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Chile's Trade Policy Based on Export Promotion

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Synonyms

Commercial policy

Definition

Trade policy refers to any form of governmental intervention that affects the environment in which a country's international trade takes place. These interventions can be policy instruments, institutions, and/or agencies – behind, at, and beyond the border – in a uni-, bi-, pluri-, or multilateral setting. Microeconomic theory and specifically trade theory have had a large influence over how trade policy is understood and prescribed. Tariffs and trade liberalization are at the center of the scholarly and policy debate, although in practice trade policy encompasses nontariff measures such as export facilitation and promotion, and trade protection is historically more pervasive than standard microeconomic theory suggests, especially in lesser-developed regions such as Latin America.

Standard Economic Approach on Export Promotion

Pro-market reforms of the 1980s and 1990s in Latin America implied a change from autarchic, inward-looking, developmentalist, if not statist, policies – as a whole better known as import-substituting industrialization (ISI) – toward trade liberalization within the broader framework of the Washington Consensus (Williamson 1990). According to this school of thought, exports are deemed essential to economic growth. Inspired by standard trade theory, free trade – i.e., the absence of any state intervention, specifically trade barriers – is supposed to create maximum benefits for an economy, following the comparative advantages resulting from the international division of labor. The international competition would push domestic companies toward efficiency or force them to close, thus giving markets the appropriate incentives for technological change. Both forces point in the direction of more efficiency and productivity, suggesting that export growth ultimately spawns economic (i.e., GDP) growth.

Trade policy – and specifically trade liberalization – was therefore put at the heart of Latin America's development policies (Edwards 1995), as the data in Figs. 1 and 2 show. This shift toward free trade marks a major shift in Latin American trade policy, traditionally rather protectionist, even in the heyday of liberalism in the nineteenth century (Coatsworth and Williamson

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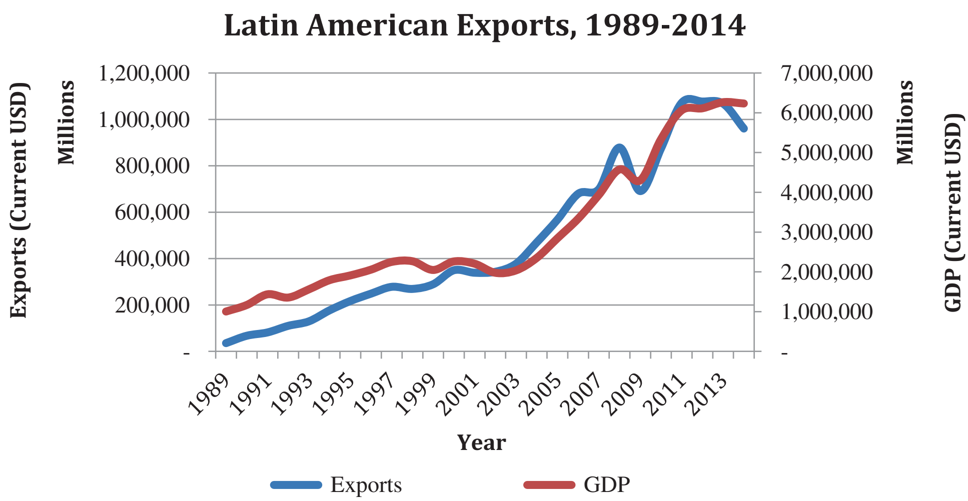
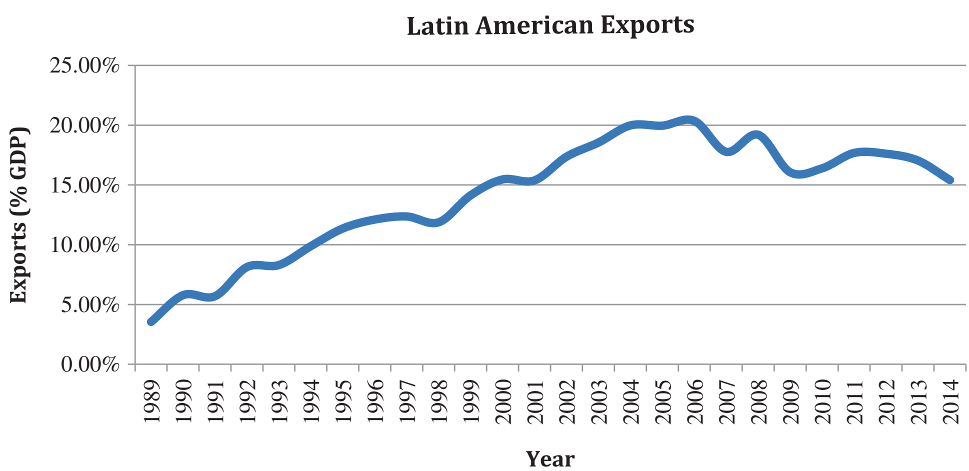


