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PUBLIC POLICY FOR ACHIEVING TRANSPARENCY AND GOOD GOVERNANCE: THE EXPERIENCE OF CHILE¹

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Overview

Chile's experience since 1990 suggests that its efforts to ensure a transparent business environment, combined with the country's strategy of international integration, have been key in attracting FDI, and that this has paid handsome dividends in terms of economic growth and advances in quality of life.

This effect is clear in quantitative terms in that it has attracted a larger inflow of FDI than could have been expected for an economy of its size. A public works concessions program, introduced in the mid-1990s, has, for example attracted more than US\$ 5 billion in investment, contributing to high-impact improvements in the country's physical infrastructure, mainly highways and airports. This investment is clearly a gesture of confidence in Chile's business environment to the extent that investors will require up to 30 years in order to recoup their outlay.

However, there is strong evidence that transparency and sound business practices have also augmented the qualitative impact of this inflow. Investors who are attracted by a country's business environment and its competitiveness tend to view their commitment as long-term and are, as a result, inclined to form stronger relations with local businesses, as well as creating stable, high-quality jobs. This

1. This paper was researched and written by Chile's Foreign Investment Committee (www.foreigninvestment.cl) in October of 2003. We would like to acknowledge key contributions by Mr. Gonzalo Rivas and Ms. Ruth Bradley. It will be presented by Ms. Daisy Kohan, Head of Statistics and Forecasts of the Foreign Investment Committee, at GFII 2003 in Johannesburg.

is the case, for example, of more than 30 MNEs that in the last year have decided to locate their regional headquarters, services & call centers, software development operations, data centers and front & back offices in the country. Among them, are Unilever, Nestlé, Delta Airlines, Motorola, Citigroup, Banco Santander Central Hispano and IBM.

This process facilitates the acquaintance of local firms --whether as suppliers, competitors or customers – with international business practices and strategies. In addition, it helps to foster the transfer of technology, which has been particularly important in Chile. For example, in the Global Competitiveness Report 2003-2004, issued recently by the World Economic Forum, Chile ranked in 18th place out of 102 countries on its success in adopting new technology, a factor that is key for a country's growth and ongoing competitiveness.

I. FDI in Chile: Recent Trends

Chile is widely recognized for its success in attracting foreign direct investment (FDI). It is the Latin American country in which FDI has, over the past decade, made by far the largest contribution to GDP and the rate of investment. Indeed, it is among the world leaders in this field².

In the 1990s, FDI in Chile quadrupled, reaching a total of US\$40 billion. During that period, it represented an annual average of 6.4% of GDP.

According to the indicators used in the World Investment Report, published by the United Nations Conference on Trade and Development (UNCTAD), Chile has managed to attract more FDI than would have been expected for the size of its economy. In the FDI Performance Index, Chile occupies 17th place, well above its position in the FDI Potential Index (47th)³.

One of the country's assets is its stable and transparent policy framework for FDI, embodied in the Foreign Investment Statute, known as Decree Law 600 (DL 600) which came into force in 1974, and in the 1980 Constitution, which reaffirmed the right of foreign investors to non-discrimination. An investor who chooses to use DL 600 signs a legally binding contract with the State for the implementation of a project, and this cannot be modified unilaterally by the State or by subsequent changes in the law.

The Foreign Investment Committee represents the State of Chile in its dealings with those investors who choose to use DL 600, and is also responsible for ensuring that the international investment community has ready access to information about Chile, its institutions, and the investment opportunities it offers. In one of its foremost aims, the Committee seeks to consolidate Chile's position as a stable, secure and transparent destination for FDI.

The inflow of FDI into Chile reached its peak in 1999, when it represented 63% of total investment, and was equivalent to US\$2,600 per capita. However, since then, the inflow has dropped sharply.

This partly reflects a trend also seen in the rest of the world since 2000, due mainly to the collapse of M&A activity, lower corporate earnings by MNEs, and the deceleration of the world economy. In addition, Chile has been affected by turbulence in other Latin American economies.

