

CEPAL

Review

Executive Secretary of ECLAC
Gert Rosenthal

Deputy Executive Secretary
Carlos Massad

Director of the Review
Aníbal Pinto

Technical Secretary
Eugenio Lahera



UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
SANTIAGO, CHILE, APRIL 1991

CEPAL

Review

Santiago, Chile

April 1991

Number 43

CONTENTS

Democracy and economics. <i>Gert Rosenthal</i> , Executive Secretary, ECLAC.	7
External events, domestic policies and structural adjustment. <i>Carlos Massad</i> .	11
Latin America and the new finance and trade flows. <i>Robert Devlin and Martine Guergil</i> .	23
The competitiveness of Latin American industry. <i>Gérard Fichet</i> .	51
Europe 92 and the Latin American economy. <i>Miguel Izam</i> .	67
The competitiveness of the small economies of the region. <i>Rudolf Buitelaar and Juan Alberto Fuentes</i> .	83
Transfer of technology: the case of the Chile Foundation. <i>Torben Huss</i> .	97
Debt conversion and territorial change. <i>Antonio Daher</i> .	117
The State and poverty in Costa Rica. <i>Marvin Taylor-Dormond</i> .	131
Prebisch and the relation between agriculture and industry. <i>Carlos Cattaneo</i> .	149
Celso Furtado: Doctor Honoris Causa. <i>Wilson Cano</i> .	165
Guidelines for contributors to <i>CEPAL Review</i> .	169

Debt conversion and territorial change

*Antonio Daher**

The external debt of Chile originated in various economic and social sectors and its territorial distribution was highly concentrated. The conversion of that external debt has involved a sectoral and regional reassignment of resources which has been reflected in marked territorial change. There is no direct correspondence between the economic and social geography of the debt on the one hand and that of the conversion process on the other.

In Chile, the trend towards greater economic openness in general and the conversion of the debt in particular have made possible greater —albeit uneven— integration of the regions of the country, as well as fuller integration into the international economy. At the same time, direct foreign investment and debt capitalization via Chapter XIX display substantial differences in sectoral additionality or substitution which are manifested in dissimilar regional behaviour within the overall process of territorial change.

* Professor and Researcher of the Institute of Urban Studies of the Catholic University of Chile.

This article is based on a presentation made at the Seminar/Discussion Workshop for Researchers and Planners of the Southern Cone, sponsored by the Uruguayan Centre for Information and Studies and the Inter-American Planning Society (Montevideo, November 1990). The author wishes to express his thanks for the valuable collaboration of the Central Bank of Chile and the assistance given by Cristóbal Crisosto of the Catholic University of Chile. This research project was sponsored by the Chilean National Fund for Science and Technology.

Introduction

At the beginning of the 1990s, Chile's external debt totalled US\$ 16 250 million, of which 74% corresponded to the public sector and the rest to the private sector. According to information from the Central Bank, in 1989 the debt was reduced by US\$ 1 388 million, making a total reduction since 1985 of US\$ 8 967 million.

An important mechanism in attaining this result was the conversion of the external debt. Although there are differences from one country to another, conversion generally involves the purchase by local residents or foreign investors of foreign-currency obligations of the debtor country at a certain rate of discount, for redenomination in local currency at a lower discount rate. If this operation is carried out by locally resident investors, it is equivalent to the repatriation of capital. The original debt is thus settled and the funds obtained can be used to acquire equity in local enterprises, increase expenditure on installations and equipment in existing enterprises, settle outstanding local currency liabilities, or any other authorized purpose (Lahera, 1987). These mechanisms for the prepayment of debts owed to the creditor banks operate essentially through the use of external debt promissory notes sold at a discount on the international secondary market, and also through the direct capitalization or conversion of bank loans into equity (Ffrench-Davis, 1989a).

The main means of debt conversion in Chile are those laid down in Chapters XVIII and XIX of the Compendium of International Exchange Regulations of the Central Bank of Chile. Of the total debt reduction registered between 1985 and 1989, 35.1% was due to the application of Chapter XIX and 28.2% to the use of Chapter XVIII. The percentage contribution of these two chapters to the overall reduction of the debt in 1989 was similar to their contribution in 1987 and 1988.

Chapter XVIII permits Chilean residents to purchase national debt abroad at a discount and convert it into local currency at prices freely negotiated between the new (Chilean) creditor and the debtor. For this purpose, Chilean residents can either use their own foreign exchange, repatriate funds from abroad, or purchase foreign exchange on the parallel market. Obviously, the local debtor will only carry out this transaction

if he obtains a discount for prepayment. Demand pressures on the parallel market are regulated through the Central Bank's auctions of foreign exchange quotas, which also serve to regulate the demand for and price of the debt promissory notes abroad. The Central Bank shares in the secondary market discount, since the auction price of the quotas is less than the nominal value of the converted debt (Fontaine, 1988).

