CHILE FUND INC
Form N-CSR
March 06, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-05770

THE CHILE FUND, INC.
(Exact name of registrant as specified in charter)

Eleven Madison Avenue, New York, New York	10010
(Address of principal executive offices)	(Zip code)

J. Kevin Gao, Esq.

The Chile Fund, Inc.

Eleven Madison Avenue

New York, New York 10010
(Name and address of agent for service)

Registrant s telephone number, including area code: (212) 325-2000

Date of fiscal year end: December 31st

Date of reporting period: January 1, 2007 to December 31, 2007

Item 1. Reports to Stockholders.

THE CHILE FUND, INC.

ANNUAL REPORT
DECEMBER 31, 2007

CH-AR-1207

LETTER TO SHAREHOLDERS (UNAUDITED)

February 7, 2008

Dear Shareholder:

For the year ended December 31, 2007, the total return to shareholders of The Chile Fund, Inc. (the "Fund"), based on the net asset value (NAV) of the Fund, was 24.65%, versus an increase of 23.0% for the Morgan Stanley Capital International Chile Index ("MSCI Chile Index").* Based on market price, the Fund's shares gained 49.56% during the year, assuming reinvestment of dividends and distributions, closing at US$22.00 per share. As a result, the Fund's shares went from a 2.5% discount to NAV at the beginning of the period to a 17.1% premium to NAV.

This is the fifth consecutive year of positive returns, during which period the Fund's NAV has compounded at an annual rate of 32.6%. Since inception of the Fund in September 1989, the NAV has compounded at an annual rate of 16.7%.

There were two dividend payments: September 14, 2007, the Fund paid a dividend of US$0.52 per share and on January 18, 2008, the Fund paid a dividend of US$1.99 per share (the shares went ex-dividend on December 26, 2007). These two dividends, taken together, represent a dividend yield of 12.6%, based on the average share market price of $19.95 over the course of 2007. The Fund's dividend policy is to pay out all income and all realized capital gains, net of realized capital losses. Total investment return at market value is based on changes in the market price at which the fund's shares traded on the stock exchange during the period and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the fund's dividend reinvestment program.

The returns achieved in 2007 also compare favorably with the returns as measured by the Fund's benchmark index, the MSCI Chile Index,* which returned 23.0%. The Fund, therefore, outperformed its benchmark by 165 basis points.

In general terms, the application of the diversification requirements that U.S. investment companies, such as the Fund, must follow, means the Fund will generally be somewhat more oriented to smaller and mid cap stocks than the overall market.

Market Review: Solid Macroeconomic Backdrop

The global backdrop for emerging market equities in 2007 was once again robust. Commodity prices remained at high levels and global growth remained healthy despite the emerging evidence of a slowdown in the U.S. during the year. In our opinion, the main question now is whether or not the rest of the world can take up the slack if the U.S. slowdown is exacerbated. The emerging economies of Asia, and China in particular, have represented a strong source of incremental demand, particularly for commodities (such as copper, iron ore and steel) and soft commodities, all of which are major exports from Latin America. We buy into this "decoupling argument" only partially. There is no question that a material slowdown in the U.S. would have significant knock-on effects on emerging markets. However, there is not much evidence yet that the problems in financial markets in the U.S. have spread to the consumer. Many have been predicting the demise of the consumer in the U.S. for some time and nevertheless the U.S. consumer has proven to be a resilient creature. The policy response from both the Federal Reserve and Congress has been quick and decisive, so in our opinion it is too early to turn unduly bearish. Our base case remains that the correction we are experiencing at the start of 2008 should prove a tremendous buying opportunity for emerging markets assets.

LETTER TO SHAREHOLDERS (UNAUDITED) (CONTINUED)

One key variable which we monitor closely and which will undoubtedly have an important short-term impact on liquidity conditions are flows into mutual funds and other nontraditional investment vehicles such as hedge funds. The new issue market, which was such an important feature, not just of capital markets in the last two years, but also of the overall current account, has effectively dried up. We do not expect this market to reopen in the near term.

