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Country report - Chile and Uruguay : Development and Resilience Plan

This project aims to develop a resilient economic development plan within the two South American countries of Chile and Uruguay. Through the economic investment by CAF (Development Bank of Latin America - Desarrollo Corporacion Andina de fomento) of 5 billion dollars, the aim will be to generate a virtuous economic revival in the economies of the two countries in response to the Covid-19 crisis. CAF is a multilateral development bank, based in Caracas. Its objective is to promote the growth of member countries and regional integration, through the financing of mainly infrastructure projects. Among the weaknesses of the Chilean and Uruguayan economies there is certainly an infrastructural problem: far from the big centers of Santiago and Montevideo, the two countries suffer from a lack of investment in the sector. The CAF's commitment with South American governments is to encourage economic efforts to make the two economies even more competitive from a logistical and strategic point of view. Considering the similarities between the economic structures of the two countries, the economic, political and human development indices, the Partnership was born as an economic engine and support, aiming to generate a positive effect in the medium-long term. The period in which the CAF will progressively inject money into the economies will be 7 years; the physical and demographic structures of the two countries will be taken into account, as investments will be 70% for Chile and the remaining 30% for Uruguay (distribution based on the number of inhabitants respectively).

Uruguay - Country report: Development and Resilience Plan

The Republic of Uruguay is a South American state with a population of nearly 4 million people. The largest city, major economic center, and capital is Montevideo, founded in 1726. The official language is Spanish, its territory having been part of the Spanish colonies in South America. It has 176,220 km² and borders Brazil to the northeast and north, Argentina to the southwest, the Río de la Plata to the south, and the Atlantic Ocean to the east. Uruguay is a presidential republic, the current head of state is Luís Lacalle Pou (White Party).

In 1516 when the Spanish explorer Juan Díaz de Solís reached the mouth of the Río de la Plata, the Portuguese chronicles say that the mouth was discovered two years earlier by explorers from the kingdom of Portugal. The first permanent settlement was founded in 1624 in Villa Soriano (on the banks of the Rio Negro). The next era was characterized by constant clashes with the Portuguese, who claimed sovereignty over the territory. The Spaniards themselves founded the capital, which in a short time became a significant economic center competing with Buenos Aires. In 1776 the regions of present-day Uruguay were separated from the Viceroyalty of Peru and annexed to the Viceroyalty of the Río de la Plata with the name of Banda Oriental. In 1811 Jose Artigas organized an insurrection against Spain: since then, passing through the annexation to Brazil, which lasted just over a decade, Uruguay gained independence in 1828, thanks to the Montevideo Treaty promoted by the United Kingdom. After the civil war of the mid-nineteenth century, the country experienced a period of growth and substantial political and economic reforms.

Uruguay has the most extended democratic history of any Latin American country. Political social Stability is high, with a low Political Risk. Political Violence Risk is 70/79 (Marsh Indicator) and Corruption Perception 71/100 in 2020. It is one of the countries in the region least affected by corruption along with Chile. Strikes have been frequent since 2019, when revolts broke out in some textile factories. However, they do not represent a danger to the political stability of the country. Political turnout was more than 90% in 2019.

Through a welfare state, Uruguay provides a more or less extensive range of social functions to benefit its citizens. A social homogeneity is made possible through public policies to improve the economic situation and good protection to its population, for example, through universal health coverage, free education... These policies come from a restructuring of the economy implemented by the two presidents, Tabaré Vazquez and José Mujica, which continues today.

According to COFACE forecasts, the GDP per capita is US$ 16,111 in 2021. The GDP per capita is one of the highest in South America due to its strong growth in previous years. The country has a low poverty rate, estimated at 11.9% in 2020. While in 2019, it was slightly lower, with a rate of 8.8%. The poverty rate increased by almost 3% in one year due to the economic impact of the global crisis related to Covid 19. While the poverty rate has increased, it is essential to note that Uruguay still has a low rate and an almost total absence of extreme poverty in its territory.