However, it is possible that part of this drop is also explained by the exhaustion of the main sources of attraction of FDI that previously existed in Chile. In the 1990's, foreign investment in Chile was driven by large mining projects, the privatization of public services, infrastructure projects developed under a

² WEF (2002).

³ UNCTAD (2002).

program of public-private partnerships, and the deregulation of the telecommunications and financial services sectors.

However, the portfolio of new mining projects is now less significant than that developed in the 1990's, and the relative importance of the mining industry as a destination for FDI dropped to an average of 28.5% of total FDI in 2000 and 2001, down from 47% in the 1990's⁴. Moreover, most state enterprises have already been privatized.

As a result, Chile faces the challenge of identifying new sources of attractiveness to FDI in non-traditional sectors. It has already made significant progress by promoting itself as a platform from which companies can provide technological services to other countries in Latin America and other regions. New investments in this field include software development, call centers, shared services centers, and back- and front office operations.

Similarly, taking advantage of its varied geography, Chile is looking to develop as a center for "special interest" tourism, ranging from archaeology and astronomy to wine routes and sports, such as mountain climbing and fly-fishing.

From an analytical point of view, it has been argued that firms have three main reasons for investing abroad: (a) the search for new resources or assets; (b) the search for new markets; (c) the search for increased efficiency⁵.

In recent years, Chile has sealed Free Trade Agreements with most of the world's main trading blocs (including the European Union, the United States, and EFTA), as well as bilateral agreements with most other Latin American countries. Without doubt, Chile's access to these markets is important in compensating for the small size of its own domestic market of 15 million inhabitants, and also offers an opportunity to attract new FDI in projects that are geared to the export of goods and services.

However, as distinct from FDI that targets the domestic market, investment that is geared to exports needs to be able to tap into comparative advantages (for example, privileged access to natural resources), or to be able to achieve high levels of excellence in the production of both goods and services. As a result, it seems imperative that Chile offer foreign firms conditions that allow them to achieve the highest standards of efficiency, including competitive business costs, high-standard infrastructure, a well-qualified labor force, and a predictable and transparent business environment.

II. Chile's Bid for International Excellence as a Location for FDI.

Chile's attractive business environment is the result of a policy-driven strategy that has focused on building sound macroeconomic fundamentals and strong institutions, and on promoting competition, international integration and social cohesion. In turn, this business environment has been a key determinant of its success in attracting FDI.

Interest in attracting FDI has led many countries to offer generous inducements, often in the form of tax breaks or direct subsidies. In this way, they attempt to compensate for deficiencies in their business environment, or to offer encouragement that goes beyond the inherent characteristics of their country.

⁴ These figures refer to investment through the DL 600 Foreign Investment Statute, the main vehicle for FDI in Chile. The institutional framework that regulates FDI in Chile is explained in detail in the document DAF/IME/RD(2002)4, published by the OECD.

⁵ UNCTAD (1998).

These incentives are, therefore, a direct response to the search for efficiency (i.e. lower costs or higher returns) on the part of potential foreign investors.

Chile has chosen a different strategy, based on what Oman (2000) described as the “beauty contest” approach. In other words, it has attempted to create the best possible business environment, thereby allowing firms to achieve top international standards.

From this point of view, Chile’s public policies have focused on maintaining its solid macroeconomic fundamentals, fostering the country’s international integration, improving transport and telecommunications infrastructure, increasing social integration and cohesion, and ensuring that its institutions work efficiently and transparently.

In all these areas, Chile has achieved important progress. This has meant tangible benefits for its population, and has been reflected in its reputation in the eyes of the rest of the world, and in its position in international rankings.

The Global Competitiveness Report 2003-2004, released recently by the World Economic Forum (WEF), ranked Chile in 28th place out of 102 countries in its Growth Competitiveness Index, and in 32nd place in its Business Competitiveness Index. According to the Report, Chile’s sound macroeconomic management, combined with wide-ranging institutional reforms, have helped to earn it a place among the world’s most competitive economies, and to shield it from the economic difficulties experienced recently by many other Latin American economies.