Chile's Trade Policy Based on Export Promotion, Fig. 1 Latin American exports, 1989–2014 (Source: World Bank)



Chile's Trade Policy Based on Export Promotion, Fig. 2 Latin American exports as a percentage of GDP, 1989–2014 (Source: World Bank)

2004). Note that at a regional level export growth and GDP growth are highly correlated (with a Pearson correlation coefficient of 0.97), as standard economic theory suggests.

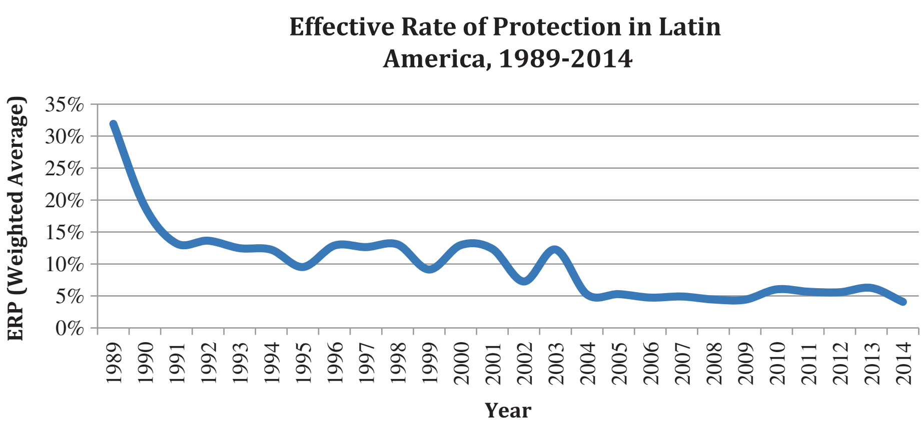
Moreover, Latin American countries have indeed advanced, albeit sometimes haphazardly, toward trade liberalization since the 1990s and until at least the early 2000s (Lengyel and Ventura-Dias 2004), on a multilateral (in the context of the General Agreement on Tariffs and Trade – GATT – and since 1995 the World Trade Organization, WTO), plurilateral (e.g., initiatives like the North American Free Trade Agreement – NAFTA – and Mercosur), and bilateral level (especially free trade agreements proliferated since the stalling of the Doha Round).

Although the Washington Consensus experienced a backlash of sorts in the late 1990s, a process better known as the "left turn," which challenged virtually all Latin American neoliberal economic orthodoxy (Flores-Macias 2012), and although the so-called BRIC countries (Brazil, Russia, India, and China) amassed sufficient negotiating power to prevent mainly the European Union and the United States from imposing tariff reductions for their manufactures in the rest of the world without liberalizing their own economies for foreign agriculture, the need for exports remained unscathed in this region. Initiatives like ALBA (*Alianza Bolivariana para los Pueblos de Nuestra América*), aimed at creating local alternatives to neoliberalism (or capitalism), still seek to expand access to international markets for their goods and services, but under more favorable conditions for poorer countries. Finally, even though China could be regarded by many Latin American countries as a direct threat for local manufactures (Gallagher and Porzecanski 2010), virtually all of them have signed FTAs with China. In sum, tariff reductions remain the basic principle of Latin American trade policy.

The available data sustains this view. The effective rate of protection has, on average, declined sharply since the 1990s (see Fig. 3). Additionally, Lora's (2012) updated Structural Reform Index for the 1985–2009 period shows that the regional average for the Trade Reform Subindex, which ranges from 0 to 1 (numbers closer to 1 indicate freer trade), increased significantly in the early 1990s, after which it plateaued around 0.87.