Moreover, between 2002 and 2004, the country was affected by a severe economic crisis. Poverty rose from 17.8% to 32.1% in two years. However, the unemployment rate reached 8.78% in 2020, which remains low despite the crisis. Therefore, we can say that the economic impact of the covid remains slightly low compared to the previous crises that the country has gone through. Then, the GINI index, which measures the inequality between the values of a frequency distribution, shows that Uruguay has a low rate of inequality with an index of 39.7% in 2019. Then with a human development index (HDI) in 2019 of 0.817, Uruguay has 55th place out of 189 countries according to the UNDP. It has an Inequality-adjusted Human Development Index (HDI) of 0.712 in 2019, a good score for the country.

Through a resilient economy, public reforms, and significant investments, the country has reduced poverty and increased incomes to one of the highest levels in the region. In addition, the country provides its citizens with political and economic security.

Like the rest of the world, Uruguay has been affected by Covid 19. However, macroeconomic indicators show that its impact on the economy is much less than in Latin America. In addition, thanks to the excellent management of the government, the pandemic has been contained. The borders were closed in time, and the measures were effective. According to COFACE forecasts, GDP growth is 3% in 2021. It has dropped by 5.7% compared to last year due to the impact of Covid. However, the economy is expected to recover in the coming years, with the IMF forecasting growth of 3.1% in 2022. This number is reassuring for the economy, as there is no downturn in continuity. The economy seems to be stabilizing.

Then the inflation is supposed to reach 7.7% in 2021. Uruguay's target range is 5%, which means that inflation is too high for the country. Since 2018, inflation has exceeded 5% due to a depreciation of the peso. However, the central bank is pursuing a monetary policy that should continue to be adjusted until inflation and expectations are closer to 5%. The country then has a budget balance of -4.1% of its GDP in 2021 due to very high spending to counter the economic impact of the pandemic. The current account balance is -3% of its GDP in 2021. The result of the high dependence economy on imports has increased since the covid 19 and a decrease in tourism. The public debt in Uruguay is very high, reaching 69.1% of its GDP in 2021. It is due to the high level of public spending on infrastructure, especially in the service sector. However, the increase in inflation is not alarming, as the country continues to experience a growth that does not seem to stop right away.

Although macroeconomic indicators have weakened compared to last year, they are far from being critical. The economy is sustained despite the impact of the covid 19.

Uruguay's economy is mainly based on agriculture. The country produces soybeans, beef, dairy products, wood, rice and lives off of tourism and numerous foreign investments. However, its dependence on the agricultural sector makes its economy vulnerable to commodity prices.

The South American country has signed numerous trade agreements, such as the Multilateral Investment Guarantee Agency (MIGA), the common market of the South (MERCOSUR), the Latin

American Integration Association (ALADI), and is a founding member of the WTO. Within the framework of MERCOSUR, it has preferential trade agreements with Chile, the Andean Community (Colombia, Ecuador, and the Bolivarian Republic of Venezuela), the Plurinational State of Bolivia, and Peru, which are associate members of the Common Market of the South. Uruguay's main trading partners are China, Brazil, Argentina, the United States, Angola, and the Netherlands. Due to these numerous trading partners, the country in 2019 imports $8.2 billion of goods and exports $7.6 billion of goods. Therefore, there is a trade surplus of $2.9 billion due to the number of exports being more significant than the number of imports. Then in 2019, the country imports $4 billion in services and exports $4.4 billion in services. So there is a trade surplus of $3.3 billion due to more exports than imports. While there are no official figures for the year 2021, it is assumed that the trade surplus in goods and services has increased due to the increase in imports and a reduction in exports related to the Covid 19 crisis.

Uruguay is a trade and investment regime that is open, with few border restrictions and limited non-tariff measures. The country's primary trade strategy is to continue liberalizing trade and investment, both multilaterally and regionally. In 2019, the foreign direct investment amounted to 189 million. The government recognizes the vital role that foreign investment plays in economic development and provides a stable investment climate without discrimination against foreign investors. In 2016, the government introduced the fiscal transparency law, which ensures equal treatment of foreign and domestic investments. As a result, most investments are allowed without prior approval, and investors can freely transfer capital and profits from their investments abroad, making the country very attractive to foreign investors.

The weakness of the country's economy lies in the risk of contagion of the crisis. Known as the spill-over effect, Uruguay is dependent on foreign investment and exports, so its economy is very dependent on the economies of its partners. For example, in July 2002, the country fell into a serious banking crisis linked to the Argentine crisis of 2001. This crisis was caused by a considerable contraction of the Uruguayan economy and excessive dependence on Argentina (tourism and construction boom), which experienced an economic collapse in late 2001.

