.

Ultimately the goal of this Agenda is to give certainty to all stakeholders, to increase predictability and to give reassurance to people and clear rules for investors.

Dear friends,



Dirección de Prensa

Today Chilean society is sure of one thing. It is that inclusive growth means not only increasing per capita income but also – and above all – addressing existing inequalities and involving each person in common growth.

We are sure that we are at a turning point and that we must choose the way in which we are going to grow as a country. We know that these decisions will determine the possibilities for our immediate and long-term future.

We are not starting from scratch. We are not abandoning our tradition of governance, stability and dialogue. Quite the contrary: we are ensuring the governance of growth, we are betting on social cohesion, which is the seed of stability, and we are involving all stakeholders in the dialogue.

What we want is for the changes that we are making, and which are supported by the majority of Chileans, to enable us to have a more productive, dynamic and competitive economy. This is how we shall succeed in growing at the rate we need for our development.

What Chile wants is to include in order to grow and to grow in order to include, ensuring that progress is the synonym of wellbeing for each and every citizen.

Thank you.

\* \* \* \* \*

Washington, July 1, 2014.