Chapter XIX permits Chilean or foreign natural or legal persons residing and domiciled abroad to make investments in Chile through the purchase and use of external debt securities. The Central Bank is empowered to give them access to the foreign exchange market in order to remit the capital and profits generated by these investments to the exterior. The capital can only be remitted abroad ten years after effecting the investment, while the profits cannot be remitted before four years have elapsed, and as from the fifth year they can only be remitted in installments that do not exceed 25% of the accrued profits. The profits generated as from the fifth

year can be remitted abroad freely (Garcés, 1987).

According to information provided by the Central Bank, 332 operations under Chapter XIX had been approved up to January 1990. Of these, almost half came from four countries which accounted for almost 70% of the investments: United States (38.5%); United Kingdom (12.8%); New Zealand (11.6%), and Spain (6.6%). In contrast, two such important trading partners of Chile as Japan and the Federal Republic of Germany only contributed 1.3% and 0.6%, respectively. The share of the Latin American countries was noteworthy, however, since altogether they contributed nearly 4%.

An analysis of the investors by type shows that they consisted above all of transnational corporations and banks and investment companies. Thus, the first-named accounted for nearly 40% of the total investments authorized, while the latter accounted altogether for over 41%. At the other extreme, the share of mining, agricultural, fruit-growing and industrial companies together did not reach 10% (table 1).

Table 1
CHILE: INVESTMENTS AUTHORIZED UNDER CHAPTER XIX
UP TO 30 JUNE 1988, BY TYPE OF INVESTOR

Type of investor	Operations authorized	
	Amount (US\$)	% of total
Transnational corporations and companies associated with international groups	507 850 980	39.93
Banks	428 570 639	33.70
Investment companies ^a	95 243 584	7.49
Companies producing and marketing agricultural commodities and fruits	64 040 986	5.04
Entrepreneurs	43 644 193	3.43
Religious orders, welfare foundations and development corporations	39 863 818	3.10
Mining companies	35 900 006	2.82
Industrial companies	24 091 039	1.90
Miscellaneous	19 252 057	1.51
Multilateral bodies	7 500 000	0.59
Industrial and engineering services enterprises	5 820 340	0.46

Source: International Agencies Department, Central Bank of Chile (Montoya, 1988).

^a Multi-purpose companies with net worth of less than US\$ 50 million.

I

Sectoral evolution

The situation observed up to mid-1988 becomes clearer if we break down by sectors the figure for transnational corporations as a whole: three-quarters of that figure corresponds to companies in the industrial, forestry and fishery sectors, while the share of the mining sector continued to be extraordinarily low (table 2).

In principle, Chapter XIX did not provide for sectoral limitations or different treatment by sectors, and it permitted the acquisition of both public and private enterprises (Lahera, 1987).

If we provisionally accept the hypothesis that the sectoral destination of investments in Chile is likely to be similar to that of the sectoral specialization of foreign investors, this would make it possible to estimate the probable territorial orientation of such investments. An estimate on the

basis of tables 1 and 2 indicates that rather more than 40% of such investments would be located in the provinces and in rural areas, while the rest would be located in Metropolitan Santiago.¹ The estimate assumes an urban/metropolitan destination for tertiary sector activities and a regional and/or rural location for primary sector operations. In sectors such as industry, energy or transport, the sectoral/territorial identity is naturally more complex and probably more dubious in such global terms. Even so, it will be shown below that neither the initial hypothesis for this specu-

¹ Chile is divided into 12 regions, plus a Metropolitan Region. For the purposes of this study, the term "regions" refers only to the former.

Table 2
CHILE: TRANSNATIONAL CORPORATIONS AND COMPANIES
CONNECTED WITH INTERNATIONAL GROUPS,
BY TYPE OF ACTIVITIES

Sector or type of industry	Operations authorized	
	Amount (US\$)	% of total
Industry, forestry and fisheries	382 604 362	75.34
Marketing companies and trade in general	29 785 444	5.87
Energy sector	26 106 342	5.14
Informatics, communications and transport	17 821 395	3.51
Mining	15 000 000	2.95
Chemicals, pharmaceuticals and photography	12 541 965	2.47
Motor vehicles	8 000 000	1.58
Toiletries and similar	5 650 000	1.14
Soft drinks	5 349 692	1.05
Packaging	2 800 000	0.55
Engineering and construction	2 191 780	0.40
Total	507 850 980	100.0

Source: International Organizations Department, Central Bank of Chile (Montoya, 1988).

