

2017 Chile Day

Londres, 29 de junio 2017

Thank you very much for your kind invitation to participate in the 2017 Chile Day. InBest Chile has done a huge job during the last decade in order to strengthen the ties between representatives of Chilean capital markets and their global partners and also to showcase Chile abroad as both a highly attractive investment destination and as a well-located platform for the administration of funds across Latin America and other emerging markets.

Congratulations to this organization and its partners of this Conference, the Chilean Ministry of Finance and the British Embassy in Santiago.

I'm sure that this 9th Chile Day will be another success.

Nowadays it seems politically incorrect to make a case for free trade, economic freedom and even democracy, but that is precisely what I'm about to do.

In a moment like this, when protectionism and nationalism are raising everywhere; when Western values seem to be weaker than ever and at a permanent stake, it is crucial to advocate for freedom as a core element of our open societies.

Many people in the Western countries seem to be increasingly convinced that individual freedom must only be related to individual rights of association, political participation, speech or equality before the law, among others.

When it comes to property rights, free trade and economic freedom, they claim that it is better to limit the will of the people and the Nations to be wealthier with barriers, limits, taxes, burdens and even walls.

Latin America is not an exception, but it also has a perfect case studio to demonstrate how important is economic freedom and free trade to overcome poverty, fulfill the development goals and become a global actor.

In my view, Chile is the most relevant case example of that fact.

For many years now, different Chilean governments and administrations have perfectly understood the potential of globalization and the fact that development and growth are related with becoming a global economic player.

Chile has attracted the attention and resources of many foreign investors:

- By building strong and trustful institutions;
- By promoting a flexible and transparent fiscal and legal framework through ambitious economic reforms;

- By signing free trade and regional association agreements;
- And, in a few words, by letting Chilean companies and individuals to take their own economical decisions.

The consequence of two decades of economic openness in Chile is quite clear: It has become the most prosperous country in Latin America, and one of the most attractive countries in the world for foreign investors.

Let me give you some figures that demonstrate it. I won't compare them to the results of other countries that preferred to put limits the economic freedom, but that would be an easy exercise for any of you.

Over the past thirty years, Chile has shown strong and sustained growth rates and has made major improvements in important areas such as poverty, education and health.

- Chile's poverty rate has notably decreased, from 40% in 1990 down to 15% today.
- There have been major improvements in education (in 1990, the education index was 0,63; in 2015, 0,79).
- Life expectancy has grown significantly, from 72,2 years in 1990 to 82 in 2015, allowing Chile to become the first Latin American country in the UNDP Human Development Index.
- Also, during the last few decades Chile has consolidated the globalization of its economy.
- During the recent global recession, Chile has shown better figures than many other countries that are less committed to economic freedom.

In a few words, Chile took the right path in the right moment and that meant superb consequences for the Chilean society, both in terms of democratic development and economic growth.

Since 2014 Chile's economic growth has slowed down considerably so it seems very important to keep on doing structural reforms to open and modernize its markets and productive sectors,

- To promote growth in the short term (demand stimulation measures),
- And to allow for stronger potential growth in the medium term (reforms tackling poverty and inequality, for example).

There are some external factors that can't be avoided, but can be better supported if these reforms are implemented. Let me point out some of them:

- The less favourable external environment –that is, slower growth in China, the United States and Europe, which adds to the structural problems in the Latin American area–;
- The permanently lower price of copper, and we all know how highly dependent is the Chilean economy on these exports.

As a consequence of that,

- Chile's GDP growth rate slowly decreased up to a 1,7% in 2016. However, according to recent projections this will change in 2017, for which the IMF is forecasting a growth of around 2%.
- The slowdown in growth of recent times has had an important impact on public finances and employment:
- In 2014, Chile's public deficit was 1,6% of GDP. This percentage increased up to 2,2% in 2015 and 3,1% in 2016. Chile's deficit is projected to grow further to 3,3% of GDP in 2017.
- The unemployment rate was 6,4% in 2014; 6,2% in 2015; and 7% in 2016. The IMF expects unemployment to continue to grow up to 7,6% in 2017.

In short, the Chilean economy remains highly vulnerable to external shocks such as an unexpected slowdown in Chile's main trading partners –mainly China– or a change in the US policies.

Even when Chile continues to face two important challenges as the high poverty rate which still affects 15% of the population, and the high inequality, the results are way far better than for other regional players.

Foreign Direct Investment (FDI) has been an essential part of Chile's national development strategy for more than thirty years. The broad political consensus on the advantages of foreign investment in the country made it possible.

The signing of free trade agreements and the association to the Pacific Alliance (PA), have definitively created an optimum environment for foreign investors, and it has also allowed many Chilean companies to become global.

I'm deeply convinced that the Pacific Alliance is the most important project of association put in practice in the region, and it should serve as an example for other Latin American democracies.

Together, the four countries forming the PA –Mexico, Colombia, Peru and Chile– represent a 38% of Latin America and the Caribbean's total GDP, approximately 50% of the region's foreign trade and 44% of the total foreign direct investment in the region. But furthermore, they are democratic countries committed with the Western Values, and are doing a great job of modernization and adaptation to the new global order.

