



*Chilean Trade Liberalization:  
An historical Perspective*

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# *Why might be interesting to observe Chile?*

Chile is small open economy that has outperformed similar countries in its region, becoming the country with the second highest GDP Per capita in PPP terms (US\$11,300.)

**Table (1) : Annual Real GDP Growth  
(Constant 2000 US\$)**

	1990-1999	2000-2004
<b>Chile</b>	6.38%	3.97%
<b>Latin America &amp; Caribbean</b>	3.01%	2.26%
<b>World</b>	2.76%	2.84%

SOURCE: World Bank

**Table (2) : Annual Real Per Capita GDP Growth  
(Constant 2000 US\$)**

	1990-1999	2000-2004
<b>Chile</b>	4.66%	2.78%
<b>Latin America &amp; Caribbean</b>	1.32%	0.78%
<b>World</b>	1.26%	1.58%

SOURCE: World Bank

# Introduction

Trade has been increasingly important for Chilean Economic development...

....rates of exports growth have been significantly greater than those of the economy as a whole...

**Table 3**  
**Growth and export performance, 1960-2005**  
(average annual growth rates, in percentage)

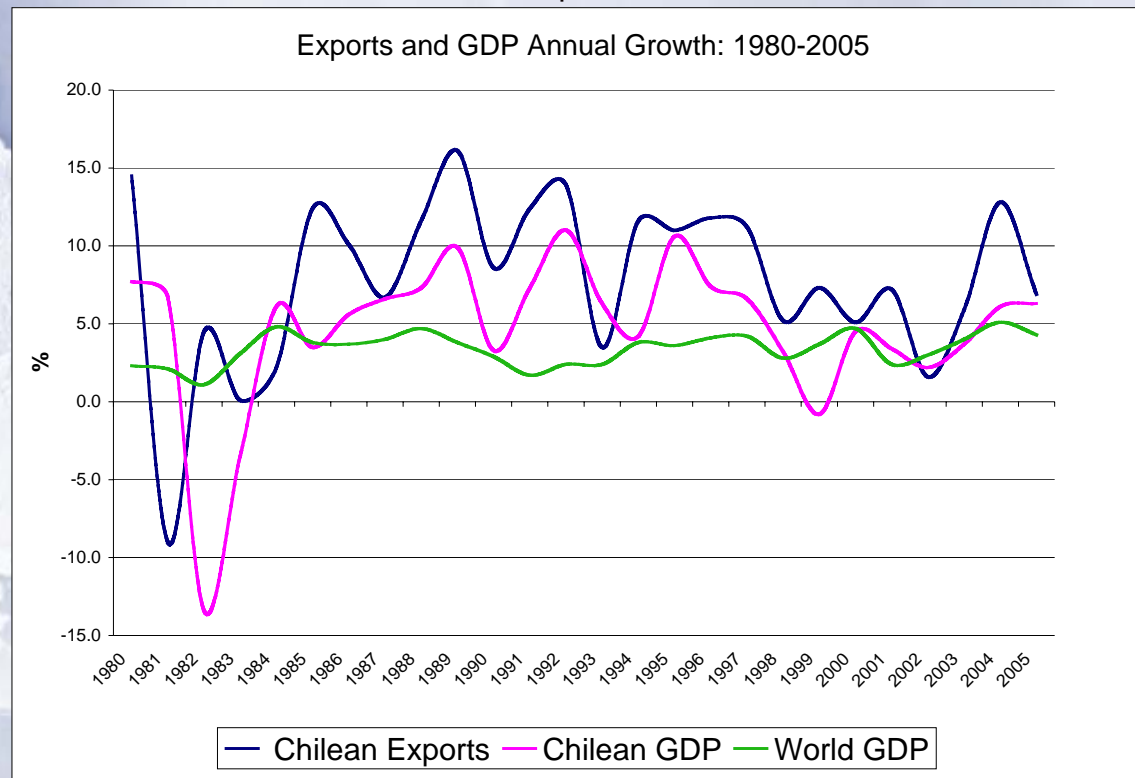
	<b>1960-1973</b>	<b>1974-1989</b>	<b>1990-2005</b>
Rate of growth of GDP	3.4	3.3	5.6
Rate of growth of total real exports	3.2	9.2	7.9
Rate of growth of non-mineral real exports	0.4	14.2	8.9
Gross fixed investment (% of GDP)	22.3	18.2	24.9

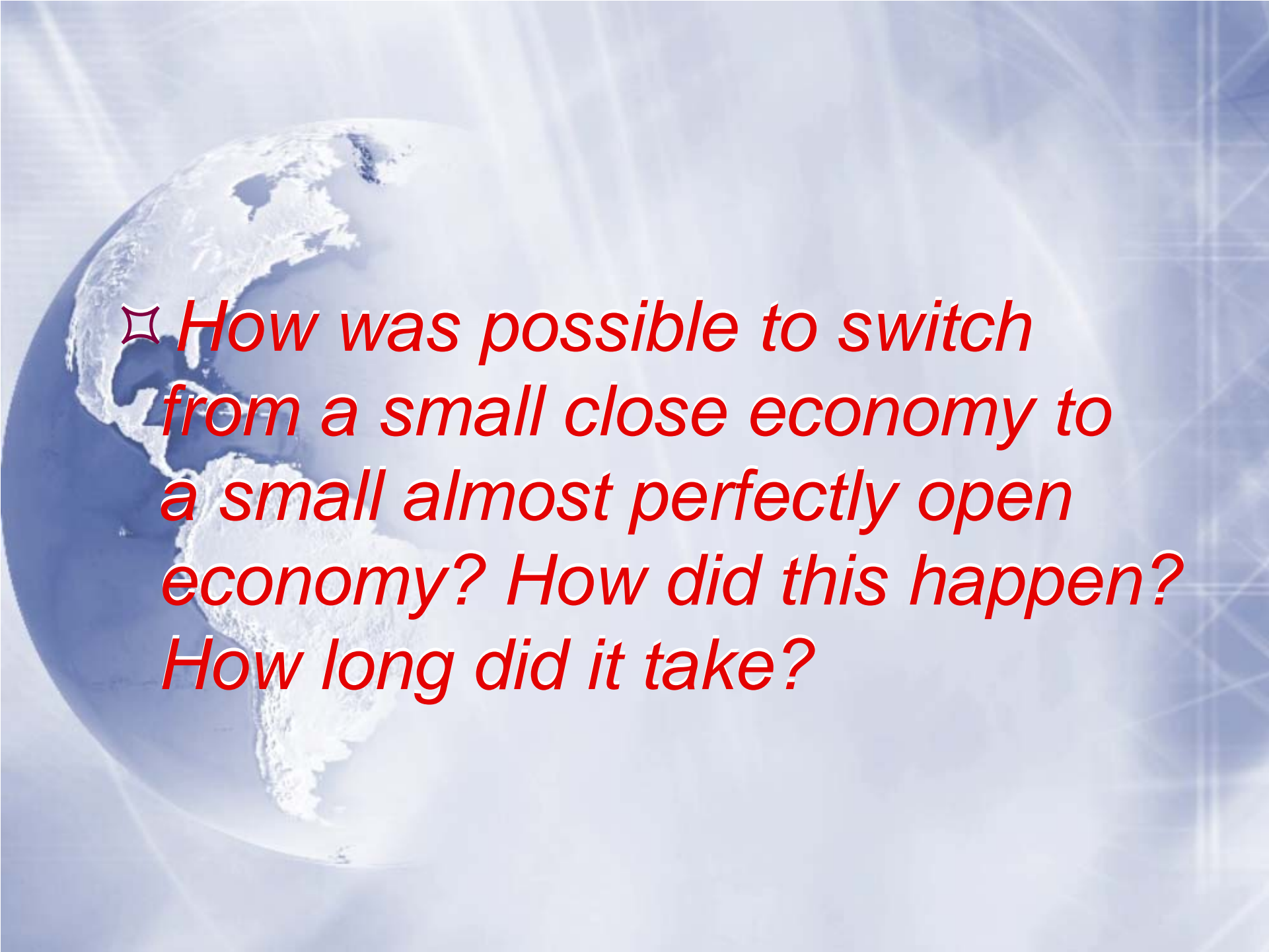
**Source:** Authors' calculations, based on data of the Central Bank of Chile.