Table 3
CHILE: MAIN INVESTMENT OPERATIONS AUTHORIZED UNDER
CHAPTER XIX, AS AT 15 MARCH 1989

Date	Millions of dollars	Foreign investor	Country of origin	Local enterprise
20.07.88	173.9	Shell Overseas Invest. BV	Netherlands	Forestal Shell Ltda.
28.01.87	164.0	Carter Holt Harvey y Co.	Cook Islands	Carter Holt Harvey Ltda. Chile
07.01.87	68.0	Security Pacific National Bank and others	United States	Security Pacific Chile and others
20.07.88	64.9	Scott Worldwide Inc.	United States	Scott Worldwide Chile y Cia. Ltda.
11.11.87	61.6	Fletcher Chal. Chilean Inc. Ltd.	Cayman Islands	Tasman Forestal S.A.
26.08.87	59.3	Fletcher Chal. Chilean Inc. Ltd.	Cayman Islands	Tasman Forestal S.A.
02.12.87	59.0	Carter Holt Harvey	Cook Islands	Carter Holt Harvey Ltda. Chile
18.01.89	53.0	Santiago de Chile Hotel Co.	Panama	Hotel Corporation of Chile S.A.
22.12.86	48.6	Banesto Banking Corp.	United States	Cia. Industrial S.A.
08.01.86	46.3	B.T. (Pacific) Ltda. and others	United States	B.T. (Pacific) Ltda. y Cia.
20.07.88	46.0	La Serena (Chile) Invest. Ltd.	Bahamas	Inv. La Serena Ltda.
09.12.87	30.0	Lao Minerals Inc.	United States	Minera Lao Chile S.A.
27.01.88	26.3	Citi Fishing Inv. Chile Ltda. and another	Bahamas	Inv. Citibosques Ltda. and another.
09.11.88	25.0	Pacific Telephone Holdings and another	United States	Inv. Telefónicas Ltda. and others
12.05.89	23.3	Nippon Suisan Kaisha Ltd.	Japan	Direct Investment in Salmenes Antártica
15.03.89	22.3	Spie Batignolles S.A.	France	Valle Nevado S.A.
23.11.88	21.2	Agroindustrial Development	United Kingdom	Agro Industrial Investment, Chile
13.07.88	20.1	Select Andean Holdings	United States	Inv. Selecta Ltda.
21.09.88	20.0	Corp. Mapire Cia. Intl. De R.	Spain	Mapfre Chile S.A.
Subtotal	1 032.8	(49.88%)	19 operations	
Total	2 070.4	(100.00%)	246 operations	

Source: Prepared by the author on the basis of LATINFINANCE, 1989.

lation nor its territorial implications are in line with reality.

It is therefore necessary to review the facts. As at October 1986, more than 40% of the operations carried out involved pension funds and

insurance companies, located above all in the capital. Between 1986 and 1987, of the 46 main transfers of ownership under Chapter XIX, 48.8% concerned private enterprises, 19.5% public enterprises, 17.4% banks, and 8.7% insurance com-

Table 4
CHILE: CUMULATIVE PERCENTAGE SECTORAL DISTRIBUTION
OF INVESTMENT UNDER CHAPTER XIX

Sectors	As at October 1986	As at May 1987	As at December 1987	As at August 1988	As at March 1989	As at December 1989
Agriculture	3.9	9.2	9.5	10.8	27.7	9.3
Forestry			16.8	16.9		11.2
Fisheries	5.8	2.3	7.9	6.7		4.2
Mining	1.5	0.8	5.0	8.7	9.0	11.2
Primary commodities	11.2	12.3	39.2	43.1	36.7	35.9
Manufacturing	16.4	17.3	15.2	23.0	34.4	37.9
Services ^a	51.4	25.5	22.8	28.4	22.9	20.2
Others ^b	21.0	44.9	22.8	5.5	6.0	6.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
Millions of dollars	188.3	483.6	954.4	1 226.1	2 008.9 ^c	3 069.4

Source: First column: Lahera, 1987. Second column: Errázuriz, 1987. Third column: Elortegui, 1988. Fourth column: Montoya, 1988. Fifth column: LATINFINANCE, 1989. Sixth column: Central Bank of Chile.

^a Financial services, insurance and business services; community, social and personal services; other services; and commerce.

^b Transport and communications; electricity, water supply, etc.; public utilities; and miscellaneous: multi-sectoral enterprises or conglomerates.

^c Amount more than authorized values.

panies and mutual funds, with a similar percentage for pension funds. This means that 68.3% concerned non-financial public and private enterprises, and in 26 of the 46 operations, 50% or more of the equity was transferred (Errázuriz, 1987).

Of the ten biggest conversion operations under Chapter XIX up to September 1988, the five biggest concerned the forestry or forest industry sector (one transaction being associated also with the mining sector), three more concerned banks, one was in the mining sector, and one in the fishery sector (ECLAC/CTC, 1989). The regional implications of this are certainly clear and overwhelming, in view of the predominance of the primary sectors and industries associated with them. It is obvious that the main factor behind this geographical deconcentration of investments is the orientation towards external markets, since all seven non-banking operations belong to the export sector. Thus, natural resources are displacing the externalities and domestic markets typical of metropolitan areas as a factor in location.