However, free trade should not – at least from a theoretical standpoint – be regarded as an end in itself. Contrary to the belief that "chips are chips" (Gilpin 2001), the quality of export growth matters (Agosín 2000). If export growth is not accompanied by an increase in added value, for instance, by means of export diversification, the chances to achieve long-term economic growth are limited. This challenges the common sense belief, introduced by Adam Smith's argument against mercantilism, that specialization – i.e., export *concentration* – through comparative advantages created by free trade and the unhampered international division of labor will create efficiency gains that will sustain long-term economic growth. If long-term economic growth depends on export *diversification*, it means that comparative advantages should be challenged to some extent. This raises the question when, how, and who should challenge them, spawning a host of political economy questions that reassess the role of the state in economic development (Amsden 2001; Chang 2002; Jacobs and Mazzucato 2016). An approach of *dynamic* comparative advantages appears as a middle way between market-led and state-led development (Lin and Chang 2009).

The question is, however, to what extent this debate has affected Latin American trade policy. On the one hand, trade-related reforms were characterized by tariff reductions, reduction of non-tariff barriers (red tape), reduction of tariff



Chile's Trade Policy Based on Export Promotion, Fig. 3 Effective rate of protection (ERP) in Latin America, 1989–2014. Weighted averages are shown (Source: WITS) dispersion, and reduction or elimination of export taxes. In a broader sense, there was also an acknowledgment that macroeconomic policies would have to be "export friendly," although the exchange rate has remained Latin America's Achilles' heel (Edwards 2010). In a sense, the focus of trade policy broadened somewhat. It was acknowledged that state intervention is not necessarily limited to tariff reductions or increases (at-the-border interventions), but entailed also behind-the-border (subsidies, industrial policies, macroeconomic policies, i.e., all activities that affect the competitiveness and added value of exports before reaching the border) and beyond-the-border interventions as well (transportation costs, country branding, sectorial branding, international marketing, i.e., all activities that affect the competitiveness and added value of exports once they crossed the border).

Nevertheless, in practice, as already mentioned, free trade agreements – i.e., negotiated, bilateral tariff reductions – remain the preferred instrument of their trade policies. On the other hand, Latin American governments have also implemented organizations that promote exports – which in some cases extend to investment promotion within the same organization, as can be seen in Table 1 – and move therefore beyond their traditional at-the-border role (i.e., tariffs and red tape). Additionally, export promotion agencies tend to have close ties to ministries (or departments), as can be seen in Table 2.

The foregoing suggests that the challenge is not so much explaining the tariff level, but rather mapping their varieties of trade liberalization. In spite of the usefulness of theoretical frameworks like Krugman's concept of strategic trade policy (Krugman 1986), endogenous tariff theory or virtually any other model developed by political scientist and (international) political economists (see for an extensive review McGillivray 2001; Mitra 2008), they tend to have a reductionist view of trade policies. By overemphasizing tariffs, they ignore the complexities and varieties of trade policies. Similarly, standard economic theory assesses the effects of trade policy in terms of the effect that tariffs have on economic growth

Chile's Trade Policy Based on Export Promotion, Table 1 Export promotion institutions in Latin America

Country	Organization	Created	Name changed	Export promotion	Investment promotion	Country branding
Argentina	ExportAR (AAICI)	1993	No	Yes	No	No
AR – Córdoba	ProCórdoba	1998	No	Yes	No	–
AR – Mendoza	ProMendoza	2003	No	Yes	No	–
Bolivia	Promueve Bolivia	1998	Yes (2008)	Yes	Yes	No
Brazil	Agência Brasileira de Promoção de Exportações (Apex-Brasil)	2003	No	Yes	Yes	No
Chile	ProChile	1974	No	Yes	No	No
Colombia	ProColombia	1992	Yes (2003)	Yes	Yes	Yes
Ecuador	ProEcuador	1997	Yes (2009)	Yes	Yes	No
Mexico	ProMéxico	2007	No	Yes	Yes	No
Paraguay	Red de Inversiones y Exportaciones de Paraguay (REDIEX)	2004	No	Yes	Yes	N/A
Peru	PROMPERÚ	2007	No	Yes	No	Yes
Uruguay	Uruguay XXI	1996	No	Yes	Yes	Yes
Venezuela	Bancoex	1996	No	Yes	Yes	No

Source: Official data from agencies

Chile's Trade Policy Based on Export Promotion, Table 2 Main organizational features of trade policies in Latin America

Country	Key ministry	Institutional fragmentation	Institutionalized coordination	Private agents network	Institutionalized participation
Argentina	Foreign relations	High	Medium	Wide and disperse	Medium
Bolivia	Foreign relations	Medium	Medium	Concentrated	High
Brazil	Isolated	Low	Medium	Wide and disperse	Medium
Colombia	Isolated	High	Medium	Wide and disperse	Medium
Chile	Foreign relations	Low	High	Concentrated	High
Ecuador	Industry	High	Medium	Concentrated	Medium
Mexico	Economy/ industry	Low	High	Wide	High
Peru	Industry	Medium	High	Concentrated	Low
Uruguay	Foreign relations	High	High	Wide	High

Source: Adapted from Jordana and Ramió (2002)

(Neary 2001), which is – once again – a reductionist view of both trade policy and its objectives.

