

Chile's Future

An Interview with The Honorable Luis Felipe Céspedes,
Minister of Economy, Development and Tourism, Chile

EDITORS' NOTE *Luis Felipe Céspedes has a Ph.D. in economics from New York University and is an Economist from Universidad Católica de Chile. In the public area, he has been a coordinator of economic policies and Head Economic Advisor at the Ministry of Finance. He was formerly Manager of Economic Investigations at Banco Central de Chile. Between 2012 and February 2014, he was part of the Technical Council on Investments, an entity responsible for protecting the investment regime of Pension and Severance Funds. Prior to assuming his role in the Ministry, he was a professor at Universidad Adolfo Ibáñez Business School. He was also an academic at Universidad de Chile and Universidad Católica. During his professional career he served as a researcher at the International Monetary Fund, the Inter-American Development Bank, and Rutgers University. He has published diverse research papers in his areas of expertise in prestigious international economic journals and an analysis on economic affairs in the local press. He is the editor of two books and the academic magazine Economía Chilena.*



The Hon. Luis Felipe Céspedes

productivity, and those sectors can help us generate new sources of economic growth.

However, in this area, we have a challenge. A crucial aspect is that companies should invest more in R&D. In Chile, most of R&D spending is state funded. What is important is that companies start looking to the R & D and innovation as a source of profitability for their projects. For example, at the OECD level, the business sector leads R&D funding with 60 percent; however, in Chile, business funding

for R&D only reached 32 percent of total R&D expenditure.

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How critical will the investment in education be?

Education is a critical factor and not only from the perspective of economic growth. The countries that are rich and have developed economies are those that rely significantly on human capital as the source of economic growth.

It's also important that we generate a more equal society and a society of opportunities. Education plays a critical role in that goal.

This is why we have committed to education reform and to improving the quality of education. If we can do that, we're also going

to increase the opportunity for human capital to become a critical factor for our economic growth and our prosperity for the future.

How critical is fiscal responsibility at the core of a stable government and how important has that been for Chile?

In terms of fiscal responsibility, one of the initiatives we undertook was tax reform. If we want to institute education reform that will have a permanent implementation in the future, then we need to generate revenues that allow us to fund those additional expenditures in education. That is the reason why we instituted tax reforms.

If we compare the tax burden in our economy, it's relatively low compared to the level of economic development we have. It was not something that was against investment but, instead, it was generating conditions for the provision of public goods that are complementary to private investment.

Therefore, education needs to be complementary to private investment. We did it because fiscal responsibility is also critical for economic growth. If we want to have low interest rates in our economy and have policy that is going to be implemented in an effective way, we need to be very serious about fiscal policy, and we're going to continue strict fiscal policy because it's critical to generate prosperity for our country.

How critical is tourism for the economic growth of Chile?

Tourism is an area of huge potential for our country. Since the turn of the millennium, the tourism sector has grown at an annual rate of 10 percent, now representing 6 percent of our GDP. The relevance of the tourism sector comes from both the comparative advantages and market opportunities it has for Chile, making it a potentially high-growth sector.

Today, we have different destinations within Chile that are well-known globally, but there are many other places that are spectacular that need to be developed. To that end, we need to generate infrastructure to be able to show the world those places. We have to generate goods and services associated with that sector, and we have to improve the goods and services that we currently have in tourism.

Those are the reasons why tourism became one of the prioritized sectors to develop, focusing government's efforts on building capacities to position Chile as a world-class tourist destination. ●

Will you talk about Chile's efforts in driving productivity and diversification, and is it moving in the right direction?

In order to increase our economic growth and make it less dependent on external conditions or copper price fluctuations, what we need to do is diversify and make our economic production structure more sophisticated.

To do that, we have to do several things: one is to use our natural resources as a platform for innovation. Sometimes people think of natural resources as a curse, but we see our natural resources as a tremendous opportunity at this stage. We have been able to grow in a very significant way and generate prosperity for our country based on our natural resources.

In the next stage we face, we need to start talking about technology in the mining sector, in the cultural sector, and in the solar sector.

We have an opportunity to address challenges through innovation by using new technology to make those sectors more productive. We face challenges in terms of