As at March 1989, authorized investments

equal to or greater than US\$ 20 million (only 19 out of a total of 246) accounted for half of the authorized capital (table 3).

Analysis of the way the sectoral destination of conversions under Chapter XIX has evolved offers conclusions which are important both from the economic and the territorial point of view. Although the figures for different years and sources show differing levels of aggregation, especially in the "Others" category (table 4), it is possible to identify some clear tendencies which are confirmed with greater precision from 1988 onwards.

Thus, the primary sectors displayed a growing relative share up to August 1988, when they amounted to more than 43%, subsequently declining to around 36% at the end of 1989. Similar behaviour was observed in agriculture and forestry, with the evolution being somewhat more erratic in the fishery sector. In mining, in contrast, there is a sustained upward trend from minimum levels close to 1% in the early years to 11.2% at the end of 1989. It should be noted, however, that this figure is still rather low in view of the importance of this sector in the country,

contrasting with the higher figures registered for agricultural and forestry activities. An explanation for this fact is given below.

On the other hand, the growing and highly significant share of industry as a destination for debt conversion funds is worthy of note (table 4). From a level of around 16% in 1986-1987, this sector accounted for almost 38% of investments at the end of the 1980s, thus more than doubling its original share and —what is even more telling— standing out as the main sector attracting capital. In December 1989, the indus-

trial sector alone exceeded all the primary sectors together.

Finally, services —which initially attracted the bulk of investments, especially in the financial sector— showed an uneven downward trend, sinking from over 50% in 1986 to 28% in 1988 and around 20% in 1989. This behaviour certainly confirms the growing share, in both absolute and relative terms, of the primary and secondary goods-producing sectors, which together accounted for three-quarters of the cumulative investments at the end of the decade.

II

Territorial change

The foregoing indicates a marked tendency towards territorial deconcentration, with the regions and rural areas clearly predominating over the capital, which was previously the centre of attraction. This assertion is based not only on the share of the primary sectors, which are geographically oriented towards places where there are natural resources, but especially on the similar orientation shown by the industrial export

sector, which, in contrast with the old substitution pattern, now pays little or no heed to the attractions of big concentrations of population.

Indeed, the urban-regional pattern was practically reversed in the three-year period 1986-1989. Whereas in 1986 the metropolitan area attracted around three-quarters of the total investments, in the last year of this period it was the regions which accounted for at least two-

Table 5
CHILE: INVESTMENTS IN MANUFACTURING UNDER CHAPTER XIX

	% at 1 August 1988	% at 31 December 1989
Foodstuffs	5.76	7.30
Textiles, leather and footwear	3.37	2.00
Wood and furniture	3.24	2.26
Paper, printing and publishing	7.18	22.34
Chemicals, plastic and pharmaceutical products	1.40	2.69
Ceramics, glass and non-metallic minerals	0.32	0.13
Basic metal industries, metal products and machinery	1.22	0.64
Other manufactures	0.45	0.22
Manufacturing	22.95	37.86
Others	77.05	62.14
TOTAL	100.00	100.00
Manufacturing (millions of dollars)	281.4	1 162.0
Total (millions of dollars)	1 226.1	3 069.4

Source: First column: Central Bank of Chile (Montoya, 1988). Second column: Central Bank of Chile.

thirds of the total capital investment. In absolute terms, this means that over US\$ 2 billion has gone to the regions in only three years.

This raises the question of whether this debt conversion is not also a veritable geographical conversion.

Defining the above conclusions more accurately involves making a more disaggregated analysis of the manufacturing sector, which, as already noted, led the investment options under Chapter xix.

Table 5 indicates that in 1988 nearly one-third of all manufacturing was concentrated in paper production. If we add to the figure of 7.18% corresponding to that sector the 3.24% corresponding to the lumber industry, it may be concluded that almost half of all manufacturing is connected with the forestry sector, which has clear regional implications in Chile. If, in addition, we assume that 50% of investments in the chemical industry and in foodstuffs are located in the regions, it may be concluded that, even if we assume that all the other branches were located in urban or metropolitan areas, over 60% of the manufacturing investments made under Chapter xix are in the regions.

By the end of 1989, the manufacturing sector as a whole had sharply increased its relative share (almost 15 percentage points), especially in the industrial branches already mentioned (paper, foodstuffs and chemicals), although its share had gone down in the lumber industry. If we carry out the preceding calculation once again, it may be concluded this time that nearly 80% of the manufacturing financed under Chapter xix was established outside the Metropolitan Region.

This figure is particularly significant, regardless of its possible upward or downward fluctuations according to the assumptions adopted. The resulting variations would in no case affect the general order of magnitude of this geographical deconcentration of industry: a sector traditionally identified with urbanization and metropolitanization.

