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Quake Shakes Pinera's Plan to Spur Chilean Economy (Update3)

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(Updates to add end of tsunami alert in third paragraph.)

By Michael Smith and Sebastian Boyd

March 11 (Bloomberg) -- Sebastian Pinera was inaugurated as Chile's president today minutes after powerful earthquakes shook buildings in Santiago and Valparaiso, stirring memories of last month's devastating 8.8-magnitude temblor.

A tsunami alert was issued for 1,200 kilometers (750 miles) of Chile's coast after three earthquakes shook the country and were felt in the congressional building where Pinera was sworn in. One was a 6.9-magnitude temblor near Constitucion, Chile, which was devastated by last month's quake and tsunamis.

Pinera urged coastal residents to take higher ground as a preventative measure against the kind of tsunamis that swept away entire neighborhoods in last month's quake. The National Emergency Office lifted the alert for mainland Chile at 1:23 p.m. New York time today, according to a posting on its Web site, while leaving the warning in place for Easter Island.

"I call on all Chileans to dry their tears and join in the task of confronting this emergency, in the task of rebuilding our country better than it was before," Pinera said after taking office in Valparaiso, 120 kilometers west of Santiago.

Today's quakes caused damage in Rancagua, a city 87 kilometers south of Santiago. The government extended martial law to include the region around Rancagua, Interior Minister Rodrigo Hinzpeter told reporters at the National Emergency Office. There had been no reports of fatalities from today's aftershocks, he said.

Government Spending

Destruction from the Feb. 27 earthquake -- the world's fifth strongest in a century -- has upended the new president's agenda and his plans to shrink government, attack red tape, and double average economic growth. In the aftermath of the quake, which killed more than 490 people, Pinera will now have to increase, not cut, spending.

Pinera won a Jan. 17 runoff election with pledges to raise per capita income by more than 50 percent by 2018 to \$22,000 a year. That's equal to European countries such as Portugal and would at last move Chile out of the ranks of emerging markets and into the developed world.

Pinera is reviewing the goal of joining the developed world within eight years, says Ena Von Baer, his communications minister.

A week before Pinera's inauguration, fisherman Adolfo Opazo walked in a daze to where his house stood until Feb. 27, when an earthquake and tsunami turned his neighborhood in Constitucion into a wasteland.

Opazo's home was smashed, and the wooden skiff that was his livelihood destroyed. His family sleeps in a tent in a slum above this coastal town of 54,000, located 300 kilometers south of Santiago.

Decomposing Bodies

The air reeks of decomposing bodies and excrement as Opazo, 42, asks how Pinera will rebuild his home, his livelihood -- and the rest of the country.

"Pinera promises prosperity, a government that works, development," Opazo said, as reported in Bloomberg Markets magazine. Opazo wears mud-splattered jeans and his eyes are bloodshot from fatigue. "I hope Pinera can help me get my life back."

Chile may have to borrow from abroad for the first time since 2004, and Pinera may have to tap the \$15 billion outgoing President Michelle Bachelet saved in sovereign wealth funds.

"Obviously this is a catastrophe for the whole country and it has widespread effects on prospects for development and growth in Chile," says Von Baer.

The changes started with the inauguration. Pinera canceled lavish parties to celebrate his victory over the center-left coalition that had governed Chile since the late dictator Augusto Pinochet ceded power in 1990.

'Government of Reconstruction'

"Our future government won't be the earthquake government," Pinera, 60, said March 4 after meeting with Bachelet. "It's going to be a government of reconstruction."

Bachelet has said damage estimates from the quake reach \$30 billion, equal to almost 20 percent of Chile's gross domestic product. The tremor wreaked havoc across a 700-kilometer swath of central Chile, including Concepcion, the nation's second-largest city.

About 2 million of Chile's 17 million people suffered damage to homes or businesses, most in the nation's poorest regions. The temblor toppled hospitals and bridges, spilt open highways, leveled villages and turned industrial plants into heaps of twisted steel.

Bachelet estimates it will take four years -- the length of the new president's term -- to rebuild.

Austere Budget Promises

"President Pinera has a vision of making us a first world country, but this hit hard," says Juan Carlos Diaz, municipal administrator in Talca, a city of 240,000 people in the heart of the country's fruit and wine export industries, 257 kilometers south of Chile's capital, Santiago.

The quake destroyed one of four houses and businesses there, killing at least 38 people and leaving 60,000 homeless. The rebuilding won't happen without help from the top, Diaz says.

During his campaign, Pinera criticized Bachelet's government for wasteful spending, and a week before the earthquake he promised an austere budget this year. In the days after the disaster, Pinera, who made his fortune investing in credit cards and airlines, pledged to rewrite the 2010 national budget to focus on reconstruction.

The temblor laid bare the two Chiles that have emerged in the 20 years since Pinochet was forced from power. The dictator started Chile's road to development by opening the economy to imports and foreign investment, selling state utilities and creating a private pension system.

Foreign Investment

Once Pinochet left power, foreign mining companies, banks and utilities poured billions of dollars into Chile, helping gross domestic product grow every year but two since 1990. That helped push the national poverty rate down to about 14 percent, from 39 percent in 1990.