Chilean Equities Disappoint

Against this backdrop, the Chilean market was a marginal underperformer. Unlike 2006, equity prices rose strongly, by 28.5%, in the first half of the year, but collapsed in the second half of the year, falling 4.3%.

In addition to the subprime concerns in the U.S. and the subsequent global equity market volatility, the catalyst for the Chilean market was one very specific to Chile namely a change in regulations for the Chilean pension funds. The Chilean pension fund system is, in our opinion, one of the key planks of Chile's economic success story and Chilean equities are rightly sensitive to changes to the system.

Tampering with the Model

The creation of a system of individually capitalized portable pension plans in the early 1980's was a radical innovation in a region where retirement provisions were historically based on the European model of socialized, pay-as-you-go, unfunded open-ended liabilities. After the creation of the system, the managers of the pension funds were prevented from investing in anything much more than local peso denominated fixed income securities, mostly issued by the Central Bank. Over time, as government financing options became easier and more varied, the Central Bank relaxed the rules and opened the door to investment outside the country and, increasingly, to equities. However, the presence of a pool of long term peso denominated savings, equivalent to around 70% of GDP, overhung and underpinned Chilean capital markets, ensuring a captive pool of investment and keeping valuations high.

The size of this pool forced long term interest rates down to levels which were virtually negative in real terms in 2006 and 2007, thereby stimulating demand for equities both domestically and internationally. Pension fund managers clamored for a change to the restrictive regulations. The first change was the early 2007 legislation which, amongst other things, increased the amount that could be invested outside the country from 30% to 45% over time. The equity market initially reacted very negatively to this change, fearing that pension funds would sell local equity, but recovered quickly along with other emerging markets, as it became apparent that this was not the case.

The second change, in October, had a far more negative impact on the market, compounding an already volatile situation. The regulatory body, the Superintendencia de Administradores de Fondos de Pensiones (SAFP), changed the interpretation of legislation regarding how managers should act in situations where their limits were breached as a result of price action rather than active decisions (passive breaches as opposed to active breaches). The regulator tightened the rules regarding the grace period allowed to the managers in which to comply with their limits. The net effect of this regulation was to induce a wave of selling into a market that was already weak.

Several of the larger pension funds took the unprecedented step of suing the regulator for overstepping its authority to interpret the law. We think it is likely that this case will eventually be tested in the Supreme Court.

LETTER TO SHAREHOLDERS (UNAUDITED) (CONTINUED)

This matter links in with another observation, which we touched on in our Semiannual Report, which is the question of the quality of government and political leadership. Without wishing to opine on Chilean politics, we think it fair to observe that not only has the popularity of President Bachelet sunk rapidly on the back of the incompetent introduction of a new transportation system in Santiago at the start of 2007, but the level of business confidence in the government has rarely been lower. The SAFP's reinterpretation of the rules of the game for the widely admired pension fund system only serves to reinforce the idea that this Government's continued meddling with the stability of the institutional model in Chile is undermining investor confidence.

It is no coincidence that many companies are targeting other countries in the region Peru and Colombia, in particular for their future growth prospects. Inevitably this means that Chilean companies are importing political risks that should significantly impact the implied cost of equity at which the market values these companies. The last time that this trend was in vogue, it was Argentina which was the preferred market of choice for Chilean companies. Let's hope that this current wave of external investment ends more happily than the first wave!

Our conclusion is that, as things stand, we do not expect to see Chilean equities recover the premium valuation ratings they have enjoyed for many years relative to other equity markets in the region. This is an important conclusion, but it says as much about the other markets in the region both the larger markets such as Brazil and Mexico, as well as the smaller markets such as Peru and Colombia as it does about Chile. Many of these countries have copied large chunks of the same economic model that has been so successful for Chile. However, it also means that we no longer see Chile as a safe haven in a volatile region and we no longer subscribe to the view that the country's greater macroeconomic stability justifies significantly higher valuations.