But it is not only the primary sectors which have geographically relocated their resources: the industrial activities associated with them have also done so. Together, they upset and even reverse the tendencies towards territorial concentration.

Up to now, the analysis has been based on a

certain sectoral/territorial correspondence or identity: a necessary approach in view of the lack of information on the location of investments. For the same reason, although the conclusions are significant they are still too broad because they are limited to the regional/metropolitan dichotomy. This duality could conceal some important disparities between the regions, in view of their heterogeneous natural resource endowments and comparative advantages.

Table 6, which shows the regional distribution of investments under Chapter xix as at 1 March 1990, permits more specific conclusions to be drawn regarding the above-mentioned process of geographical desconcentration. It also makes it possible to verify the hypothetical results put forward (originating from the territorial derivation of sectoral information available for previous years).

To begin with, table 6 reveals that 72.15% of the investments under Chapter xix did not go to the Metropolitan Region, but to the rest of the country. The Metropolitan Region (plus the investments denominated H0 in the table) accounted for only 27.85%: a relatively low figure in view of the economic and demographic importance of this area, which contains 40% of the country's population and generates 40% of the national product.

This low rate of attraction of investments is even more surprising in view of the fact that the Metropolitan Region is particularly rich in natural resources and its export fruit-growing activities and mining sector are of national significance.

Outstanding among the other regions of the country is the Eighth Region (Bío-Bío), with nearly 17% of all the Chapter xix investments in the whole country, equivalent to 60% of the total such investments in the Metropolitan Region. Although the Eighth Region is the second most heavily populated in the country and has a highly diversified economic base, its high rate of attraction of investments is explained fundamentally by the forestry sector and associated industries, in which this region occupies a leading place.

The most unusual case, however, is undoubtedly that of the Ninth Region (Araucanía): in spite of its lower economic dynamism in the national context, its high levels of extreme poverty, its limited economic diversity and its lower levels

Table 6
CHILE: DISTRIBUTION OF INVESTMENT UNDER CHAPTER XIX,
BY REGIONS, AS AT 1 MARCH 1990

Region	Investment (dollars)	% of total	N° of projects	% of total
I	38 694 592	1.23	1	0.30
II	201 729 272	6.40	4	1.20
III	14 318 138	0.45	3	0.90
IV	116 629 963	3.70	6	1.81
V	35 903 855	1.14	8	2.41
VI	36 949 729	1.17	15	4.52
VII	65 792 011	2.09	12	3.61
VIII	535 052 374	16.99	8	2.41
IX	452 786 633	14.38	7	2.11
X	88 721 960	2.82	18	5.42
XI	30 000 000	0.95	19	5.72
XII	9 346 886	0.30	18	5.42
HO ^a	34 153 569	1.08	23	6.93
H1 ^b	646 441 143	20.52	52	15.66
RM ^c	843 106 825	26.77	138	41.57
Total	3 149 626 949	100.0	332	100.0

Source: Prepared by the Central Bank of Chile at the author's request.

^a Corresponds to investments located directly or indirectly in enterprises which, while operating throughout the country, carry out most of their activities in the Metropolitan Region: e.g., banks, insurance companies, etc.

^b Corresponds to investments in enterprises which operate throughout the country but whose sales and income are mostly generated outside the Metropolitan Region: e.g., fruit exporters, diversified conglomerates such as COPEC, CAP, INDUS etc.

^c Metropolitan Region.

of modernization, this region accounts for over 14% of the Chapter XIX investments. Once again, this high percentage is explained by the forestry sector and associated industries. The Eighth and Ninth Regions have attracted the equivalent of the total investment for the forestry sector, plus that for the paper industry.

Together, the Eighth and Ninth Regions account for almost a third of the entire national investment under Chapter XIX and they surpass the Metropolitan Region itself in this respect.

In an intermediate position are the Second Region (Antofagasta) and the Fourth Region (Coquimbo), both areas in which mining activities predominate, which absorbed a total of over 10% of the Chapter XIX investments in the country.

The remaining eight regions attracted only about 10% of the national total. Leaving aside the contribution of the Seventh and Tenth Regions, which are relatively important in the forestry sector and also in the fisheries sector in the

case of the latter, the remaining six regions (I, III, V, VI, XI and XII) only attracted 5.24% of the total.

A noteworthy feature is the particularly low levels of attraction of investment of the Fifth and Sixth Regions (Valparaíso and O'Higgins) respectively. Both these regions are of major importance with regard to fruit growing and mining production for export, the first-named of these regions being also the site of the country's leading port and of one of the three biggest population centres in the country. Even so, the two regions together only account for 2.3% of total investment.