Today, Santiago, home to a third of Chile's population, is a city of underground expressways, luxury malls and modern apartment buildings, all built to withstand magnitude-9 earthquakes.

That showed in the aftermath of the quake, when no high-rise building collapsed in the city of 6 million.

In contrast, the quake and tsunamis leveled poorer regions. Thousands of wooden and adobe homes and businesses were destroyed.

"This isn't Santiago," says Opazo, the fisherman in Constitucion. He walks to a heap of splintered wood, mangled cars and smashed furniture where he found bits of his and several neighbors' homes. "Everybody is poor here."

Pinera's Legacy

Pinera could reap political gain from the natural disaster if he does a good job quickly rebuilding, says Patricio Navia, a specialist in Chilean politics and public opinion at New York University in Manhattan.

"Pinera can use the recovery effort to define his legacy," Navia says. The new president says the economy can still grow by about 5 percent in 2010, compared with International Monetary Fund estimates of a 1.7 percent contraction last year.

"We want to build a better country than we had before," Pinera said in a March 8 speech.

The South American country won't have a problem paying for the reconstruction. Standard & Poor's gives Chile an A+ credit rating, the highest in Latin America.

All of Chile's \$1.75 billion of international debt is due in the next three years, so the country could easily sell bonds to rebuild, says Enrique Alvarez, head of research for Latin America at IDEAGlobal in New York.

Financing Reconstruction

"Chile is in a very advantageous position to tap international markets," he says. Hernan de Solminihac, Pinera's public works minister, says the administration also wants to use private financing to rebuild bridges, roads and water systems.

Full recovery may take longer than the one term Pinera can serve as president, says Robert Barro, an economics professor at Harvard University in Cambridge, Massachusetts, whose research focuses on the impact of disasters on economies.

"The usual recovery from a major disaster is typically distributed over five or six years," Barro says.

A big focus will be on housing, since 1.5 million homes in Chile were damaged, a third of which were destroyed. Pinera has estimated the cost of that reconstruction alone will be about \$20 billion.

In Constitucion, 80 percent of the homes and businesses in the swath of city near Maule river delta were ruined. Near Opazo's destroyed house, hundreds of dwellings were smashed into bits of splintered timbers and bricks by the tsunami.

Getting Help

"We cannot rebuild without the president," says Constitucion Mayor Hugo Tilleria.

Just after dawn on March 5, Domingo Arriagada walked toward the second floor of his house, sitting 15 meters from its foundations atop a pile of smashed stone, wood and fabric that once were his family's possessions. All he's found is a waterlogged tan upholstered chair.

"I don't know where the first floor is, can you see it?" says Arriagada, 54, a sawmill foreman. "I don't have any money to rebuild, so we have to get some help."

The quake also hammered the export companies that help fuel Chile's economy, including wine, pulp and timber production. At the Balduzzi Vineyards & Winery in San Javier, 270 kilometers south of Santiago, 5-meter high tanks filled with wine waiting to be bottled were burst open.

Equipment Destroyed

Enough wine to fill 600,000 bottles flooded out into the town's streets, equal to half the winery's annual production. The earthquake decimated vineyards across central Chile, including the biggest, Concha Y Toro SA, spilling 125 million liters (33 million gallons) of wine worth about \$250 million, according to industry estimates.

In Constitucion, the tsunami smashed into a cellulose plant and lumber producer owned by Celulosa Arauco y Constitucion SA, a unit of Chile's Empresas Copec SA. The waves flooded the pulp plant, destroying equipment.

The timber mill was reduced to a pile of twisted steel and battered machinery. Arauco, the world's second-biggest pulp producer, says the plant, which employs 280 people, has been closed indefinitely.

Pinera won the presidency with a pledge of adding 1 million jobs to Chile's 7.4 million-strong workforce during his term. That's the equivalent of creating more than 20 million jobs in the U.S.

The spending spree on reconstruction may help the new president meet his goal, especially in labor-intensive industries hard hit by the 2009 recession such as construction.

New Jobs

Many of the new jobs would replace workers whose employers were wiped out. Marcos Veragua, a director of the small retailers and tourism association, says at least 40,000 businesses are in the quake-ravaged towns.

On one street in Talca, the quake turned Angela Lagos' costume and tuxedo shop into a pile of splintered beams and adobe bricks. That put her and her daughter out of work, and she's not sure if she will have the funds to reopen.

"This is my whole life, 15 years of work, gone," Lagos, 49, who voted for Pinera, says while picking through the rubble for anything of value. "Pinera is a businessman, right? So, he should be able to help us rebuild, to know what to do. He has to."

On the coast near Iloca, 150 kilometers west, the tsunami destroyed almost 400 fishing boats and the jobs they provided. Waves smashed Miguel Valenzuela's 8-meter trawler against the docks and ripped the front of his house off, sweeping all his belongings out with it.

"Those jobs are gone because I don't have any money to buy a new boat, not without government loans or something," says Valenzuela, 52. "Pinera has his work cut out for him."

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