Another reason for the weak performance of the Chilean equity market in the third and fourth quarters was the sudden spike in inflation toward the end of the year. The headline rate of inflation for 2007 was 7.8%, well above the top end of the Central Bank's stated target range of 2 to 4%. The root causes of this inflation are related to two components of the consumer price index which are volatile everywhere namely, energy prices and food. Chile is an importer of oil and now that the Argentine government no longer allows companies to export natural gas to Chile, Chile has a difficult energy situation. Food price inflation has been a common theme around the world and is linked in with the whole issue of competition for land from biofuels. In addition to this effect, weather conditions led to a spike in the prices of certain staple foods with a heavy weighting in the consumer basket.

Inflation and Interest Rates

Whether or not these specific supply side shocks feed through into secondary inflation remains to be seen. Our feeling, however, is that there is a strong chance that in an economy where items such as real estate prices, rents and school fees are denominated in inflation indexed units, that there will indeed be a feed-through effect on inflation. The fact that the Fed has now cut rates aggressively may mean that the Central Bank in Chile will be less inclined to raise rates for fears of strengthening an already strong currency. But, we are still left with the impression that inflation is unlikely to trend down in the near term. In this context, now that the steam has been let out of the pressure cooker and the pension funds are no longer obliged to purchase long term bonds at negative real interest rates, it is also likely that longer term interest rates will trend higher, dampening economic activity.

LETTER TO SHAREHOLDERS (UNAUDITED) (CONTINUED)

If all of this sounds negative, we would remind investors that there is still much to be positive about in Chile. With the exception of our comments on the near term inflation and interest rate outlook, the macroeconomic picture is very sound.

First, the fiscal and trade accounts have seldom been better, boosted by the continuing strength of copper prices as well as other commodities such as wood pulp. The Finance Minister, Andrés Velasco, has also taken sensible measures to ring-fence the copper stabilization fund from those in Congress who would like to spend the money. As a result, the Government has ample room to maneuver through counter cyclical fiscal expenditure in the event that copper prices were to fall in the future.

At the corporate level, although the expansion outside Chile undoubtedly entails risks, there are also important growth opportunities for management teams with proven track records to leverage their experience and expertise into less developed markets. There is certainly still plenty of growth potential in the Chilean marketplace.

Strategic Review: A good year in terms of stock picking

For the 12-month period ended December 31, 2007, the Fund returned 24.65% based on NAV, as compared to 23.00% for the MSCI Chile Index. The positions that added most to performance were our positions in wine producer Vina Concha y Toro (4.13% of the Fund's net assets as of December 31, 2007) and telecommunications holding company Almendral S.A. (1.15% of the Fund's net assets as of December 31, 2007) (partially compensated by an underweight position in the underlying operating company Entel). Two of our larger positions in pulp and paper companies Empresas Copec S.A. (21.94% of the Fund's net assets as of December 31, 2007) and Empresas CMPC S.A. (11.50% of the Fund's net assets as of December 31, 2007) also added significantly to returns. Among the nonindex companies in the portfolio, Coca Cola bottler Embonor S.A. (1.08% of the Fund's net assets as of December 31, 2007) and retailer La Polar S.A. (0.93% of the Fund's net assets as of December 31, 2007) also contributed to returns. We did well to avoid sugar producer Iansa, telecommunications company CTC and electricity generator Colbún.

On the negative side of the ledger, the biggest detractor from performance by far was the large underweight in DYS (0% of the Fund's net assets as of December 31, 2007), which was bid for at a handsome price by S.A.C.I. Falabella S.A. (3.95% of the Fund's net assets as of December 31, 2007). It seems likely that this negative impact will be reversed in 2008, after the Anti-Trust Commission blocked the merger. It remains to be seen whether the parties will appeal through the judicial system, but we believe this is unlikely. Our underweights in shipping company Compania SudAmericana de Vapores S.A. (1.03% of the Fund's net assets as of December 31, 2007), steel company CAP S.A. (5.32% of the Fund's net assets as of December 31, 2007) and real estate developer Parque Arauco (0% of the Fund's net assets as of December 31, 2007) also detracted from performance. Our "forced underweight" in Cencosud (5.92% of the Fund's net assets as of December 31, 2007) also detracted from performance. This forced underweight is a function of the diversification requirements applicable to the Fund.

Market Outlook: Expecting challenges and opportunities

Despite our comments above about the quality of political leadership and the challenges that Chile could face in a global economy which will almost certainly be growing more slowly against a backdrop of higher domestic inflation and higher interest rates we continue to believe that the Chilean economy is fundamentally on sound footing.