Similarly, in the World Competitiveness Yearbook 2003, prepared by the International Institute for Management Development (IMD), Chile took 16th place out of 29 countries with less than 20 million inhabitants. Among the competitive advantages that were highlighted by the IMD are Chile’s high degree of international integration, its equal treatment of local and foreign investors, and its reasonable level of business costs. Due to these and other factors⁶, the IMD identified Chile as the country whose international image, as compared to its reference group, is most conducive to the development of business.

As regards infrastructure, Chile’s most significant achievements have been in the field of telecommunications and new ICTs. In these areas, it has established a clear position of leadership within Latin America, achieving the region’s highest penetration rates for Internet, computers, and mobile telephony. In fact, in its e-readiness Ranking for 2002, the Economist Intelligence Unit (EIU) ranked Chile ahead of other Latin American countries, putting it in 28th place out of 60 countries worldwide.

Economic growth, combined with active social policies, has brought a sustained reduction in poverty and an improvement in the quality of life of Chile’s inhabitants. Between 1990 and 2000, the percentage of Chileans living below the poverty line dropped from 39% to 21%, and the main focus of public policies has now shifted to improving the standard of education, guaranteeing access to healthcare, and ensuring that social benefits reach the most needy. Over the last few years, Chile has implemented ambitious reform programs in all these areas.

As will be seen later on, this progress was possible to a large extent thanks to the proper functioning of the country’s institutions and to the high degree of accountability that is required of public policies.

Chile’s attractive business climate is, therefore, the result of a political strategy that has focused on building sound macroeconomic fundamentals, on fostering competition and international integration, and on creating a fairer society in which all the country’s citizens can share in the benefits of economic

⁶ The IMD’s analysis takes account of more than 300 different factors.

development. At the same time, this positive business climate has been a key factor in Chile's success in attracting FDI.

The "beauty contest" option has the advantage that all the firms that operate in the country receive the benefits of this business climate. In the case of policies based mainly on incentives, this is obviously not the case.

But there are also other reasons that, in our opinion, make it inadvisable to use special incentives as the main mechanism for attracting FDI.

Firstly, many of the benefits that FDI brings, such as the transfer of technology, links with local firms, or the creation of high-quality jobs, depend on the nature of the insertion that foreign investors achieve in the local environment. Overseas firms that are attracted mainly by "artificially-created" benefits can have weaker links with the local economy.

Secondly, if access to fiscal incentives in the form of tax breaks or tax holidays, is a key reason for the arrival of FDI, it is always possible that the offer of larger inducements elsewhere may prompt an investor to migrate. That doesn't happen if a firm finds an environment that permits sustained gains in its competitive position through, for example, access to high-quality services, a qualified labor force, and permanent improvements in infrastructure⁷. Chile's success in attracting investment in Call Centers and Shared Services Centers illustrates this point.

Thirdly, expenditure on the incentives used to attract FDI competes directly with other items of the national budget, including those resources that could otherwise be used to improve the country's business environment.

Finally, but not less importantly, the use of direct subsidies to firms can result in behavior that is not transparent. Because they have to be allocated by government officials and are usually tied to the fulfillment of certain conditions on the part of investors, these subsidies open up the possibility of the traffic of favors and of corruption. In addition, there is the problem that it is government officials, not the market, who select the investments to which priority should be given. And experience has shown that they often pick the losers, not the winners.

As we will see, these problems can have a very detrimental effect on the overall results of a program of attraction of FDI.

However, having said that, even when a country chooses the "beauty contest" option, this does not preclude the use of certain inducements, which can swing the balance of an investor's decision between two destinations that are, otherwise, similarly attractive. The key factor, however, is that these incentives should not be a substitute for a policy that seeks to improve a country's business environment, nor should they generate artificial conditions for the establishment of a particular type of business that will be difficult to sustain over time.

