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Guest Author

## **Analysis: Foreign Debt, Foreign Profit Repatriation Sinking Chilean Economy**

*by Guest*

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Appearing below are excerpts from an article titled, "Chile's Economy An 'Iffy' Proposition," by Canadian journalist Joan MacNeil. The article was distributed by the Chile Information Project (Vicaria of Solidarity, Santiago, Chile), in its December 1989 news analysis.]

In 1991, \$1.5 to \$2 billion in interest on foreign debt come due, in addition to \$2 billion in principal payments. Next, in recent years, foreign profit repatriation has exceeded foreign investment. Patricio Rosas, economist with the Centro de Asesoría Laboral (CEDAL), estimates a total outflow of \$4.35 billion in debt payments and profit repatriation in 1991, equivalent to 25% of Chile's GDP. He said that without a substantial increase in foreign investment and a major debt reduction, the Chilean economy will again be plunged into recession. Rosas argues that the net capital outflow is the long-term effect of the massive privatizations that were an integral part of the military regime's neo-liberal economic policies.

In many cases, privatizations were accomplished without any investment of the part of the private sector, foreign or domestic. The government simply declared that its share in a particular public enterprise was being reduced, and the private sector share of control and profits was increased accordingly. Government officials were often shareholders in these enterprises and so had their net own worth increased enormously. In other cases, state companies were sold at a fraction of their market value.

New owners reaped sufficient profits in their first year of ownership to pay for the out of pocket cost of acquiring the business. Privatizations took place in several stages. Between the September 1973 coup and year-end 1984, over 350 government enterprises were transferred to the private sector. In the second phase, 1975-1982, roughly 135 state enterprises and 16 banks were privatized.

In 1982, the private sector in Chile collapsed, and the government was obliged to re-absorb some enterprises. In 1984, the privatizations commenced again in earnest, this time mostly to foreign owners or Chilean companies with strong ties to foreign corporations.

Most of Chile's largest corporations have been privatized: Empresa de Telecomunicaciones (ENTEL); Compañía Aceros del Pacífico (CAP), a group of companies dominating steel production, sold to Swiss buyers; Compañía de Teléfonos de Chile (CTC); the profitable branches of Chilectra, the country's electricity distributor; ENDESA, the national electricity company; Laboratorios Chile, a pharmaceutical company; Sociedad Química de Chile (SOQUIMICH); Industria Azucarera Nacional, a national sugar company; and the state-owned carbon and lithium mines. Military and government employees were permitted to be shareholders in these companies, and were often allowed to purchase their shares in the state companies at artificially low prices.

Thus many realized huge personal profits when the companies were sold to foreign owners. Over 60% of the members of the Armed Forces have shares in the newly privatized companies, prompting opposition economist Sergio Bitar to ask "are the Armed Forces planning to become multinational corporations themselves?" Endesa, for example, is now 21% owned by the military, and the CTC, 6%.

According to Rosas, this process has greatly increased wealth inequality, and foreign ownership and control of the national economy. Several major US companies have participated in Chilean privatizations: Citibank, Bankers Trust, Midland Bank, Manufacturer's Hanover Bank, and Chase Manhattan. In 1988, US companies accounted for 48% of foreign investment in Chile. Rosas estimates that the actual level of US corporate involvement is higher, closer to 65%, due to the "domociling" of many US corporations, such as Citibank and Justin Inc., in countries such as the Cayman Islands and the Bahamas. South Africa has major direct investments in Chile as well, and indirect investments run through Panamanian holding companies.

The privatizations have also encompassed services usually considered government responsibilities in capitalist nations, such as health, education and pension programs. For instance, at present 80% of the salaried labor force is required to contribute to private rather than public pension funds. The regime has virtually eliminated employer contributions to pension plans. About 65% of Chile's pension funds are currently held by three large North American insurance companies: Bankers Trust, AETNA and American International Group. At present, they control \$4 billion (18% of Chile's GDP). By the end of the decade, the three companies will administer Chilean funds equivalent to 50% of Chile's total GDP, or 80% of domestic savings.

Thus far foreign companies' profits from privatized companies have been invested in Chile, but in 1991, the five-year waiting period on profit repatriation expires. Rosas said, "Chileans are going to be financing American economic expansion, when we are in urgent need of those funds for capital investment in our own country." The table below summarizes the magnitude of the profit repatriation problem. Direct foreign Profit repatriation Net flow investment (US \$ million) 1982 384 129 255 1983 133 136 - 3 1984 77 113 - 46 1985 62 155 - 93 1986 57 168 - 111 1987 97 214 - 117 1988 117 303 - 186 1991 ? 1,050 - ? Source: CEDAL A final economic legacy of the regime is the erosion of Chile's tax base. The military regime eliminated or severely reduced many taxes common to western democracies, such as the corporate income tax and consumption taxes on alcohol. Personal income taxes for the wealthiest segment of the population are very low.

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