On the basis of an analysis by macro-regional aggregates taking account of economic affinity and geographical continuity, it may be concluded that the First to Fourth Regions account for 11.78% of the total resources invested under Chapter XIX: a figure in line with the sectoral total for mining, which is the main activity in this area. The Fifth, Metropolitan and Sixth Regions,

which together make up the capital macro-region, received 30.16%. The regions in the forestry area (the Seventh to the Tenth Regions) absorbed 36.28%, which is a value in line with the forestry sector and associated industries. Finally, the Eleventh and Twelfth Regions only attracted a total of 1.25%.

It should be borne in mind that these proportions do not take account of the important national quintile for which no regional orientation is specified (H1 in table 6). The information on the enterprises grouped together in the category gives grounds for assuming that it is highly

probable that the 20% that corresponds to them will primarily go to swell the percentages of, primarily, the forestry regions, and also the agricultural export regions, although the investments are usually of a much lower level in the latter case.

A dual general conclusion may be drawn from this: in the investments under Chapter XIX there is strong deconcentration towards the regions at the expense of the metropolitan pole, and marked heterogeneity among those regions. Both these phenomena are linked with the sectoral specialization of those investments.

III

Analysis of the investments made through debt conversion and under the regular legislation (Decree-Law 600)

The question arises as to whether the specialization described in the preceding section is exclusively a feature of the external investment which enters the country in this way, or whether it corresponds to the general behaviour of foreign capital in Chile. In other words: are there different sectoral preferences in foreign investments depending on the legislation under which those investments are made?

This question is very pertinent, because if capital investments under the debt conversion legislation (Chapter XIX) do not go to the same sectors as investments made under the general legislation (Decree-Law 600), then their territorial destination and effect will also be different.

This question is also pertinent because it is often objected that Chapter XIX attracts investments which may take the place of external investments that could have been made under Decree-Law 600, rather than adding to them. Although this point has been raised only in quantitative and global terms, it would be very interesting to know the answer to this by sectors, and this could be very useful for the possible adjustment of the relevant regulations.

As may be seen from table 7, external investment fell off sharply in the early 1980s as a result of the crisis. The year 1985, however, marked a turning point after which this trend was reversed and there was an increase in investment through

Table 7
CHILE: FOREIGN INVESTMENT ACTUALLY EFFECTED IN 1982-1989
(Millions of dollars of each year)

	1982	1983	1984	1985	1986	1987	1988	1989 ^a	Total
Decree-Law 600	384	183	160	138	184	497	787	667	3 000
Chapter XIX	-	-	-	32 ^b	214	707	886	952	2 791
Total	384	183	160	170	398	1 204	1 673	1 619	5 791

Source: Department of Studies, Sociedad de Fomento Fabril (Chamber of Industrial Development).

^a Figures up to 31 October (provisional).

^b Second half of year only (beginning in July).

Table 8
CHILE: SECTORAL DISTRIBUTION OF FOREIGN INVESTMENT
UNDER DECREE-LAW 600, 1982-1989

Sector	1982	1985	1989 ^a	Total 1982-1989
Services	50.8	23.9	14.4	30.0
Manufacturing	21.3	18.1	11.7	23.7
Mining	18.5	39.8	72.6	41.9
Agriculture	1.8	17.4	0.9	1.9
Forestry	—	—	—	0.1
Fisheries	3.9	0.7	0.0	1.1
Others ^b	3.7	—	0.4	1.3
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Millions of dollars	384	138	667	3 000

Source: Department of Studies, Sociedad de Fomento Fabril.

^a Up to 31 October. Provisional figures.

^b Construction and transport.

Table 9
CHILE: SECTORAL DISTRIBUTION OF CUMULATIVE FOREIGN
INVESTMENT EFFECTED BETWEEN 1985 AND 1989 UNDER
DECREE-LAW 600 AND CHAPTER XIX
(Millions of dollars)

Sector	D.L. 600 ^a	Chapter XIX ^b	Total	% of total
Services	660	619 ^c	1 279	23.9
Manufacturing	479	1 162	1 641	30.7
Mining	1 082	344	1 426	26.7
Agriculture	35	285	320	6.0
Forestry	—	343	343	6.4
Fisheries	5	128	133	2.5
Others ^d	12	188	200	3.7
<i>Total</i>	<i>2 273</i>	<i>3 069</i>	<i>5 342</i>	<i>100.0</i>

Source: Decree-Law 600: Department of Studies, Sociedad de Fomento Fabril; Chapter XIX: Central Bank of Chile.

^a Decree-Law 600: January 1985 to 31 October 1989.

^b Chapter XIX: July 1985 to 31 December 1989.

^c Financial sector, insurance and business services (US\$ 317.5 million); social, community and personal services (US\$ 90.8 million); commerce (US\$ 210.5 million).