The incentives that Chile provides through CORFO⁸ to foreign investors in the technology field are also available to local firms. And, more importantly, they offer a type of support that seeks to boost the country's long-term competitiveness. They take the form of grants towards labor training and expenditure

⁷ Moreover, some of these factors, such as educational standards, also affect the capacity of the recipient country to take advantage of the positive externalities that can be derived from FDI. See De Ferranti et al. (2003).

⁸ CORFO is the Chilean Economic Development Agency.

on R&D, on the infrastructure that is relevant for the business, and on the development of a supplier network.

In fact, these incentives are part of a wider “Digital Agenda” that seeks to promote technological innovation and the spread of new ICTs. This agenda also includes other initiatives, such as the provision of Internet access in all state schools, the setting up of public Internet centers, a digital education campaign that aims to reach half a million adults, and sustained progress in the implementation of e-government⁹.

Although these incentives have been a factor in the decisions of some firms to invest in Chile, these same firms have insistently stated that Chile’s main attractions are the quality of its business environment, its political and economic stability, the availability of the necessary communications infrastructure, and the supply of qualified labor. In this sense, the main tool used by Chile to attract FDI is the promotion of the advantages it offers to investors.

III. Transparency and Foreign Direct Investment

The enormous growth of FDI flows around the world has naturally meant an increase in demand for information about the characteristics of each country’s business climate, and our experience shows that access to information from independent sources is particularly appreciated by investors.

Issues, such as the rules that apply to foreign investors, the regulatory framework for different areas of the economy, the method of legislating, or the attitude of public and private figures towards business, are obvious areas of concern for foreign investors.

As a rule, businesspeople are prepared to take risks. However, these must be directly related to their area of activity. If there is not clarity as to how public policy decisions are taken, if these decisions are not based on known and respected rules, and if those who take the decisions are not subject to public scrutiny, the risks perceived by investors increase. In extreme cases, uncertainty can be such that, although a business opportunity is very attractive, the investor will be deterred by fear of sudden and unjustified changes in the rules of the game.

Certainly, governments and other powers of state have the right, and the duty, to protect the interests of their country’s citizens, and this can require changes in the regulation of monopoly industries or public services. What is important is that these changes are made using procedures that are open to public scrutiny, and that all the affected parties have an opportunity to put forward their views.

There are different definitions of Transparency¹⁰. In general, these seek to highlight the elements listed below as necessary components of the transparency of government:

- Up-to-date information, that is readily available to the public, about laws, regulation, statistical information, etc.
- Fluid and opportune communication on the part of the authorities about their decisions and public-policy intentions.
- The uniform and impartial application of laws and regulation.

⁹ According to a study by Brown University (Massachusetts), Chile ranks in 5th place out of 198 countries on e-government.

¹⁰ The OECD (2003) offers various definitions.

In more sophisticated versions of these concepts, emphasis is also put on the need to consult and involve the affected parties in the design of policies¹¹. Moreover, it is important to underline that, in order to ensure transparency, it is not sufficient to have appropriate and widely-understood laws and regulation; the will and ability to implement them is also needed.

Several recent studies have identified a positive correlation between transparency and FDI: greater levels of transparency are accompanied by a higher level of FDI, and vice versa¹². Similarly, the quality of FDI and the benefits to the recipient country can be impaired by an environment in which there is little transparency. For example, the investor may avoid developing a relationship with local suppliers, or plan the operation in such a way as to minimize its stay in the country.

A study by PricewaterhouseCoopers attempted to quantify the impact of a lack of transparency in terms of the FDI foregone by countries that do not apply best practices¹³. Through the incorporation of an Opacity Index¹⁴ (i.e. the opposite of transparency) in an econometric estimation of FDI flows, the study estimated the amount of FDI that is lost as a result of the relative lack of transparency of each country. In a number of cases, the amount of FDI foregone, as a result of this factor, was found to be more than 100% of the FDI actually received by that country. The cost of a lack of transparency can, therefore, be very high for a country that is seeking to attract FDI.

IV. Promoting Transparency: The Chilean Experience.

IV.1. Background.