Once again, the Foreign Direct Investment figures of Chile proves that this is the right path to walk by.

Let me mention just a few of them:

- The flows of FDI in Chile have been growing since 2010 and have reached record levels.
- In 2014, FDI in Chile amounted for USD 22.002 billion.
- In 2015, FDI to Chile represented 8.5 percent of Chile's GDP.
- Chile is the second most attractive country for foreign investors in South America, after Brazil.

- However, foreign investment in Chile is very irregular because it is often linked to projects in the mining sector. Chilean policies and friendly environment for foreign investment are the counterpoint of this irregularity.

All of you are aware that Presidential elections will take place in Chile by the end of this year, so I won't mention the sort of political and economical reforms that I consider essential in order to not interfere in the national political debate.

Anyhow, what I want to express is my conviction that more reforms are needed in many fields.

What Chile has done is not very different to what I tried to push forward when I was the Prime Minister of Spain for eight years.

Let me also give you a few figures, probably well known for many of you:

- At that time, Spain became a member of the Euro, one of the strongest economies in Europe, and the 8th economy of the World.
- Our Labour Market reform promoted the creation of 5 million new employments, with a drop of the unemployment rate from a 22% to a 11%. We attracted more than 6 million migrants without social or racial clashes or the emergence of xenophobic parties.
- We balanced the public budget. For the first time in our history we had a surplus instead of a public deficit. And we manage to reduce the public debt to a 46%. Now it is over a 100% of the GDP.
- Many Spanish companies took the decision at that time to expand and become bigger, benefitting from the opportunities of the globalization.

I've just mentioned this to prove that what can be positive for countries like Chile or Spain, can also be good for any other country in the World.

The opposite has also been proved true. Historically, every nation that has decided to increase its protectionism based on a nationalistic rhetoric has always had very negative consequences in the short, medium and long terms.

It won't be different this time.

Thanks to free trade and economic freedom the world is a better place now than 20 years ago. More than 800 million people have overcome poverty and have joined the middle classes.

Even when democracy has been the most common political environment for that economic growth and development, some argue that, as it has also happened in a few non-democratic countries, democracy is not essential.

They are lying.

Economic freedom and free trade are very important, but democratic institutions are even more crucial for the people.

Individual freedom and equal opportunities can only be achieved when rule of law and democratic institutions are implemented.

Many achievements have also been done in this aspects in most of Latin American countries, but we can also find some countries of Latin America that can be used, as Venezuela, as an example for the worst case scenario.

Venezuela was a democracy until the end of the 90's.

First lesson to be learned is that democracy may not be forever and shouldn't be taken for granted.

The second is that democratic institutions can be functional even for those that want to destroy democracy from the inside.

This is something to be specially considered then a lot of antidemocratic activists are hiding behind populist movements and democratic parties, just waiting for their moment. Latin America has suffered that problem for many years, and many countries in Europe are now shocked by a similar possibility.

It is urgent to reinforce our democratic institutions to avoid that.

The third lesson is also clear, and dramatic.

There is still a double standard in the international community when some people claims for support against tyranny, dictatorships and human right violations. Depending on the political orientation of that regime, people gets the support of other governments, institutions and individuals... Or not.

That has been, and still is, the case of Venezuela.

The brave people of Venezuela is facing a huge battle against a dictatorship that daily repress, torture, kills and put in jail many innocents.

Almost two million Venezuelans have been pushed to leave the country, and the rest are struggled by the repression mechanisms of the Chavism and the total destruction of the Venezuelan economy converted in a devastated an insecure country drowning in an humanitarian emergency crisis.

The time has come for everyone to decide in which side to stay, democratic or the non-democratic one.

I've mentioned Venezuela because what is happening there is the model for those that want to dismantle the liberal order. They have tried to do the same in many other countries in the region, and now some dream of a European version of that model.

Dear friends,

Let me conclude by expressing my trust on the future.

Since 2003, more than 70 million Latin Americans have left the poverty line behind, and the region has increased its global income by more than 30%.

We are no longer before the illusion, more or less imprecise naive, of a democratic, open and prosperous Latin America. That's a reality supported by facts. The reality of a great opportunity.

Latin America today has an extraordinary opportunity to consolidate a future of prosperity and to play a leading role in an increasingly open and competitive world. But for this, I insist, it is essential to persevere in the path of openness, reforms and modernization.

When things are done right, good results are only a matter of time. And I am convinced that, in the case of Chile, the best is yet to come.

I'm deeply convinced that the Technological Revolution we are now living can bring the biggest achievements in the history of mankind, but only if freedom and democracy prevail.

It won't be easy and there will be many challenges to face.

Many employments may be lost, but many new others will be created by the demand.

Many people will have access to new treatments for grave diseases, but only if democratic institutions are put in place in order to warranty equal opportunities. And similar examples will be find at a global level in many different fields including the access to education, health, social services, technology, security, water, energy, transport or equal opportunities.

It is the task of each one of us to advocate for that, and to try convince others that the best pages of our history are to come.

That's what I've just tried to do, and I'm sure that this Chile Day Conference will bring many opportunities to do the same to all of you.