However, today the country has diversified its partners making the economy less dependent on one particular player.

Finally, Uruguay is affected by natural disasters such as tornadoes, heavy rain, and flooding. For example, there has been a recent tornado event in April 2016 and heavy rains and floods in June 2019, pushing many people to evacuate the cities. However, it is a country in which there are no seismic or volcanic activities. Disasters related to atmospheric or climate change cause greater damage in social, economic and environmental terms.

Chile - Country report: Development and Resilience Plan

The Republic of Chile is a Country in Western South America. It occupies a long and narrow strip of land between the Andes to the east and the Pacific Ocean to the west. The national language is Spanish, and the Country's largest city and capital is Santiago. Chile covers an area of 756,096 square kilometers with a population of 17.5 million as of 2017. Chile is the southern Country, the closest to Antarctica, and borders Peru to the north, Bolivia to the northeast, Argentina to the east, and the Drake Passage in the far south. Chile also controls the Pacific islands of Juan Fernández, Isla Salas y Gómez, Desventuradas, and Easter Island in Oceania. The Country is geographically divided into five macro-zones: el Norte Grande, el Norte Chico, Zona Central, zona Sur, and Zona austral.

The natives controlled the region before the arrival of Europeans in 1530. Actual Chile was the most remote part of the Spanish Empire in South America; after independence in 1818, Chile started a significant economic growth. In the Pacific War, the Country gained the current northern territory, defeating Peru and Bolivia. However, during 1960 a political polarization hit the Country: the situation culminated with the 1973 Chilean coup d'état that overthrew Salvador Allende's democratically elected Marxist government and instituted a 16-year right-wing military dictatorship of Augusto Pinochet. The president is Sebastian Pinera, elected in 2017 (Vamos Chile - Indipendente). Political risk is relatively low in Chile. In the last two years the Estallido Social revolts shaked the Country. Starting in October 2019, violent protests erupted in Santiago and spread to all cities in the country. Initially led by students and young people, the demonstrators protested against the high cost of living, the reform that would soon lead to an increase in the price of public transport and economic inequalities. Violent clashes between demonstrators and police ensued, but the Pinera-led government decided to withdraw the reforms. The population demands a profound change in the Chilean system strongly influenced by the neoliberal policies implemented by the Chicago Boys movement. The population wants to reform the health, pension (AFP) and education systems. Pinochet's dictatorship left its mark on the democratic life of the country, whose transition continues to be difficult. Political Violence indicator (Marsh) is 70/79. The Corruption Index is 67/1000 and strikes have been frequent since 2019. The political turnout was low in 2018 (Presidential election) and high in 2020 (Referendum). In 2020, Chile voted to change the country's constitution of Augusto Pinochet. A proposed constitution is expected to be presented at the end of this year. The demonstrations have calmed down due to Covid and the numerous confinements imposed on the population. However, it is very likely that they will resume at the end of the year.

Chile can be considered to be one of South America's most favourable and promising destinations as far as investments are concerned. As of the 1980s, Chile has consistently assumed leadership roles in the region thanks to all-encompassing policies which have ensured the country's commitment to democracy, have promoted economic growth, reduced poverty rates and maintained commendable levels of social stability. As the seventh largest economy in the Western Hemisphere, and thanks to its steady and thriving upper-middle-class economy, Chile has historically enjoyed levels of stability and prosperity among the highest in the region, distinguishing it from neighbouring nations. Furthermore, in May 2010, Chile became the first South American country to sign the OECD Convention, affirming the nation's commitment and continuous efforts towards sustainable economic development. However, in October 2019, in response to perceived systemic economic inequality widespread, the country was engulfed by civil unrest and turmoil.

The unrest has had a significant impact on the Chilean economy, and thus a plebiscite was held in October 2020 which was meant to establish whether or not to draft a new constitution. The "Approve" option in favour of drafting a new Constitution resulted in an overwhelming majority, obtaining 78 percent of the vote, in addition, the second ballot containing the option of an all-elected "Constitutional Convention" obtained 79 percent of the vote. This Convention is supposed to ensure gender parity in the allocation of seats, through the implementation of an innovative electoral mechanism, making Chile the first country in the world with a Constitution drafted by an equal number of women and men.