LETTER TO SHAREHOLDERS (UNAUDITED) (CONTINUED)

The labor market continues to develop positively, with the unemployment rate at lows not seen since before the Asian financial crisis. Real payroll growth reached 6.5% year over year in 2007, increasing disposable income and thus consumption.

We continue to believe that the risks are mostly external. In particular, commodity prices that have already remained stronger for longer than many had predicted will be key. As an export driven economy, Chile will always be sensitive to global growth, and as a Pacific-facing country, trade with Asia and the emerging China will also be very important. In 2007, for the first time, Chile exports more to China than it does to the United States.

In our opinion, the main internal risk is political. The market is likely to be sensitive to further changes to the institutional framework of the country and, in particular, any reforms which threaten the stability of domestic capital markets. This is why the reinterpretation of the rules regarding the pension fund industry had such a negative impact.

To this risk, we would also add those of higher inflation and higher interest rates, which are not so much risks as a reality the Central Bank must tackle in 2008.

Ironically, equity valuations, which in the case of Chile have seldom been placed on the positive side of the ledger, are now looking quite attractive. For the first time in many years, Chilean equities, under certain measures and in certain sectors, are looking cheaper than comparable companies in Brazil and Mexico.

For our part, we will continue to look for reasonably valued companies we think can deliver consistent earnings growth. We believe that, given current market conditions, market participants, ourselves included, will look increasingly to value-oriented investments rather than growth-oriented investments.

We are still able to identify quality companies with good growth prospects, trading at reasonable valuations. We caution that, in our opinion, it is unlikely that returns in the next five years will be as high as those in the last five years. We reiterate the view we expressed last year that the windfall gains Chile has enjoyed from high copper prices give the country a tremendous opportunity to make significant and lasting progress on key social issues such as education and healthcare. As it approaches its bicentenary in 2010, Chile needs to put itself in a position to be compared with first world economies, rather than its regional neighbors. Much progress remains to be made before such comparisons can be made, however, and therein lie the challenges and the opportunities for investors.

Respectfully,

Matthew J.K. Hickman
Chief Investment Officer **

Lawrence D. Haber
Chief Executive Officer and President ***

LETTER TO SHAREHOLDERS (UNAUDITED) (CONTINUED)

International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods. There are also risks associated with investing in Chile, including the risk of investing in a single-country fund.

In addition to historical information, this report contains forward-looking statements, which may concern, among other things, domestic and foreign market, industry and economic trends and developments and government regulation and their potential impact on the Fund's investments. These statements are subject to risks and uncertainties and actual trends, developments and regulations in the future and their impact on the Fund could be materially different from those projected, anticipated or implied. The Fund has no obligation to update or revise forward-looking statements.

* The Morgan Stanley Capital International Daily TR Net Emerging Markets Chile USD Index is an unmanaged total return index (with no defined investment objective) of Chilean equities that includes reinvestment of dividends (net of taxes), and is the exclusive property of Morgan Stanley Capital International Inc. Investors cannot invest directly in an index.

** Matthew J.K. Hickman, Director, is a portfolio manager specializing in Latin American equities and is primarily responsible for management of the Fund's assets. He has been following Latin American equity markets since 1987. He joined in 2003 from Compass Group Investment Advisors, where he was general manager of the private wealth management division based in Santiago, Chile. For much of Mr. Hickman's career, he worked as an equity analyst at various investment banks, focusing on Latin American telecommunications companies and several Latin American country markets; prior to this, at Rothschild Asset Management, Mr. Hickman was a member of the management team for the Five Arrows Chile Fund. Mr. Hickman holds a BA in Modern Languages from Cambridge University and a diploma in corporate finance from London Business School. He is fluent in Spanish, Portuguese and French. He is also the Chief Investment Officer of The Latin America Equity Fund, Inc.

*** Mr. Haber is a Managing Director and Chief Operating Officer of the Asset Management Division of Credit Suisse and a member of the Asset Management Division's Management Committee. Mr. Haber has been associated with Credit Suisse since 2003. Previously, he was Chief Financial Officer of Merrill Lynch Investment Managers from 1997 to 2003.