...today it is widespread the notion than exports are the engine of Chilean growth.

...there is some empirical evidence that sustains this view (Meller et al 1995)

Graph 1





✧ *How was possible to switch from a small close economy to a small almost perfectly open economy? How did this happen? How long did it take?*



# *Trade Policy Analysis*

Fundamental questions:

- ✧ Why do some countries have a higher level of protection than others?
- ✧ Why is the level of protection raised in some years and not in others?
- ✧ What explains the structure of protection?



# *Trade Policy Cycles*

- ✧ Goldstein (1993) suggests that cycles are related to the dynamics of the institutionalization of economic ideas.
- ✧ Krueger (1993) suggests that cycles are driven by economic outcomes (endogenous to policies).
- ✧ Others have studied the causes of policy persistence and the causes of its changes (economic shocks (terms of trade among others)) (Cassing 1991 and others)

Thus it will be possible to identify trade policy cycles.

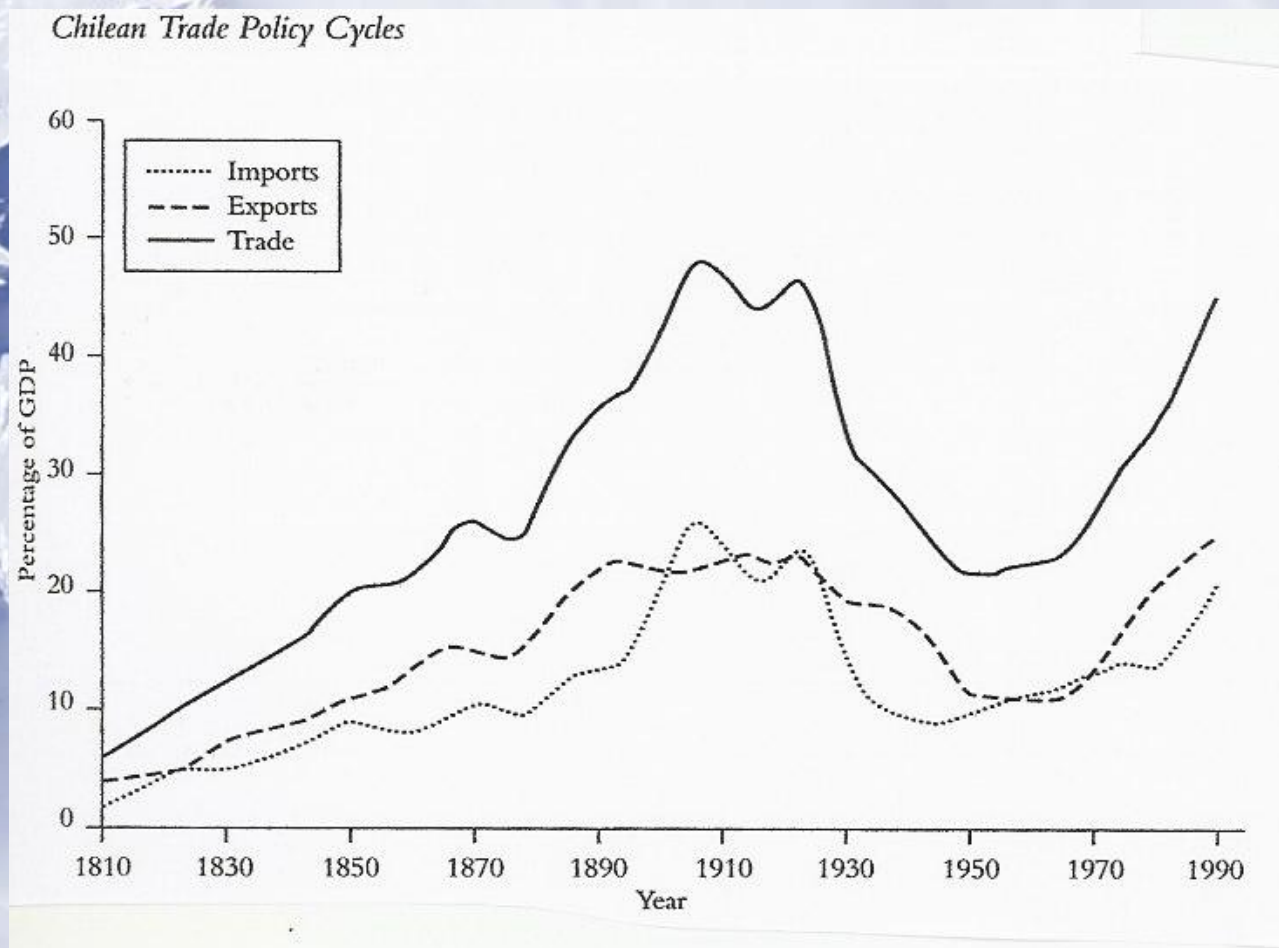
# *Cycles of the Chilean Trade Policy*

- ✧ According to Lederman (2005) there are several periods:
  - ✧ The rise of a small open economy (1810-1910)(Nitrates)
  - ✧ Delegitimization of Liberalism (1911-1921) (Nitrates Economic Crisis)
  - ✧ Institucionalization of Protectionism (1927-1955) (Development Agencies)
  - ✧ Delegitimization of Protectionism (1957-1973) Klein-Saks mission.
  - ✧ Rise of liberalism (1973-)

# *The context of the last wave of protectionism*

- From World War II until the 1970s many developing countries attempted to accelerate their development by limiting imports of manufactured goods to foster a manufacturing sector serving the domestic market.
- Arguments for import substitution industrialization in LAC:
  - Infant Industry argument.
  - Declining Terms of Trade (Prebish-ECLAC)
- Weak evidence regarding declining terms of trade. Just evidence of higher volatility (Boughton (1991))

# *Cycles of the Chilean Trade Policy*



Source: Lederman (2005). Note graph shows Hodrick Prescott filtered data.



