Boosting export performance in Chile

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written by oecdecoscope | May 3, 2018
by Antoine Goujard, Chile Desk, Economics Department

Chile's export growth has disappointed over the past two decades. In particular, exports of goods and services – in volume – have only grown at 1.1% annually over 2009-17 and at around 2.0% for non-copper products and services, compared to 4.2% in the average Latin American country (Panels A and B).

Chile's weak export performance reveals structural weaknesses. Beyond copper and copper-related products that are highly dependent on external demand, export growth has been weak in manufacturing and services sectors. At the same time, with low investment in innovation and skills, productivity gains have stalled (Panel C). Exports remain mostly natural-resource based (Panel D) and highly concentrated across products, firms and destinations, with SMEs participating little in international trade.

To enhance inclusive growth potential decisive policy efforts are needed to improve productivity and competitiveness, and broaden the export base. The 2018 OECD Economic Survey shows that while the implementation of the 2014-18 Productivity Agenda and measures to raise the efficiency of electricity markets have been positive steps, more efforts are needed to raise productivity in four key areas:

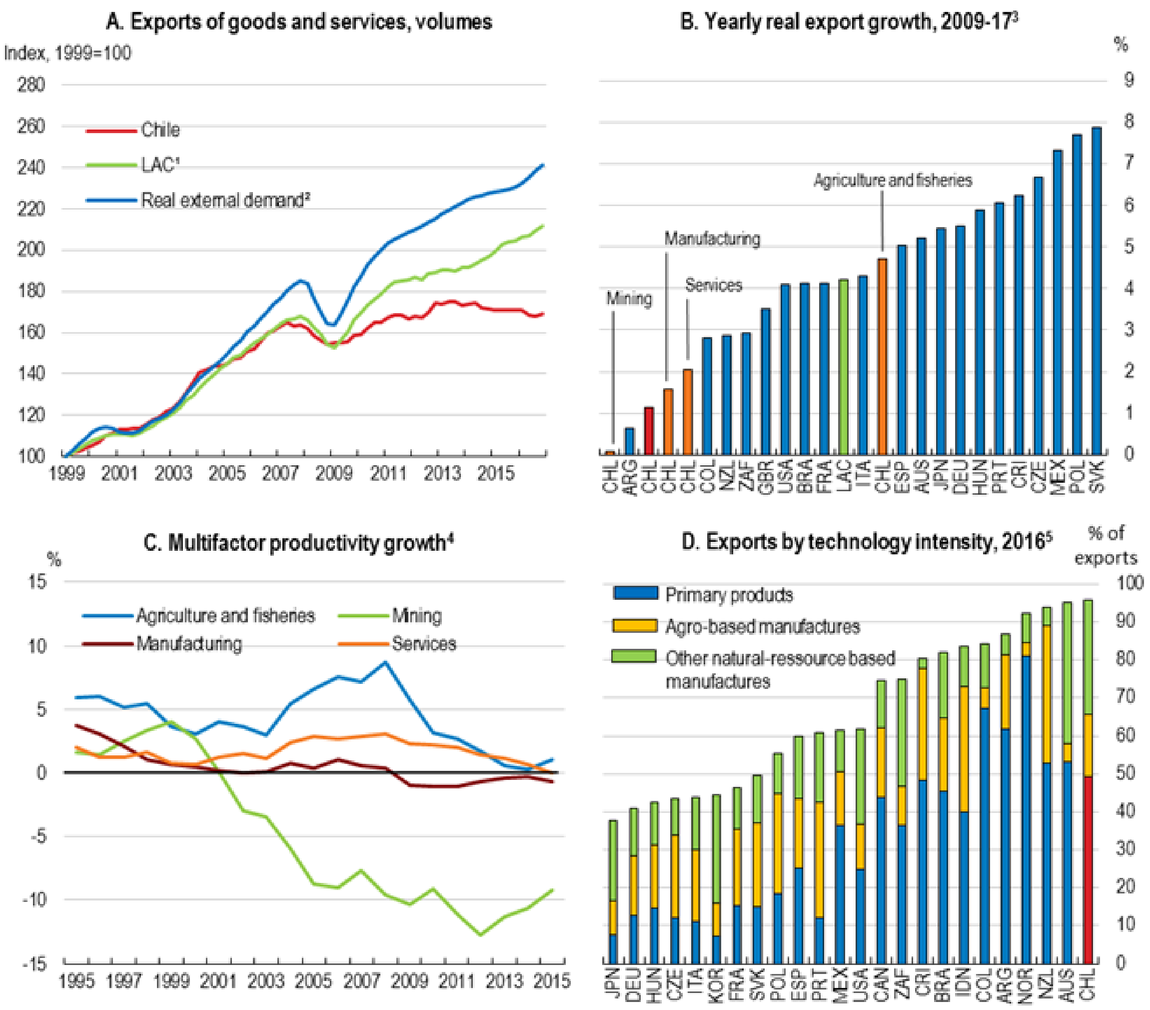
1. **Strengthening competition.** Perceived market dominance that tends to reduce efficiency and raise rents, is among the worst in the OECD. Competition is limited in key sectors, such as telecommunications, maritime services and railways. The recent strengthening of the competition framework is welcome, but systematic reviews