THE CHILE FUND, INC.

PORTFOLIO SUMMARY
DECEMBER 31, 2007 (UNAUDITED)

SECTOR ALLOCATION

TOP 10 HOLDINGS, BY ISSUER

	Holdings	Sector	Percent of Net Assets
1.	Empresas Copec S.A.	Industrial Conglomerates	21.9
2.	Empresa Nacional de Electricidad S.A.	Independent Power Producers & Energy Traders	14.3
3.	Empresas CMPC S.A.	Paper & Forest Products	11.5
4.	Enersis S.A.	Electric Utilities	6.5
5.	Cencosud S.A.	Food & Staples Retailing	5.9
6.	CAP S.A.	Metals & Mining	5.3
7.	Sociedad Química y Minera de Chile S.A.	Chemicals	4.9
8.	Banco Santander Chile S.A.	Commercial Banks	4.9
9.	Viña Concha y Toro S.A.	Beverages	4.1
10.	S.A.C.I. Falabella, S.A.	Multiline Retail	4.0

THE CHILE FUND, INC.

AVERAGE ANNUAL RETURNS
DECEMBER 31, 2007 (UNAUDITED)

	1 Year	3 Years	5 Years	10 Years
Net Asset Value (NAV)	24.65%	22.51%	32.64%	10.52%
Market Value	49.56%	34.16%	40.96%	14.47%

From time to time, Credit Suisse may waive fees and/or reimburse expenses, without which performance would be lower. Waivers and/or reimbursements are subject to change and may be discontinued at any time. Returns represent past performance. Total investment return at net asset value is based on changes in the net asset value of fund shares and assumes reinvestment of dividends and distributions, if any. Total investment return at market value is based on changes in the market price at which the fund's shares traded on the stock exchange during the period and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the fund's dividend reinvestment program. Because the fund's shares trade in the stock market based on investor demand, the fund may trade at a price higher or lower than its NAV. Therefore, returns are calculated based on share price and NAV. ***Past performance is no guarantee of future results.*** *The current performance of the fund may be lower or higher than the figures shown. The fund's yield, return and market price and NAV will fluctuate. Performance information current to the most recent month-end is available by calling 800-293-1232.*

THE CHILE FUND, INC.

SCHEDULE OF INVESTMENTS
DECEMBER 31, 2007

Description	No. of Shares		Value
EQUITY SECURITIES-106.84%			
AIRLINES-2.72%			
Lan Airlines S.A.	368,000	$	5,182,079
BEVERAGES-6.41%			
Coca-Cola Embonor S.A., Class A	1,700,000		2,048,398
Compania Cervecerias Unidas S.A.	98,232		687,496
Embotelladora Andina S.A., PNA	605,000		1,615,925
Viña Concha y Toro S.A.	3,730,000		7,862,251
			12,214,070
BUILDING PRODUCTS-0.18%			
Cerámicas Cordillera S.A.	67,165		337,208
CHEMICALS-4.89%			
Sociedad Química y Minera de Chile S.A., Class B	302,500		5,467,416
Sociedad Química y Minera de Chile S.A., Class B, ADR	21,722		3,839,364
			9,306,780
COMMERCIAL BANKS-9.74%			
Banco de Crédito e Inversiones	168,000		5,043,880
Banco Santander Chile S.A.	189,000,000		9,299,126
Corpbanca SA	606,350,000		4,201,039
			18,544,045
COSMETICS & TOILETRIES-0.08%			
Laboratorios Andromaco S.A.	478,552		144,157
DIVERSIFIED FINANCIAL SERVICES-0.40%			
Invercap S.A.	80,000		763,129
DIVERSIFIED TELECOMMUNICATION-3.51%			
Compañía de Telecomunicaciones de Chile S.A., Class A, ADR	184,200		1,374,132
Empresa Nacional de Telecomunicaciones S.A.	340,000		5,312,180
			6,686,312