*Let's review the evolution of exports and GDP growth during the last 45 years...*

**Table 1. Exports and GDP Growth  
(5 years average, %)**

<b>Per'od</b>	<b>Exports</b>	<b>GDP</b>
1960-65	4.2	3.8
1965-70	3.0	4.7
1970-75	5.6	-2.3
1975-80	15.3	6.8
1980-85	1.8	-0.4
1985-90	10.8	6.5
1990-95	10.4	7.9
1995-00	8.1	4.1
2000-05	6.8	4.3

**Source:** Central Bank of Chile



## *The rise of liberalism*

- ✧ In 1973 Chile had an average tariff of 105%!  
...with 0 minimum and 700% as maximum.  
And multiple quantitative restrictions, 10,000% import deposit in some cases...plus multiple exchange rates!
- ✧ In less than five years, following 1974, Chile dismantled quantitative restrictions and replaced its tariff system by a uniform tariff of 10%. How was this possible? Who were behind the idea?



## *The rise of liberalism*

The main facts:

- ✧ By June 1976 average tariff was 33%.
- ✧ By June 1979 average tariff was close to 10% an almost uniform.

The previous reforms were accompanied by a maxi devaluation in October of 1973 and the implementation of a crawling peg exchange rate system that was maintained until 1978.



## *The rise of liberalism. The main facts....*

- ✧ In 1979 the exchange rate was fixed and became the main anti-inflationary anchor.
- ✧ Between 1979 and 1982 the currency showed an important degree of appreciation. In 1982 a balance of payment crisis developed and the currency was devaluated.
- ✧ During 1982 the GDP shrink by more than 14%!
- ✧ In 1983 the average tariff was raised to 35%. Price band for wheat, sugar and edible oil were introduced.
- ✧ In 1985 the average tariff was reduced to 20%.



## *The rise of liberalism. The main facts....*

- ✧ In 1988 the average tariff was reduced to 15%.
- ✧ In 1990 a independent Central Bank was established.
- ✧ In June of 1991 the uniform tariff was reduced to 11%.
- ✧ Since then Chile started the the idea of negotiation of multilateral and bilateral trade agreements, but with some debate...
- ✧ In the mid nineties the negotiations with Mercosur were initiated the agreement was finally signed in 1997 despite the warnings on trade diversion and the resistance of some agricultural sectors (price bands 18 years).



## *The rise of liberalism. The main facts....*

- ✧ After a debate in 1997-98 was decided to reduce unilaterally the tariffs from 11% to 6% from 1999 until 2003.
- ✧ In December 2000 Chile initiated negotiations with USA for a FTA. Finally the agreement came into force in 2004.
- ✧ Today Chile has signed “9.5” FTA, two association agreements, and six complementation agreements.

# *Free Trade Agreements*

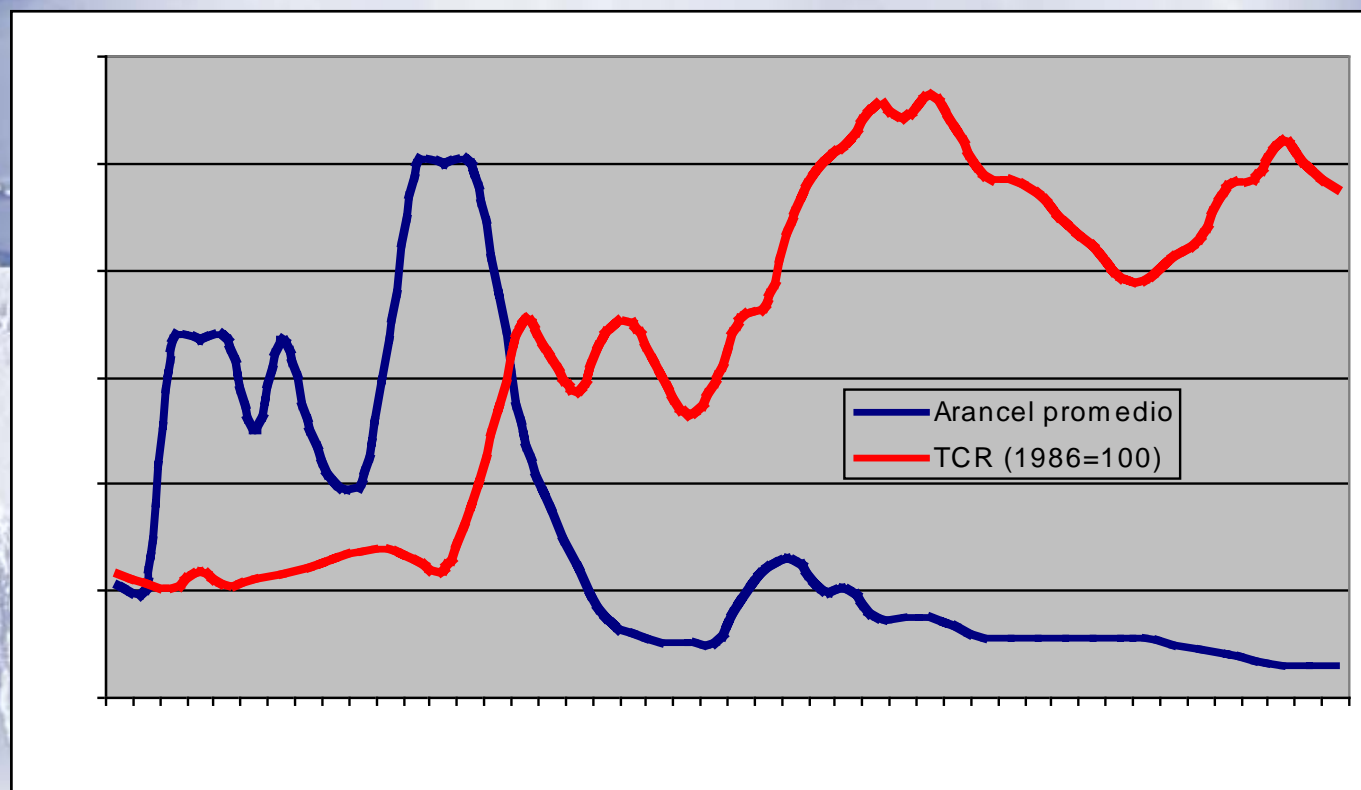
Free Trade Agreements: Canada(1997), Mexico (1999), Costa Rica (2002), El Salvador (2002), USA (2004), South Korea (2004), EFTA (2004), India (Partial 2006), China (2006), Panama (sign 2006).

Associations: Mercosur (1996), EU (2003).