Chile has traditionally enjoyed a low level of corruption. Respect for the independence of the different powers of state, the existence of a powerful Comptroller's Office (which monitors the actions of the Executive), and the high level of probity found in public officials, are the factors that have historically contributed to this low level of corruption.

However, these underlying advantages have also been reinforced by an important number of policy measures that have deliberately sought to increase the transparency of government. Some of the most significant of these measures include:

- The autonomy and independence of the Central Bank, with directors who are proposed by the government, but must be approved by the Senate (1989).
- The guarantee of foreign investors' right to non-discrimination under foreign investment regulation (DL 600) (1974). This was subsequently also included in the country's political Constitution (1980).
- A law on government probity, which updated the rules that regulate the behavior of public officials (1999).

¹¹ See OECD (2003).

¹² See OECD (2002), Gelos and Wei (2002), Aizenman and Spiegel (2002).

¹³ See PricewaterhouseCoopers (2001).

¹⁴ The Opacity Index includes five factors: (a) corruption, (b) legal opacity, (c) opacity in government economic policies, (d) opacity in accounting standards and information release by corporations, banks, and governments, and (e) regulatory opacity. Measurements were obtained by surveying company and bank executives, investment analysts, and the company's own executives.

- A law on tender share offers, which strengthened protection for minority shareholders' rights (2001).
- A new press law, which abolished a number of restrictions on the media and strengthened the right not to disclose sources of information (2001).
- The introduction of a structural surplus fiscal rule under which the government undertakes to keep spending to a level that gives a structural surplus equivalent to 1% of GDP (2000).
- The international placement of sovereign bonds in order to provide investors with a benchmarking mechanism (1999-2003).

Recently, the signing of free trade agreements with the United States and the European Union has encouraged further progress towards greater transparency in areas such as government procurement and intellectual property rights.

IV. 2. International Assessments

Corruption and the lack of transparency are an ever-increasing concern in the international community. In response, different organizations have developed systems for measuring countries' relative performance.

The oldest measurement is that published since 1995 by Transparency International. Its methodology involves combining estimates of the perceived level of corruption, obtained through surveys carried out by different institutions. On this basis, it produces a ranking of different countries, known as the Corruption Perceptions Index.

Although Chile has always achieved a strong position in this Index, it is worth pointing out that it also improved over time, both in terms of the absolute value of its score and of its position relative to other countries. In 1996, Chile ranked 21st out of 54 countries, but by 2002, had risen to 17th place out of 102 countries¹⁵.

However, in 2003, Chile dropped to 20th place in this Index, following the discovery of some administrative irregularities in the management of public works contracts. As discussed below, these prompted the government to take measures to increase the transparency of public administration, which should lead to an early recovery of Chile's position in the ranking.

Other rankings include not only subjective measurements, such as the perceptions of those surveyed, but also information about the quality of institutions.

For example, in its Opacity Index, published in 2001, PricewaterhouseCoopers measured not only perceived corruption, but also the accountability of public officials and of businesses, as well as the quality of a country's legal and regulatory systems. In this ranking, Chile tied in second place with the United States, after Singapore and ahead of the United Kingdom, out of a total of 35 countries.

According to PricewaterhouseCoopers, "opacity" is equivalent to a hidden tax that increases foreign investors' costs. In the case of Chile, it estimated this tax at 5%¹⁶.

¹⁵ In 2002, the US was in 16th place, while Germany and Israel tied in 18th place.

¹⁶ PricewaterhouseCoopers (2001). In the most extreme cases, this "tax" reaches levels of more than 40%.

More recently, Chile's standing as a transparent country was confirmed by the World Bank's Governance Indicators, published in May 2003. On Control of Corruption – one of the six criteria considered in the study- Chile ranked in the top 10% of countries or jurisdictions, just behind Germany and the United States¹⁷.

Chile's highest score was for Regulatory Quality (90.7%), followed by Control of Corruption (90.2%). However, it also ranked well in the other four areas included in the study: Rule of Law (87.1%), Government Effectiveness (86.6%), Political Stability (85.9%), and Voice and Accountability (84.3%).

