



CHILEDAY

London 29 - 30 June 2017

Alfredo Ergas
InBest Chairman

- InBest: commitment to develop an econometric study that would technically reflect the results and benefits of converting Chile into a financial hub.
- Results: positive and realistic benefits of working as a country in developing Chile as a financial hub.

"CHILE AS A PROVIDER OF FINANCIAL SERVICES FOR THE REGION"

Will be posted on InBest's website.

- We would like to further develop this study, and the ideas behind it.
- It is with this objective that we seek the support of professionals, think tanks, universities and other market players in order to improve and complement it.
- In the last quarter of 2017 we will invite people to attend a meeting to discuss how to perfect this project.

The meeting will result in the completion of a document which we want to deliver to the person responsible for economics for each Presidential candidate this year. Our idea is to offer a road map of why it is a good idea for Chile to be a financial hub.

The board of Directors of InBest is very enthusiastic about sharing some of the ideas to come out of this paper:

CHILE AS A PROVIDER OF FINANCIAL SERVICES FOR THE REGION

5 KEY IDEAS AND AN ACTION PLAN

#1 The world is our market

1. Chile since the '70s: its structure of economic development in the export model:

- Differences with other countries in the region and their internal development models (Brazil, Argentina).
- A model with a wide consensus among the country.

2. And we have done well with it...

- International commerce (real imports and exports) represent almost 100% of the real GDP.
- Free trade agreements with countries whose combined GDP represents approximately 85% of global GDP.

3. Notwithstanding, initial comparative advantages seem to have already been exploited: Mediterranean climate (fruit and wine); cold seawater (salmon); mineral seams (copper).

#2 A Second Generation Export Model:

1. Chile's economic/political development: generated new competitive advantages:
 - Macroeconomic institutionalization: monetary policy, exchange-rates, and fiscal policies, regulatory powers and the development of financial markets (ongoing process).
 - Rule of law. Independent branches of government.
 - Physical infrastructure: superior to the rest of the region.
2. Services exporters: the upside is that it has bigger potential BUT, its development is still lower than that of exports of goods.
3. So the question is: **how can we increase value added GDP? (Services show larger increases in TFP than extractive industries and manufacturing, correlation between development of financial services and growth). Development of the financial markets (ongoing process).**

#3 The World of Financial Services: A Realistic Alternative

1. Export of services with high potential: transport and port services, telecommunications, logistics, health, tourism, etc.
2. ALSO: sector for provision of financial services sector for non-residents, based on the experiences of others, is the initial key to advancing on the path of internationalization.
 - Internal critical mass (account deposits/GDP of 90%), assets held by institutional investors in excess of 110% GDP, domestic debt market, insurance market, stock market).
 - Financial infrastructure and regulatory framework following international standards (FSAP IMF, IOSCO, BIS).

But the region (Hispanic Latam, excluding Mexico), considering its size, doesn't need more than one international financial centre.

#4 Evidence suggests that the process is achievable

1. What has been happening in the world: the development of three types of financial centre:

- Obvious geographical conditions (foreign trade).
- Political decision and leanings of the party elected by the state.
- External factors taken advantage of before possible competitors.

2. In all cases, there are common denominators (Dublin, Hong Kong, London, Luxembourg, Singapore, Zurich).

- Political decisions that generate administrative and legal changes, and a long-term commitment beyond the current political cycle.
- Public-private partnership (often institutionalized) for the continual betterment of regulatory and market processes.
- Sense of urgency: exploit (or create) advantages quickly.

#5 If Chile progresses, the profits are of importance to everyone

1. Results of the study: we estimate macroeconomic effects, the development of the financial sector with a focus on exporting:
 - Through a general equilibrium model, the conditions of the country's economic structure were replicated.
 - A shock on exports and the cost of financing was applied in order to compare the effects with respect to the initial equilibrium.
2. Data shows that for the period considered (up to 5 years after a single shock) the effects are:
 - Creation of approx. US\$ 2 billion in value.
 - Increase in total private consumption by more than US\$ 5.5 billion (without fiscal effects).
 - Rise in the total real payroll by more than an additional 1% annually.

Proposal from InBest: Action Plan

1. Having reached a consensus on "what to do", we must focus on "how to do it".
2. Execution is always the operative word: it's not only about having good ideas, but also a specific plan on implementation.
3. **Must rely the support and commitment of the State (Ministry of Finance) and its authorities**
4. The above is a **public private** task that seeks to:
 - Identify necessary legal and administrative changes based on the GFCI competitiveness matrix
 - Limit the private counterparts seeking prior consensus to help fast execution
 - Invite: the Central Bank, industry regulators, academics and multilateral organizations
 - Emphasise that (i) it's free in fiscal terms; (ii) shouldn't require extensive legislative periods (first 100 days); (iii) can be presented as a long-term reform that has social benefits; (iv) works in accordance with the requirements of the local and global economic cycle.

**LET'S ALL WORK TOGETHER
TO CONVERT CHILE
INTO A FINANCIAL HUB**



CHILEDAY

London 29 - 30 June 2017

Alfredo Ergas
InBest Chairman