Complementation: Bolivia (1993), Venezuela (1993), Colombia (1994), Ecuador (1995), Peru (1998)

# *The Reforms and The Chilean Trade Evolution*

**Figure 3**  
Real effective exchange rate and average tariff, 1960-2005



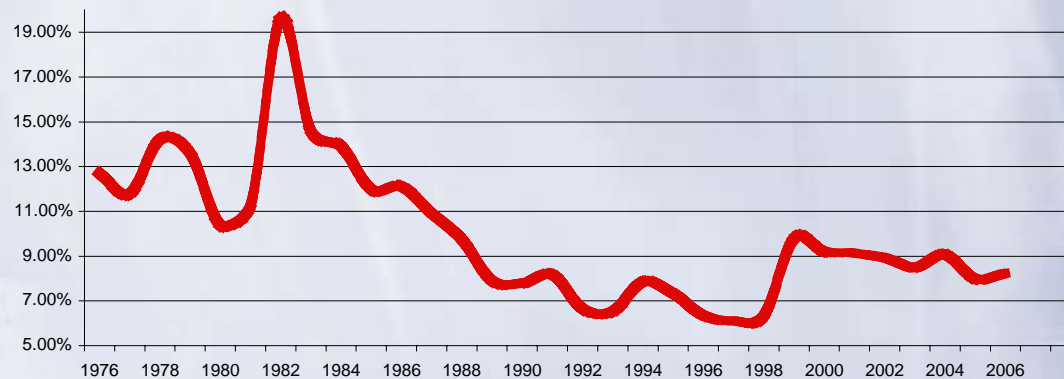
Source: Authors' calculations, based on data of the Central Bank of Chile.

# *Some concerns that emerge with trade liberalization...*

✧ Unemployment.

Figure 4

Annual Average Unemployment  
(1973-2005)



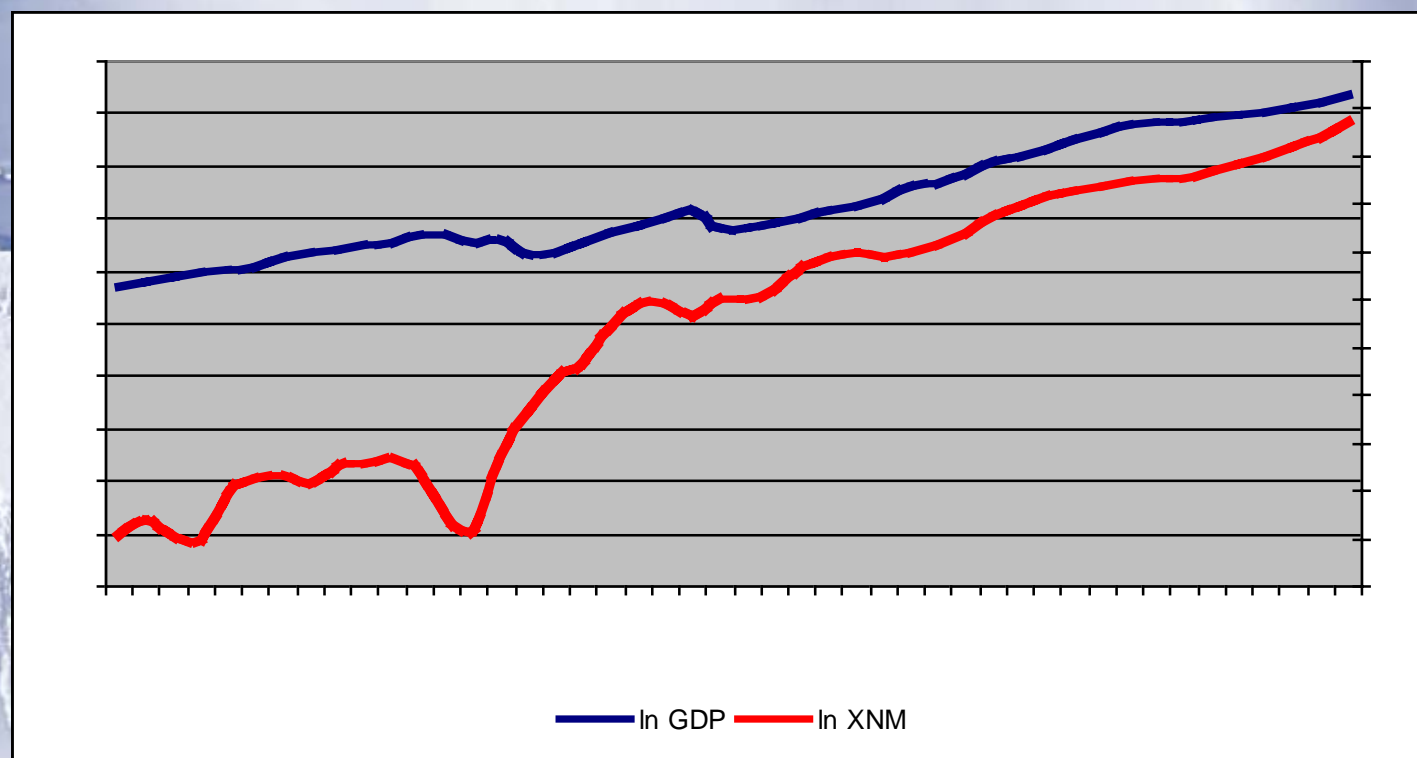
Source: INE, Chile

✧ Worsening of income distribution.

✧ Trade has been found to decrease poverty and has not have any impact in income distribution...always unequal... (Contreras et al (2002))

# *The Chilean Trade Evolution*

Figure 5  
Non-mineral export and GDP growth rates, 1960-2005  
(average annual rates of growth)



Source: Authors' calculations, based on data of the Central Bank of Chile.

# *The Chilean Trade Evolution*

With the liberalization trade has become  
...more and more important...