^d Construction, electricity, water supply, etc.; transport and communications.

both these channels. Investment under Chapter XIX registers similar percentages between 1986 and 1989, fluctuating between 53.8% and 58.8% of the total of US\$ 5 064 million which entered the country between 1985 and 1989. Since this is a very considerable amount, it is important to stress its relative stability.

In the period 1982-1989, three sectors accounted for over 95% of the total investments under Decree-Law 600 (table 8). The most out-

standing of these was the mining sector, with over 40%, although its rate of actual materialization was relatively low. Second came the services sector, with a hefty 30%, and after this, industry, with nearly 24%. The remaining sectors barely exceeded 4%.

A surprising feature is the scanty 3.1% registered by agriculture, forestry and fisheries together, even though these are very dynamic sectors which occupy a leading place in exports.

If we compare the sectoral distribution for the various years, a notable feature is the sharp drop in the share of services, from over half in 1982 to less than 15% in 1989. This trend is similar to that registered by the same sector with regard to investment under Chapter XIX (table 4).

Industry, on the other hand—in contrast with what happened in the debt conversion process (where it more than doubled its share to reach the first place among all the sectors)—displayed a downward trend with regard to investments under Decree-Law 600, declining in 1989 to almost half of the percentage which it registered in 1982. This inverse performance would appear to indicate that, for this sector, investments under Chapter XIX have indeed taken the place of investments under the general legislation.

A similar conclusion may be reached with regard to agriculture, whose share increased strongly in 1985 (to over 17%), only to drop to less than 1% in 1989. Once again, the fisheries sector displays an atypical performance.

Just as significant as the total absence of the forestry sector in investments under Decree-Law 600 is the high and growing figure registered by the mining sector. Here, once again, it would appear that there has been a switch of investments between the two sets of regulations. Thus, it may be recalled that the forestry sector is very prominent in Chapter XIX investments, whereas mining attracted a smaller, although growing, proportion of investments under that investment law.

From the territorial point of view (on the basis of a similar calculation to that made in respect of Chapter XIX), Decree-Law 600 also shows a type of evolution which is increasingly in the direction of greater deconcentration. In 1982, less than 40% of direct investment was effected outside the metropolitan centre, but in 1985 the situation was reversed, since the regions attracted almost 70% of such investment, and by 1989 they absorbed over 80%. The mining sector played a decisive role in these figures.

Table 9 shows the sectoral behaviour of cumulative foreign investment between 1985 and 1989 and makes possible a comparative analysis (sectoral and territorial) between investments under Chapter XIX and those under Decree-Law

600, for the entire period during which these two mechanisms operated together.

It may be noted from table 9 that three sectors (industry, mining and services) accounted for more than 80% of foreign investment over the five-year period. The leading role played by the industrial sector among economic activities as a whole is worthy of note. These figures also confirm, in spite of the trends towards greater diversification, the importance of the mining sector, which occupies a prominent second place. Although the non-traditional export sectors (agriculture, forestry and fisheries) only accounted for less than 15% altogether, it should not be forgotten that much of the figure for industry is associated with them.

Between 60 and 66% of total foreign investment over these five years went to the regions, depending on whether 60% or 80% of industry is given this geographical orientation. It is clear that Chapter XIX alone is responsible for a greater regional trend in the distribution of investment than Decree-Law 600, particularly because of the greater relative weight of services in the latter.

Even so, between 1985 and 1989 an average of almost US\$ 700 million per year went outside the metropolis solely under the heading of external investment. This figure is of course much greater than the total investments of the National Regional Development Fund.

Table 10 provides important conclusions on the additionality between the various investment instruments.

Table 10
CHILE: SECTORAL SPECIALIZATION OF
INVESTMENT UNDER DECREE-LAW 600 AND
CHAPTER XIX, 1985-1989

Sectors	Decree-Law 600	Chapter XIX	Total
Services	51.6	48.4	100.0
Manufacturing	29.2	70.8	100.0
Mining	75.9	24.1	100.0
Agriculture	10.9	89.1	100.0
Forestry	—	100.0	100.0
Fisheries	3.8	96.2	100.0
Others	6.0	94.0	100.0
Total	42.5	57.5	100.0

Source: Table 9.

Mining is the only sector which clearly predominates in the investments under Decree-Law 600. In contrast, the investments under Chapter XIX cover 100% of the forestry investments and also account for very high percentages in fisheries, agriculture, industry and other sectors. In the services sector both mechanisms are more or less level, which is interesting in view of the special features of this sector.

The above sectoral specialization is an important item of background information both

for the trend projection of foreign investments and for the adjustment of the relevant legislation.

Various criticisms have been levelled at Chapter XIX in the national context. A recent amendment to this law incorporated the most important of these criticisms, but the very fact that Chapter XIX has been retained confirms its validity as a debt/equity conversion instrument. The amendments will not be without a certain impact in territorial terms, however.