Unfortunately, despite tremendous economic progress and poverty reduction over the last few decades, the COVID-19 pandemic has thrust the economy into the worst recession experienced in decades. As a result, more than one million jobs were lost, endangering and compromising the livelihoods mostly of women and workers in commerce, agriculture, and hospitality, further contributing to the precariousness of the middle class. In fact, as a consequence, in 2020, poverty is expected to have increased from 8.1 to 12.2 percent, with about 780 thousand people expected to have fallen into poverty. In addition, the overall unemployment rate in March 2021 reached 12.1% compared to 8.2 percent in the same period of the previous year.

As regards one of the main national accounting indicators, the GDP contracted 6.0 percent in 2020, despite a loosening of lockdown measures which allowed for a partial recovery towards the end of the year. According to forecasts, GDP growth will be approximately 4.5% during 2021 with some more optimistic forecasts stating up to 5.5%, after a contraction of 6% in 2020. Although the authorities tapped into fiscal buffers, public debt rose from 28 percent in 2019 to 33 percent in 2020 with a forecasted increase to 37.1% in 2021. The effects of mobility restrictions, uncertainty and precariousness were only partially counterbalanced by one of the largest policy responses in the entire region. This response consisted in cash transfers, a job retention scheme, tax deferrals and reductions, liquidity provisions and guarantees, and early withdrawals from pension funds. In conjunction with the economic contraction accompanied by an overall increased level of perceived instability, the fiscal deficit increased to 7.5 percent of GDP in 2020, the largest in over three decades also due to the COVID-19 pandemic response through an economic stimulus package of about USD16.75 billion. Notwithstanding the ongoing difficulties which have arisen not only at local but also at a global level, Chile boasts one of the strongest sovereign bond ratings in Latin America.

Chile has a very open economy, highly reliant on international trade, which as a matter of fact, represented 56.8% of the country's GDP in 2019, a slight decrease compared to 2018 (World Bank). The country is known to be one of the greatest exporters of copper (which accounts for nearly half of its exports), fish fillets and other fish meat, chemical wood pulp, wine, and pitted fruit (such as apricots, cherries, and peaches). On the other hand, imports involve petroleum oils, motor cars and other vehicles, electrical apparatus for line telephony, petroleum gas, and automatic data processing machines. Chile's top three exporting partners are China, the United States and Japan whereas its main importers are China, the United States and Brazil. Moreover, Chile has signed Free Trade Agreements (FTAs) with several important economies, notably the European Union, the United States, China and South Korea and has been a member of the Pacific Alliance since 2012 with Mexico, Colombia and Peru. Its comparative economic advantages (revenue from mining, competitive and counter-seasonal agriculture sector) have given it access to the large markets of North America, Europe and the Asia-Pacific (and recently to other South American countries, especially Brazil).

Chile has successfully attracted Foreign Direct Investment (FDI) in spite of its relatively small domestic market thanks to a targeted approach which emphasizes the importance of FDI when it comes to national socio-economic development. The country’s market-oriented policies have generated relevant opportunities for foreign investors to take part in and contribute to the country’s economic growth. For nearly four decades, the promotion of FDI has been an essential part of the Chilean government’s national development strategy.

As far as the regulatory, legislative and accounting systems are concerned, their level of transparency is considered satisfactory as they provide clear rules for competition and a level playing field for foreigners. Furthermore, they are largely consistent with international norms and can be considered sufficiently favourable seeing as laws and practices are not discriminatory against foreign investors, who receive treatment similar to Chilean nationals. The Chilean government has taken significant steps towards business facilitation during the last decade, including the implementation of digital means to set up a new company. On 7 June 2019, Chile’s Ministry of Economy launched the Unified System for Permits (SUPER), a new online platform intended to simplify and accelerate the process of obtaining permits for investment projects. According to the World Bank, Chile has one of the shortest and smoothest processes among Latin American and Caribbean countries -11 procedures and 29 days – to establish a foreign-owned limited liability company (LLC). Awareness of the need to ensure corporate social responsibility has significantly increased over the last two decades in Chile. By and large, Chile has a relatively stable and sturdy legal framework which ensures general respect for private property rights. As regards Business Conduct, the government of Chile encourages foreign and local enterprises to comply with generally accepted Responsible Business Conduct (RBC) principles and makes use of the United Nations' Rio+20 Conference on Sustainable Development statements as its principal reference. In addition, Chile adhered in 1997 to the OECD Guidelines for Multinational Enterprises. It also recognizes the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy; the UN Guiding Principles on Business and Human Rights; the UN Global Compact's Ten Principles and the ISO 26000 Guidance on Social Responsibility.