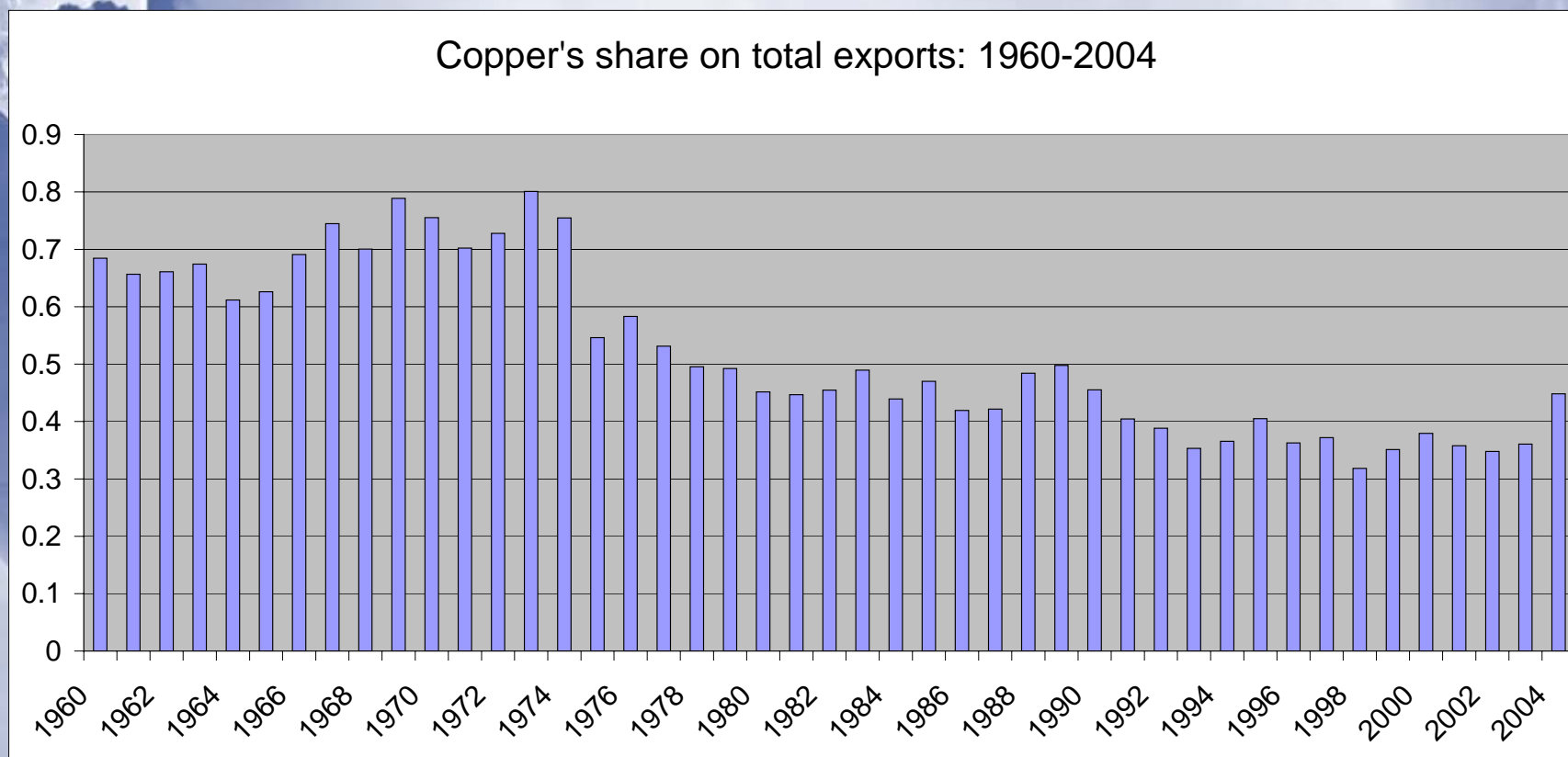
Figure 6



# *The Chilean Trade Evolution*

...and the copper less important

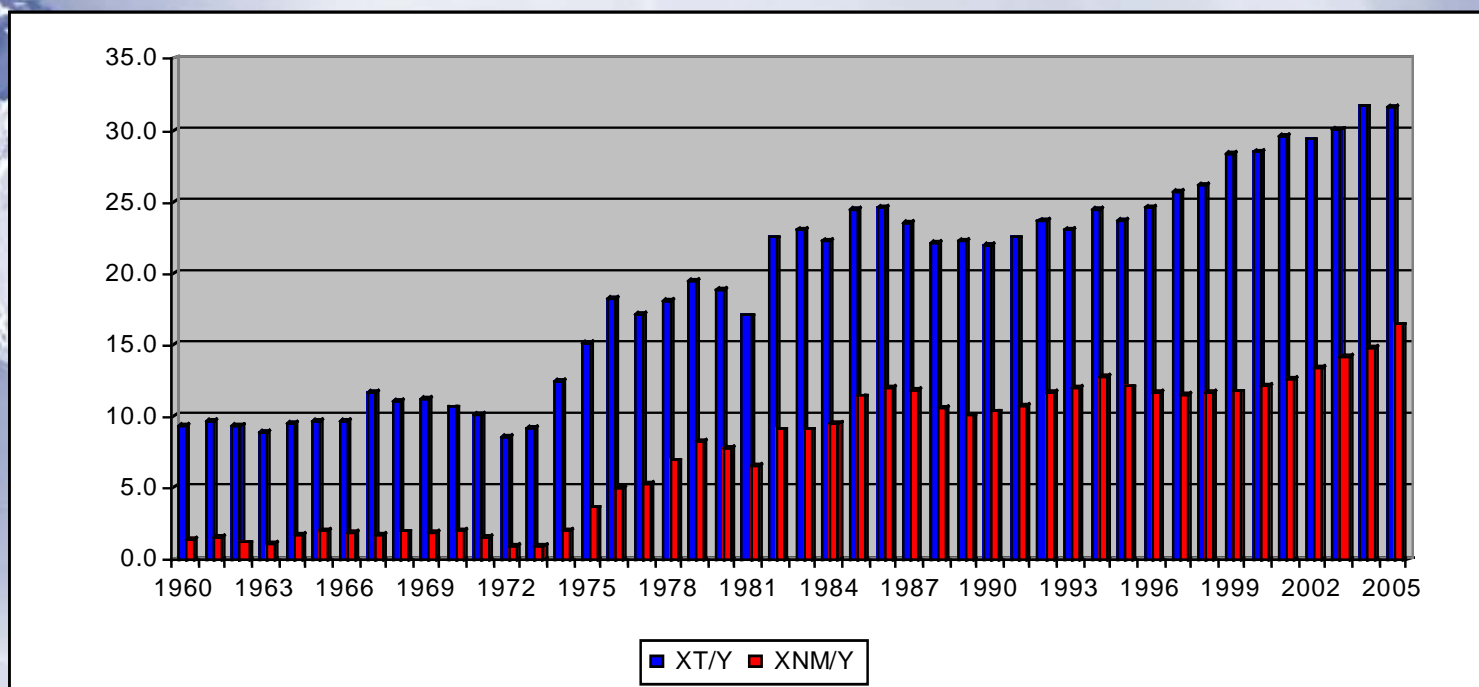
Figure 7



# *The Chilean Trade Evolution*

...there has been increasing diversification of exports.