It is noteworthy that, as compared with the World Bank's earlier study, carried out in 2000, Chile achieved an important improvement on Voice and Accountability, reflecting the introduction of the new press law, mentioned above, which significantly increased freedom of expression¹⁸.

**Governance Indicators
(Percentile Rank)**

Indicator	2002 RK	2000 RK
Regulatory Quality	19 (90.7%)	19 (90.2%)
Control of Corruption	19 (90.2%)	19 (90.3%)
Rule of Law	26 (87.1%)	25 (87.0%)
Political Stability	27 (85.9%)	35 (79.4%)
Government Effectiveness	27 (86.6%)	22 (88.6%)
Voice & Accountability	32 (84.3%)	68 (64.9%)

Source: World Bank (www.worldbank.org), 2002
(The ranking indicates Chile's position among 199 countries & territories)

The performance of public institutions is also one of the factors considered by the World Economic Forum (WEF) in its Growth Competitiveness Index. In the latest version of this Report, Chile ranked in 19th place for the quality of its public institutions, and in 13th place for lack of corruption. Transparency was also an important factor behind Chile's position in the WEF's Business Competitiveness Ranking, where it was placed 7th for its absence of hidden trade barriers (a position that it also matched for the degree of competition in its domestic markets).

IV.3. Recent Pro-Transparency Measures.

In 2002, a serious problem was detected in the management of fiscal resources for public works contracts, involving alleged corruption on the part of some high-level public officials and members of Congress. The case, which is currently before the courts, triggered extensive public debate that prompted a firm reaction on the part of the government and the opposition in order to avoid a repetition of this kind of incident. The widespread coverage that the press gave to the case was an important factor in this rapid reaction.

¹⁷ The study considered 199 countries or jurisdictions.

¹⁸ In 2000, Chile achieved a score of 64.9% for Voice and Accountability.

The government and the opposition coalitions agreed to work together on a series of legal initiatives designed to increase transparency and accountability. These were annexed to a Pro-Growth Agenda, on which the government and the private sector had been working for some time, which already included a number of measures to modernize the State¹⁹.

Although these new initiatives were not devised with the attraction of FDI in mind, there were underpinned by a desire to preserve Chile's international reputation as a reliable and secure country in which to do business.

The Agenda included 49 separate initiatives, of which Congress has already approved several. Those, which are most relevant from the point of view of transparency, are²⁰:

Simplification of government administrative procedures: This initiative, known as the "law on administrative silence", sets new time limits for processing applications for official permits, or other types of authorization, and, in the absence of a decision within the stipulated period, assumes that approval has been granted.

Modernization of the Civil Service: As well as creating a Civil Service Directorate, the new Civil Service Statute, approved by Congress in May, seeks to modernize public administration and to lay the foundations of a professional civil service. As part of a re-design of selection and pay policies, the new Statute emphasizes promotion on a competitive, merit-determined basis, increases performance-based incentives, introduces new incentives for retirement, and establishes a new system for monitoring the performance of top-level officials. As a result of these changes, the number of political appointees in the public administration will drop from approximately 3,500 to around 400.

Public procurement: All public-sector purchases with a value of more than approximately US\$30 must be posted on the Web site www.chilecompra.cl, while purchases of goods and services for more than US\$40,000 must, except in specific cases, be channeled through public tenders²¹.

Fiscal transparency: The government has undertaken to implement all the laws and regulation required to fulfill international standards of fiscal transparency, incorporating IMF and OECD recommendations. In its recent Report on the Observance of Standards and Codes (ROSC), the IMF found that Chile has achieved a high level of transparency in many areas, and has been making rapid progress in closing the remaining gaps.

Transparency of election campaign and political party funding: As well as capping campaign spending, this law, which was approved by Congress in May, regulates private contributions to political parties, and guarantees the State's neutrality.

Modernization of the Anti-Monopoly Commission: Under a bill, currently before Congress, the present Anti-Monopoly Commission, staffed mostly by government appointees, will be replaced by an independent court, charged exclusively with ensuring free-market competition and resolving conflicts that arise in this field.