Description	No. of Shares		Value
ELECTRIC UTILITIES-7.68%			
Almendral S.A.	20,415,245	$	2,180,715
Enersis S.A.	34,000,000		10,958,932
Enersis S.A., ADR	93,200		1,493,996

		14,633,643
FOOD & STAPLES RETAILING-5.92%		
Cencosud S.A.	2,800,000	11,268,601
INDEPENDENT POWER PRODUCERS & ENERGY TRADERS-17.86%		
Empresa Nacional de Electricidad S.A.	21,068,000	26,654,965
Empresa Nacional de Electricidad S.A., ADR	14,600	548,522
Gener S.A.	16,142,822	6,805,628
		34,009,115
INDUSTRIAL CONGLOMERATES-21.94%		
Empresas Copec S.A.	2,338,185	41,791,036
MARINE TRANSPORTATION-1.03%		
Compañía SudAmericana de Vapores S.A.	894,933	1,958,986
METALS & MINING-5.32%		
CAP S.A.	370,000	10,135,154
MULTILINE RETAIL-5.32%		
La Polar S.A.	270,000	1,773,070
Ripley Corp S.A.	757,061	830,038
Ripley Corp S.A., rights (expiring 1/14/08)	67,294	1,372
S.A.C.I. Falabella, S.A.	1,548,324	7,524,740
		10,129,220
OIL, GAS & CONSUMABLE FUELS-0.14%		
Geopark Holdings Ltd.	30,209	277,218
PAPER & FOREST PRODUCTS-11.50%		
Empresas CMPC S.A.	580,000	21,897,781

See accompanying notes to financial statements.

THE CHILE FUND, INC.

SCHEDULE OF INVESTMENTS
DECEMBER 31, 2007 (CONTINUED)

Description	No. of Shares	Value
WATER UTILITIES-2.20%		
Inversiones Aguas Metropolitanas S.A.	3,480,000	$ 4,193,192
TOTAL EQUITY SECURITIES (Cost $95,865,489)		203,471,726
SHORT-TERM INVESTMENTS-3.90%		
CHILEAN MUTUAL FUNDS-3.42%		
Fondo Mutuo Corporativo BancoEstado	1,328,544	3,114,984
Fondo Mutuo Security Check	1,451,992	3,413,997
TOTAL CHILEAN MUTUAL FUNDS (Cost $6,528,071)		6,528,981

Description	Principal Amounts (000's)	Value
GRAND CAYMAN-0.48%		
Bank of America, overnight deposit 4.56%, 1/2/08 (Cost $909,000)	$ 909	$ 909,000
TOTAL SHORT-TERM INVESTMENTS (Cost $7,437,071)		7,437,981
TOTAL INVESTMENTS-110.74% (Cost $103,302,560)		210,909,707
LIABILITIES IN EXCESS OF CASH AND OTHER ASSETS-(10.74)%		(20,461,471)
NET ASSETS-100.00%		$ 190,448,236

Non-income producing security.

ADR American Depositary Receipts.

PNA Preferred Shares, Series A.

See accompanying notes to financial statements.

THE CHILE FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2007

ASSETS	
Investments, at value (Cost $103,302,560) (Notes B,E,G)	$ 210,909,707
Cash (including $3,182,964 of foreign currencies with a cost of $3,193,918)	3,183,449
Receivables:	
Investments sold	774,852
Dividends	6,815
Prepaid expenses	976
Total Assets	214,875,799
LIABILITIES	
Payables:	
Dividends and distributions	20,178,453
Investments purchased	3,112,762
Investment advisory fees (Note C)	597,302
Administration fees (Note C)	64,505
Directors' fees	6,817
Other accrued fees	256,544
Chilean taxes (Note B)	211,180
Total Liabilities	24,427,563
NET ASSETS (applicable to 10,139,926 shares of common stock outstanding) (Note D)	$ 190,448,236
NET ASSETS CONSIST OF	
Capital stock, $0.001 par value; 10,139,926 shares issued and outstanding (100,000,000 shares authorized)	$ 10,140
Paid-in capital	81,037,892
Accumulated net realized gain on investments and foreign currency related transactions	1,949,910
Net unrealized appreciation in value of investments and translation of other assets and liabilities denominated in foreign currencies &	