**Figure 8**  
Share in GDP of exports of goods and services and non-mineral  
exports, 1960-2005  
(percentage)



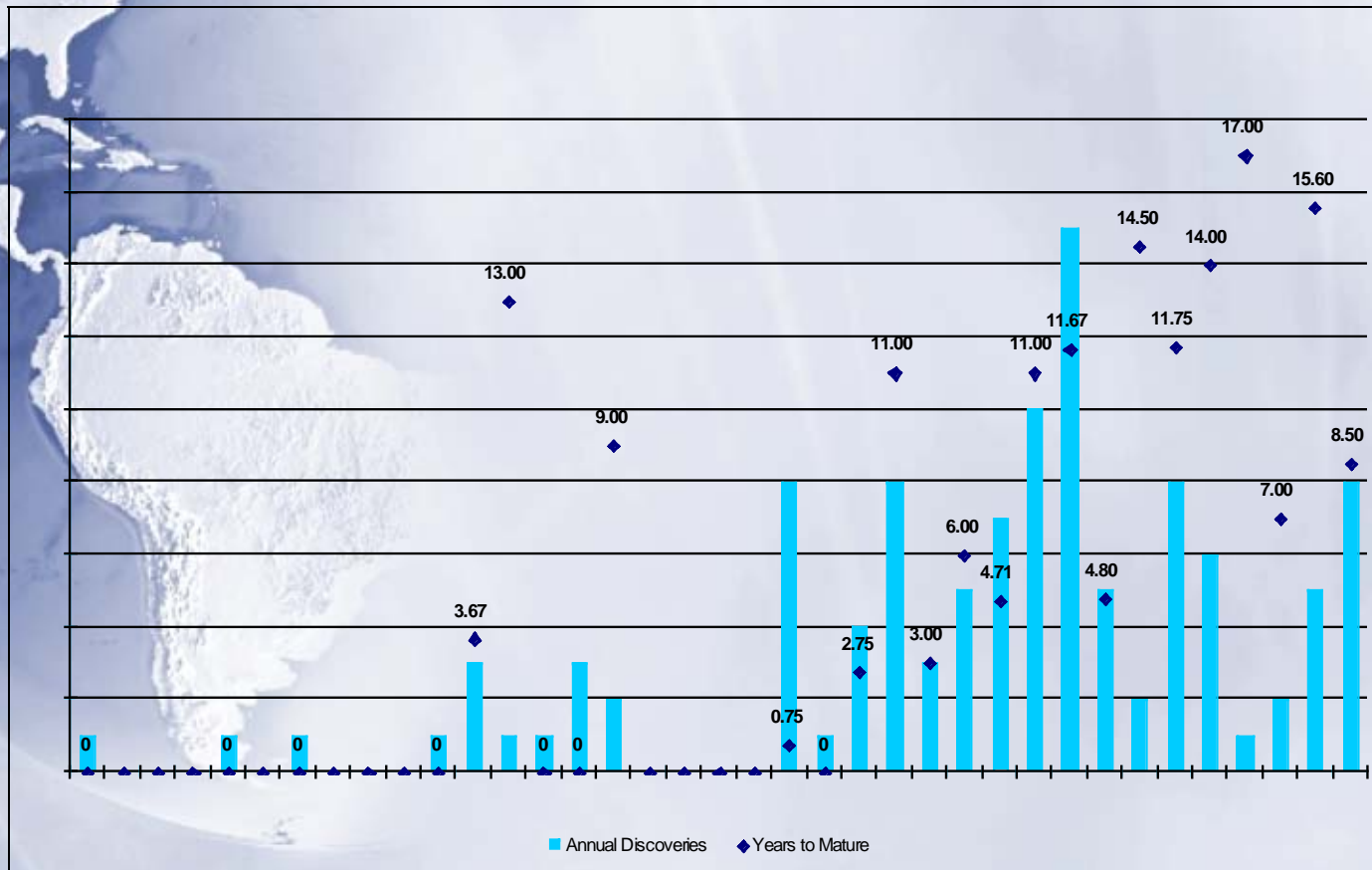
*Source:* Authors' calculations, based on data of the Central Bank of Chile.  
*Note:* All export and GDP data are in 1996 prices.

# *The Chilean Trade Evolution*

- Indeed, the number of 4 digit sector in which Chile exports has grown also remarkably. During 1963 Chile had exports in 238, 4-digit SITC, sectors whereas in the year 2000 Chile had exports in 494 sectors.
- But, are all these emerging sectors really succesful?

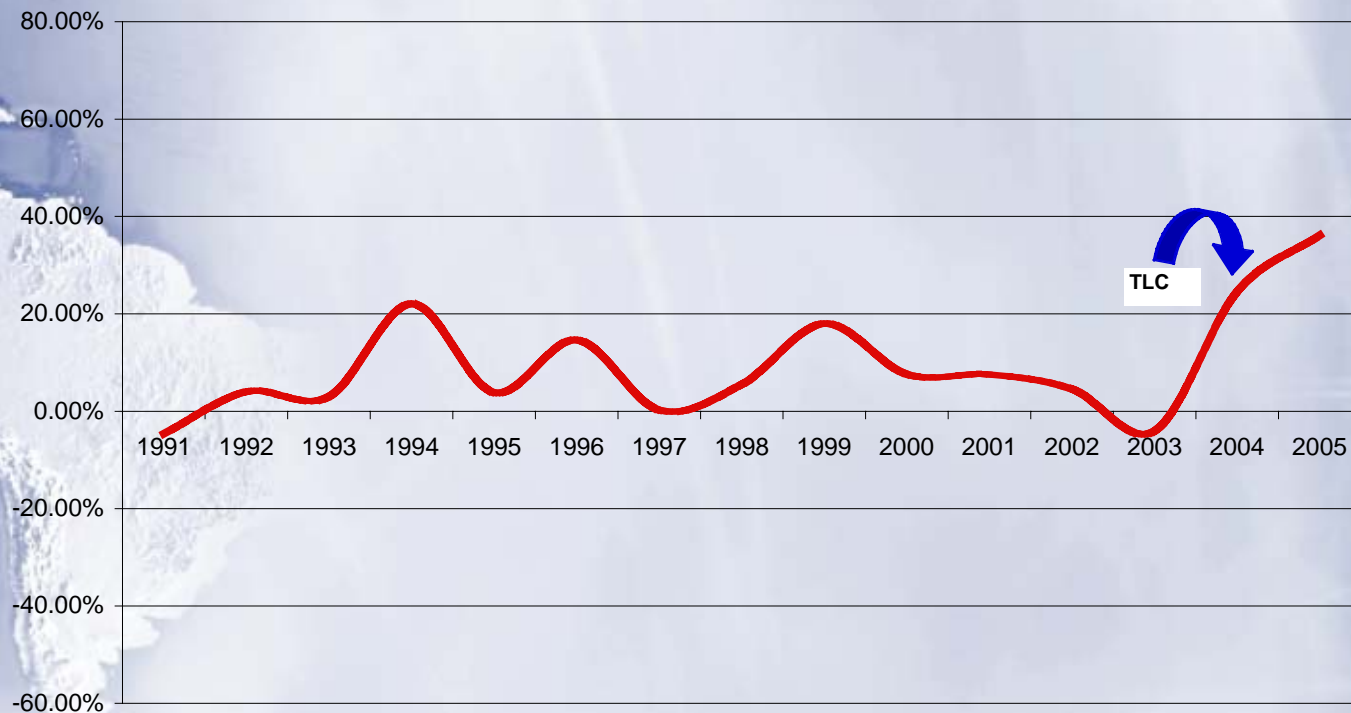
# The Chilean Trade Evolution

Figure 9  
Number of export discoveries and average number of years to maturation