¹⁹ The agenda is known as: "Political-legislative agreement for the modernization of the State, transparency, and the promotion of growth."

²⁰ All the legal initiatives mentioned above were passed by Congress between May and September 2003, and are already in force.

²¹ As a result of Chile's free trade agreement with the US, public tenders will have to be called at least 40 days before the closing date, and be open to international contenders. The purchase of defense equipment is among the exceptions to this rule.

Together, these measures represent significant progress towards the modernization of Chile's public administration and, in the recent report by the International Monetary Fund, were recognized as an important step towards greater transparency²².

As indicated above, these measures were not taken with a view to increasing Chile's attractiveness as a destination for FDI. However, they will have a positive effect by creating an environment that is even more reliable and secure for investors.

For example, both local and overseas firms can now be sure that they will not be approached by political figures requesting special donations for election campaigns. In future, contributions will be made in a framework of complete transparency that will help to avoid abuse of power and the traffic of favors.

Moreover, the undertaking to advance towards the highest standards proposed by the OECD and the IMF will ensure that firms that do business in Chile, as well as investors in the country's sovereign bonds, have the widest possible access to information about Chile's fiscal accounts, thereby helping to reduce uncertainty levels.

V. New Challenges.

Following the legal and institutional improvements described above, Chile faces the challenge of ensuring that these changes are implemented successfully and deliver the anticipated results. This is not a negligible undertaking in that it requires the support of public officials, politicians and pressure groups, who must be harnessed behind this move towards even greater transparency.

In this context, debate about legislative and regulatory changes and, for example, the process of fixing charges for regulated public utilities, should give the affected parties an opportunity to express their views. This is an issue that the private sector has insistently raised, pointing out that the transparent management of these processes minimizes the risk of subsequent recourse to the courts as a way of settling differences in the interpretation of new laws or regulations.

Moreover, Chile's international integration means that transparency and accountability is not only a domestic imperative, but also a key part of Chile's relations with its trading and investment partners. And, in this sense, it is vital that the measure of their international importance is fully understood in Chile.

Some of these future challenges are already addressed by the modernization agenda described above, and the government has undertaken to present the corresponding proposals. These include:

- Regulation of lobbying. The government is currently working on the design of a bill that would regulate the way in which private interests are communicated to administrative and legislative officials, ensuring the transparency and independence of public decisions, while protecting the legitimate right of the country's citizens to defend their interests.
- Evaluation of public policies: The government is proposing to establish a permanent system to monitor the impact and costs of public policies, and the extent to which they deliver the anticipated results.
- Citizens' defense service: This new body would be responsible for investigating public complaints about central and local-government services, settling differences and, where

²²

See FMI (2003).

applicable, establishing compensation. This would replace the present system in which complaints are channeled through Congressional representatives or a variety of public offices.

- Access to information: Through a modification of the law on government probity, the government proposes to strengthen citizens' to require information from the public administration, and the duty of the State to provide this information.

Undoubtedly, the government's modernization agenda does not provide an exhaustive coverage of all the measures that can and should be taken to maximize transparency. However, it is a clear sign of the political will to achieve ongoing progress in this area, and of the value that Chile attaches to it.

The importance that Chile gives to transparency is totally in line with its strategy in the competitive FDI attraction "market". Having opted for the "beauty contest", it faces a permanent quest for new ways of improving the country's performance in these areas, and of differentiating itself from its competitors.

In this sense, there is a virtuous circle between the will to foster FDI and institutional improvement: openness to FDI demands sustained progress in the way a country's institutions work, and in their transparency. At the same time, increased transparency encourages the inflow of FDI.

Progress towards greater transparency is, above all, a duty to Chile's citizens. It helps to ensure improvements in the quality of public policies, which, in turn, increase the welfare of the country's inhabitants. However, experience seems to show that this is also an effective tool for attracting more and better FDI.

This is the road that Chile has chosen, and we are convinced that it is the road that will generate the greatest and most lasting benefits for our country's citizens.

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