The extent to which Latin American trade policies rely on market-led or state-led governance of the export sector is unclear. Given the fact that Chile is one of the first Latin American countries to have reformed its trade policy toward free trade (indeed, it is one of the few cases in history that implemented a unilateral tariff reduction) and is widely regarded as a role model because of the success of its export promotion agency ProChile, the latter question will be tackled on the basis of their experience.

Chile's Export Promotion Strategy

ProChile is Latin America's oldest export promotion agency and is probably best known because of its prominent role in the successful introduction of Chilean wine (a nontraditional export) in the United Kingdom and in the promotion of Chile as a wine-exporting country (Agosín and Bravo-Ortega 2009). As such, it has been regarded as a blueprint for other Latin American export promotion agencies.

In 1973, a military dictatorship had seized power in the midst of a profound institutional crisis, triggered by the Marxist policies implemented by Salvador Allende's administration that basically curtailed private ownership. This radicalization of economic policies, in turn, could be regarded as the final, desperate stage of Chile's failed industrialization (Pinto Santa Cruz 1959). Although the economic direction that the military Junta would follow wasn't clear from the start, a group of Chicago-trained economists would occupy key positions in government, and they would use this position to implement sweeping neoliberal reforms (Fontaine Aldunate 1988). In terms of Chile's trade policy, in 1975 unilateral tariff reforms were implemented, which caused that many Chilean firms and even complete industries disappeared (Meller 1996). International competition had weeded out the inefficient companies and those that could not keep up with technological change. The institutions created during this period still determine Chile's export performance. Their impact – and their success – probably explains why a renowned Chilean economist concluded in 2001 that no more institutional reforms were needed in Chile's trade sector (Hachette 2001).

ProChile was founded in 1974, just before Chile's economic trade liberalization. This could be regarded as a remnant of economic nationalism, traditionally popular within Latin American military doctrine, before the neoliberal reforms of the Chicago Boys. On the other hand, within in the context of pro-market reforms and especially one that relies heavily on exports, it makes sense to centralize efforts in order to increase exports. Note that fostering exports does not necessarily entail state-led promotion or a full-fledged defiance of comparative advantages and can be limited to supplying public goods (for instance, market research and other economic information). This would respond to a standard, neoclassical approach to certain market failures, according to which state interventions should restore the price mechanism and not alter its "optimal" allocation efficiency. Essentially, it does not defy an economy's comparative advantage (which dynamics are still market led). A different approach would be "picking winners" and reallocate resources in such a way that specific (nontraditional) sectors are being favored. Comparative advantages are, under this perspective, most likely to be defied (which dynamics can be state led). Complexities and singularities aside, the former describes best the Latin American (and Chilean) case and the latter the East Asian case. For the sake of argument, we will define the former as export facilitation and the latter as export promotion.

Of course, the predominance of one type does not preclude instances of the other. In the particular case of Chile, two examples come to mind. The first is the forestry industry, which has been promoted by different governments since the 1960s. Even the military dictatorship issued an Executive Order No. 701 that would subsidize reforestation, a "horizontal" policy that clearly contradicts the expected neutrality of government policies. The second is the salmon industry, another nontraditional export, which was promoted by Fundación Chile, a public-private partnership, in the early 1990s. Although both industries are not a full-fledged defiance of Chile's comparative advantage (both are natural resources without much added value), the policies used to promote them are more an example of state-led than of market-led policies.

ProChile, however, fits better in the category of export facilitation than of export promotion, even though it is concentrated on behind-the-border activities. Specifically, it was founded to help Chilean companies to internationalize their activities. Later on, the objectives of increasing and diversifying nontraditional exports were added. Contrary to the belief that institutional reforms are no longer needed in Chile, ProChile has known five different organization charts in the last 5 years. Nevertheless, its activities have consolidated around three main strands: (1) diffusion, (2) training, and (3) promotion and consolidation.