Finally, Chile, being a seismic zone, is significantly affected by the consequences of earthquakes. In 1960, in Villarica, the country recorded the largest earthquake in history on the Ritcher scale. The city was completely destroyed. In 2020, another earthquake was recorded of magnitude 8.8 near the Chilean coast, costing the lives of 525 people and damaging many cities. However, today the country is more protected because all constructions must comply with anti-seismic standards, but tsunamis, a direct consequence of earthquakes, still strongly damage the cities. The country is notably affected every summer by numerous fires due to droughts and forestry production. In addition, Chile has many active volcanoes. In 2015, the eruption of the volcano Villarica led to the evacuation of some 3,000 people from the surrounding area. The smoke emitted by the volcano had blocked the activity of the airport of Pucon for several days. Thus, Chile is a country significantly affected by natural disasters. Therefore, Environmental and geographical factors may present potential risks for investors in Chile. Nevertheless, the repetition of these disasters within the country's history makes it better prepared for future environmental risk and face emergencies.

Furthermore, it is fundamental to take into account the reliance of the Chilean economy on international actors. Considering the relatively limited size of the domestic market, the Chilean economy is particularly susceptible to external fluctuations both in terms of imports and exports. In addition, its dependence on exports, particularly copper, make it vulnerable to the spill-over effect of slowdowns and pit-stops experienced by the economies of other countries and partners such as the US, China and European Union. The recent turmoil experienced as of 2019 has negatively contributed to an increased geopolitical risk which is also amplified as a result of Chile’s position within the continent and the influence of the Argentinian economy. Lastly, despite a relatively sound legal framework and an overall favourable environment corporate governance lags behind international standards seeing as there are no binding requirements to have nominating committees nor requirements related to the disclosure of director or executive pay policies. Despite certain remaining challenges and obstacles, Chile is still considered by and large an appealing destination for investments. This is thanks to its overall strong performance and relative stability compared to neighbouring countries. In addition, the visionary strategies adopted by Chile's government, in particular favourable economic policies and concrete steps towards innovation through the use of digital tools and channels, have led to the facilitation of business procedures and promoted growth and sustainability in the long run. Finally, its vast natural resources, especially copper and lithium, which is used to power next-generation batteries, make Chile an extremely strategic investment destination.

Conclusion

The resilience and development plan financed by the CAF with the Chilean and Uruguayan governments aims to provide a virtuous investment to the economies of the two Latino Americans countries. Chile and Uruguay are the most developed countries in South America, the indicators show that despite the crisis of Covid their economic situation remains stable. The plan will carry out infrastructure and transport development projects and strategic and nerve centers to develop economic activities. Chile ranked 70th out of 103 for quality of railroad infrastructure in the 2019 World Economic Forum's Global Competitiveness Report and reached 61st place for the efficiency of train services. With over 50 million passengers per year, Chile's railways need to be improved. In 2019 the president Pinera launched the Railway Program 2020, an investment of $ 5 that will cover 27 infrastructure and security projects to boost passenger and cargo services throughout the country. Its completion, which is expected to be by 2027, will help triplicate passenger numbers to 150 million people per year. However, this effort will not be enough if the country wants to adapt its infrastructure to the rapid economic changes and connect the country to promote the development of the whole country and not just the economic pole of the city of Santiago. Also, last year, the Uruguayan Ministry of Transport announced an investment of $ 400 million to upgrade the country's highway network. In addition, Montevideo needs to implement its logistics services to improve its economic activities, so dependence on the surrounding economies and American and Chinese trading partners can be reduced.

The mission of the Resilience Plan is to help the governments of the two countries implement their development policies and direct investments to provide the two countries with a competitive advantage such as economies of scale. In addition, the CAF aims to create a stimulating economic environment for domestic and foreign investors, improving the growth rates of countries, ensuring long-term economic growth performances.

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