# *Trade Evolution after the recent Agreements*

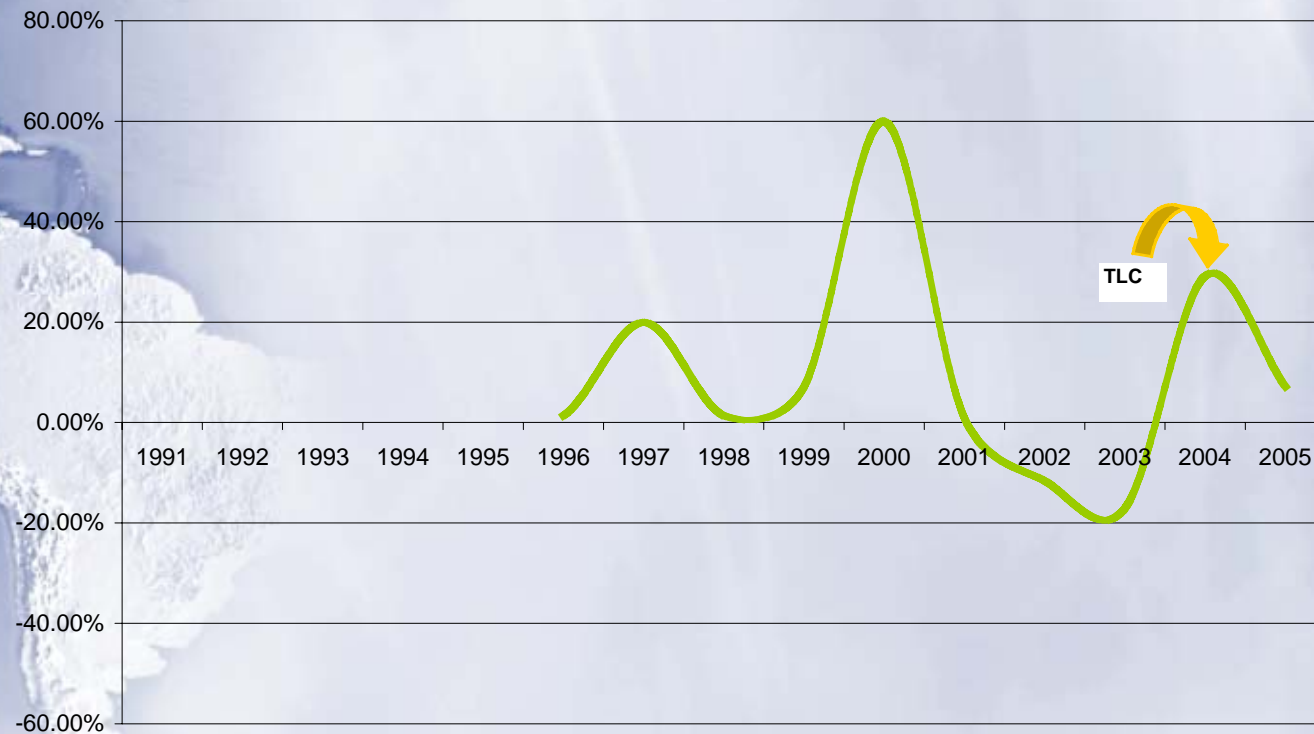
**Chilean Exports: Annual Growth to United States**



Source: <http://tse.export.gov/>

# *Trade Evolution after the recent Agreements*

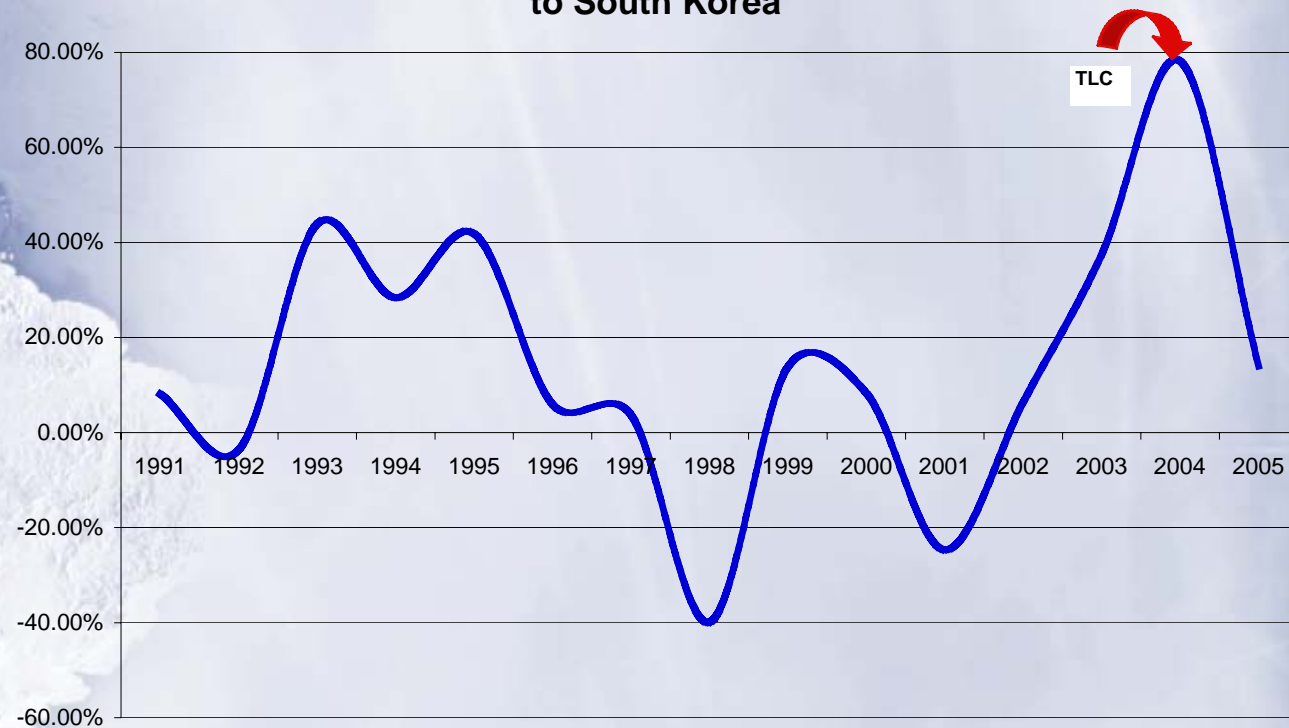
Chilean Exports: Annual Growth to



Source:

# *Trade Evolution after the recent Agreements*

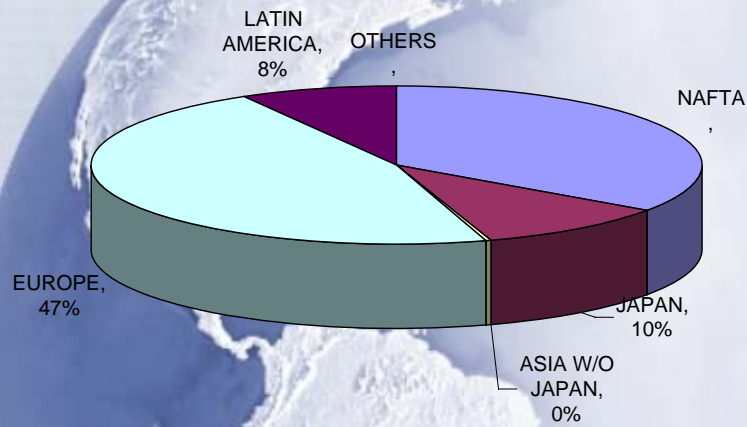
**Chilean Exports: Annual Growth to South Korea**



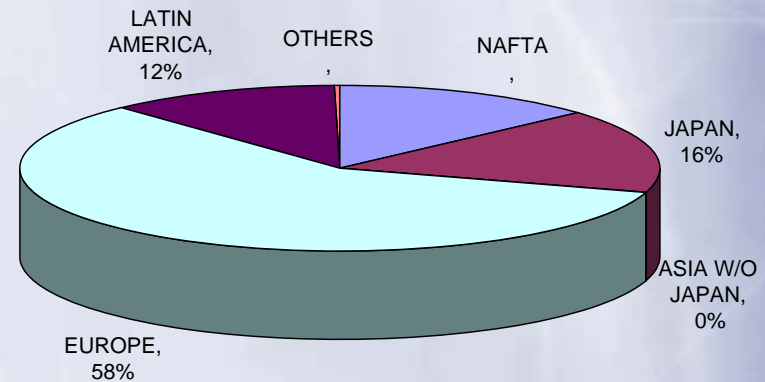
Source: SOURCE: <http://global.kita.net/marketing/main/staticsIndex.jsp>

# Main Destinations of Chilean Exports

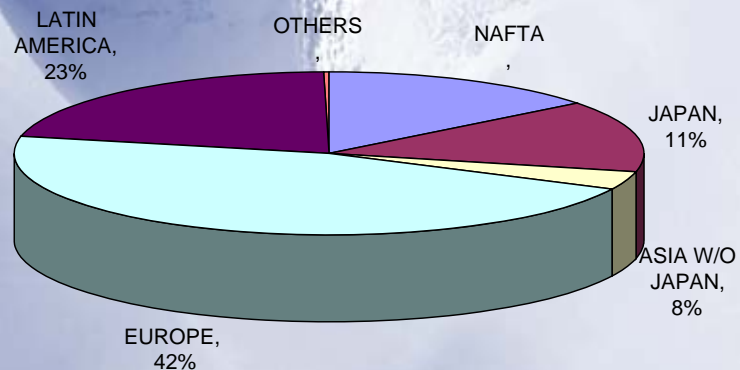
Export Destinations  
1962



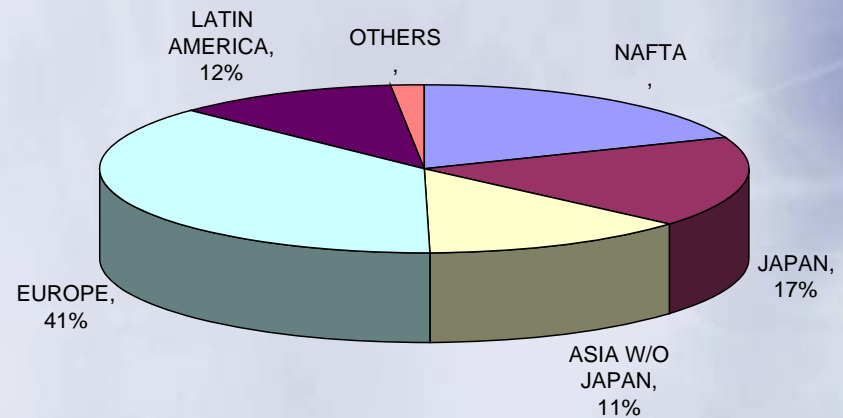
Export Destinations  
1970



Export Destinations  
1980

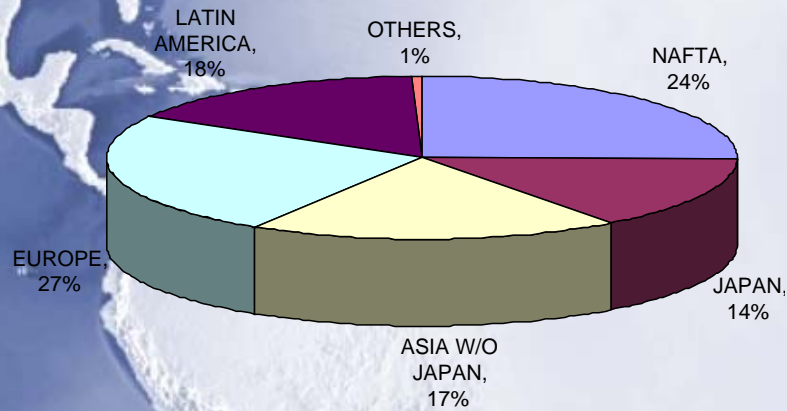


Export Destinations  
1990

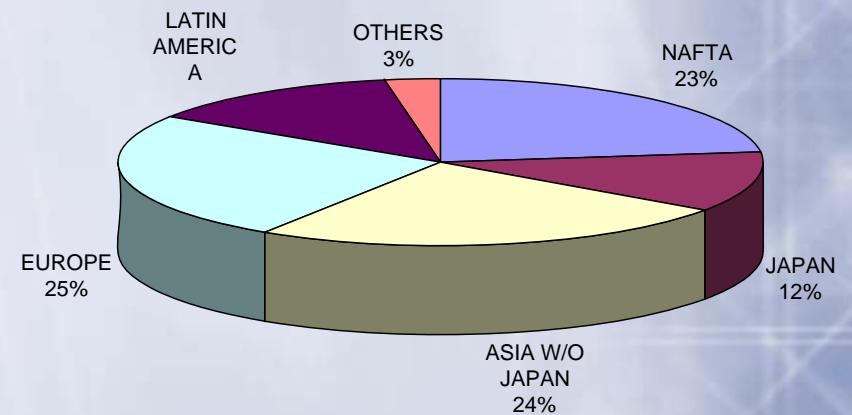


# Main Destinations of Chilean Exports

Export Destinations  
2000



Export Destinations:  
2005



# *Main Destinations of Chilean Exports*

**Table (4) : Exports to Asian Countries**  
(% Total Exports)

	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>
<b>Jap—n</b>	17.49%	18.96%	14.44%	11.75%
<b>China</b>	0.80%	2.01%	7.50%	11.61%
<b>Korea</b>	3.94%	6.11%	4.58%	5.73%
<b>Remaining Asian Countries</b>	8.57%	13.32%	6.98%	6.91%
<b>Remaining World Countries</b>	69.20%	59.60%	66.50%	64.00%

SOURCE: COMTRADE & PROCHILE



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