IV

Conclusion

As a general conclusion, it may be stated that debt conversion has also resulted in veritable territorial conversion. Even under the hypothesis of zero fresh investment, the debt conversion involves a marked sectoral and regional reassignment of resources.

In spite of the big differences observed between the various regions of the country, the

overall process undoubtedly represents a significant departure from traditional trends. Ultimately, the causes of this change are, it is true, to be found in the general change which has taken place in the Chilean economy. Nevertheless, the debt (which greatly hastened this change) and its subsequent conversion contributed significantly to the adjustment which set off this regional revolution.

Bibliography

- Bulow, Jeremy and Kenneth Rogoff (1988), The buyback boondoggle: comments and discussion, William C. Brainard and George L. Perry (eds.), *Brookings Papers on Economic Activity*, No. 2, Washington, D.C.: The Brookings Institution.
- CTC (United Nations Centre on Transnational Corporations) (1988), *Transnational Corporations in World Development: Trends and Prospects* (ST/CTC/89), New York. United Nations publication, Sales No.: E.88.II.A.7.
- Daher, A. (1989), "Ajuste económico y ajuste territorial en Chile", paper presented at the seminar on Consecuencias Regionales de la Reestructuración de los Mercados Mundiales (Regional consequences of the restructuring of world markets), Buenos Aires, Centre for Urban and Regional Studies, F. Ebert Foundation.
- "El Mercurio" (1990): Issue of 3 February, section B1. Santiago, Chile.
- Elortegui, C. (1988), "Endeudamiento interno y conversión de deuda en la economía chilena", Valparaíso, Chile, Ediciones Universitarias de Valparaíso.
- Errázuriz, E. (1987), "Capitalización de la deuda externa y desnacionalización de la economía chilena" (Capitalization of the external debt and denationalization of the Chilean economy), Documento de trabajo No. 57, Santiago, Chile, Academia de Humanismo Cristiano, Programme on the Economy of Labour (PET), August.
- Ffrench-Davis, R. (1989a), El conflicto entre la deuda y el crecimiento en Chile: tendencias y perspectivas, *Colección Estudios CIEPLAN*, No. 26, Santiago, Chile, Corporación de Investigaciones Económicas para Latinoamérica (CIEPLAN), June.
- (1989b), Debt-equity swaps in Chile, *Cambridge Journal of Economics*, No. 1, vol. 14, London, Cambridge Political Economy Society Limited, Academic Press, March.
- Fontaine, J.A. (1988), Los mecanismos de conversión de deuda en Chile, *Estudios Públicos*, No. 30, Santiago, Chile, Centro de Estudios Públicos, second quarter.
- Garcés, F. (1987), Comentarios sobre conversiones de deuda en Chile, *Boletín Mensual*, No. 710, vol. 60, Santiago, Chile, Banco Central de Chile, April.
- GEMINES (Gestión de Empresas, Inversiones y Estudios) (1987), *Análisis de la coyuntura económica*, Informe Gémines, No. 84, Santiago, Chile, September.
- Hilton, A. (1987), "Debt-equity swaps. Costs, benefits and prospects", London, Financial Times Business Information.
- Joint ECLAC/CTC Unit on Transnational Corporations (1989), "Debt/equity conversion programmes: guidelines for debtors", Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), mimeo.
- Lahera, E. (1987), The conversion of foreign debt viewed from Latin America, *CEPAL Review*, No. 32 (I.C.G. 1473), Santiago, Chile, August.
- Latinfinance (1989), *Latinfinance*, No. 8. Euromoney Publications.
- Massad, C. (1986), Alleviation of the debt burden: historical experience and present need, *CEPAL Review*, No. 30 (I.C.G. 1441), Santiago, Chile, December.
- Montoya, I. (1988), "Disposiciones sobre conversión de deuda externa en Chile. Principales características y resultados", paper presented at the twenty-fifth annual meeting of Central Bank technicians of the Americas, Washington, D.C.
- Nair, G. and M. Frazier (1987), Debt-equity conversion and privatization, *Economic Impact*, No. 60, Washington, D.C., United States Information Agency.
- Reveco, J.M. (1988), Deuda externa y capitalización: análisis de la normativa de conversión, *Documento de Trabajo*, No. 15, V anexo, Santiago, Chile, Programa Regional de Investigaciones Económicas y Sociales del Cono Sur.
- Roberts, D. and E. Remolona (1987), Debt-swaps: a technique in developing country finance, *Finance for Developing Countries*, New York, Group of Thirty.
- Rubin, S. (1987), "Guide to debt-equity swaps", *The Economist*, Special Report No. 1104, London, The Economist Publications, September.
- Spieles, W. (1987), Indebtedness, debt-equity swaps and the heavily indebted countries, *Intereconomics*, vol. 22, No. 3, Hamburg, Federal Republic of Germany, Verlag Weltarchiv GmbH, May-June.