Among the first, ProChile provides (prospective) exporters with trade information and market surveys. The organization also coaches individuals and organizes workshops to explain to firms how to export. In the same fashion, it also provides them with pre-internationalization missions. Finally, the third strand is ProChile's most important one (almost 80% of its budget is dedicated to these activities, as opposed to 13% and 7% of the other two). This includes the organization of international fairs abroad and presidential tours – the best known are *Sabores de Chile* (Flavors of Chile) and the Chilean Wine Tour. It also provides a meeting space with others exporters, and it supports communication and marketing campaigns (to increase and diversify the export mix) of which the strengthening of "sectoral brands" (like Chile: Potencia Alimentaria, *Chile: Food Power*) and Chile's country branding (together with the public-private partnership called Fundación Imagen de Chile) are the most important ones. Probably the largest item of ProChile's budget goes to competitive funds (sectorial brands are funded like this). Private companies can apply to state co-funding of a myriad of activities, provided that their objectives coincide with ProChile's. The key to this fund's success is the shared financial burden: in order to weed out projects with questionable returns, private actors are supposed to disburse 20% of the project's total budget. Finally, ProChile provides exporters with

Chile's Trade Policy Based on Export Promotion, Table 3 ProChile's annual budget

Year	Total budget (current Chilean pesos)
2011	33,957,207
2012	32,822,329
2013	33,941,405
2014	34,051,409
2015	34,616,336

Source: Budget Office (2015)

tools and know-how regarding customer management (Table 3).

All these activities – including the contestable funds – can be summarized as the provision of public goods, specifically aimed at improving the quality and quantity of information at the disposal of both exporters and foreign consumers (Volpe Martincus 2010). These activities do not quite challenge the comparative advantage of Chile's economy. They rather help to identify them more accurately.

ProChile's most recent reforms – under the Piñera administration – aimed at forging a closer relationship with incipient innovation policies. Unfortunately, no precise policy or objective has been defined – beyond this mission statement, that is – and it's not clear whether ProChile is now expected to embark on coordinating industrial policies, for instance. What is clear, however, is that ProChile is now active in all three stages of export: behind, at and beyond the border.

In terms of its target "customers," ProChile is increasingly expected to support small and medium enterprises (SME), which underlines its market-complementing character. Its activities are not supposed to alter relative prices, thereby altering resource allocation, but rather overcome traditional market failures through the provision of specific public goods and services. The latter can be observed in many instances of ProChile's behavior.

First, according to ProChile, Chile's major asset – in terms of trade liberalization – is its complete and complex (rivaled by no other country in the world) network of FTAs. Diversification has not happened because Chilean companies have barely tapped into the enormous potential that they offer. Consequently, it is believed that tariff reductions will spawn a change in Chile's production structure.

Secondly, although ProChile embarks on behind- and beyond-the-border activities, they are highly standardized with hardly any impact assessment. In spite of the importance of the Japanese and Chinese market for Chile, no special services are provided to respond to the peculiarities and singularities of the Asian consumers and businessmen. The objective is to provide them with information, not to design strategies that could violate the principle of policy neutrality. This would explain, too, why the awarded subsidies from ProChile's competitive fund are not evaluated in terms of impact or coherence with other winning projects. It is merely a demand-side subsidy, not a reflection of state priorities as in the East Asian case. This lack of strategic vision – for whatever reason – is best seen with Chile's country branding campaign. Probably a low-point was the slogan – a pun that fell flat – *Chile: All Ways Surprising* (Felzensztein 2008).

Conclusion

Trade policy in Latin America has moved toward free trade. Although the "left turn" posed a challenge to neoliberal economic orthodoxy, the critical role that exports play in modern economies has remained unquestioned. At the same time, trade policy moved from at-the-border activities to include also behind- and beyond-the-border activities, without affecting the centrality of tariff changes (FTAs are still the preferred policy instrument). Hence, Latin American trade policies – in spite of searching a more diversified export mix, with higher added value – still hinge on the idea that export growth implies to a large extent longrun economic growth. The potential that more active trade policies offer – defined here as export promotion – have been nevertheless largely ignored, as the case study of Chile suggests. Pro-Chile, in spite of all its notable successes, views its role more as a facilitator that contributes to improving the information at the disposal of consumers and traders, than as a guide that articulates a trade strategy to challenge coherently the economy's comparative advantages.

Cross-References

► Economic Development Policy
► Governance and International Trade
► Public Policy and International Trade

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