of competitive pressures are needed. Moreover, the guidelines issued by the OECD (2016b) should be used to review existing regulations from a competition perspective according to a set schedule, and pro-competitive and streamlining measures should be implemented rapidly.

2. **Simplifying the business environment.** Administrative procedures, such as licenses and permits, are burdensome, notably for smaller and younger firms complicating entry of new businesses. Streamlining unnecessary and complex regulations would allow substantial productivity gains. Improving the digital procedures for firms (*Escritorio Empresa*), and focusing on ex-post controls for businesses that have low associated sanitary and environmental risks, would ease firm creation and growth. On the trade side, simplifying regulations of preferential trade agreements would help SMEs to go global. Going forward, the regulatory process should build on all stakeholders and strengthened ex-ante and ex post evaluations such as the new productivity assessments (OECD, 2016a).
3. **Increasing innovation and skills.** Business investment in R&D and innovation is particularly weak, while entrepreneurial and managing skills are low and unequal. Increasing public support for R&D and innovation, and strengthening its evaluation, would help develop public-private links and ease R&D financing for SMEs. Additional technical assistance and mentoring for young and smaller firms, building on the recent *Centros de Desarrollo de Negocios*, would also support firm growth, innovation and access to export markets.
4. **Improving logistic and digital infrastructure.** Investment in intermodal connections, railways and digital networks is needed to bridge connectedness gaps (OECD, 2017b). Developing national and local infrastructure strategies, integrating the regulation of public and private ports and better accounting for

environmental damages in transport taxes and road pricing would ensure money is well spent. Fully integrating the single window mechanism for exports and imports (*SICEX*) with the domestic logistic infrastructure and with regional partners would deliver significant synergies and gains for exports.

Chile's export performance has broadly disapointed



1. LAC is the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.
2. Export markets' growth for goods and services, in volume terms (unweighted average of Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico with export market shares as of 2010).
3. Annualised growth between 2009 and the last four available quarters.
4. Five-year moving average. Multi-factor Productivity is adjusted for human capital and hours of work (CNP, 2017).
5. According to Lall (2000)'s classification.

Source: OECD (2017), Economic Outlook 102 Database; Central Bank of Chile (2017), Statistical Database; CNP (2017), *Informe de Productividad Anual 2016*, Comisión Nacional de Productividad and OECD calculations. OECD calculations based on CEPII (2017), BACI Database and World Bank (2017), World Development Indicators; Comtrade Database and Lall, S. (2000), "The technological structure and performance of

Find out more:

OECD (2018), *OECD Economic Surveys: Chile 2018*, OECD Publishing.

OECD (2017a), *OECD Economic Outlook (November 2017)*, OECD Publishing.

OECD (2017b), *Infrastructure Governance Review: Chile – Gaps and governance standards of public infrastructure*, OECD publishing.

OECD (2016a), *OECD Reviews of Regulatory Reform – Regulatory Policy in Chile, Government Capacity to Ensure High –Quality Regulation*, OECD Publishing.

OECD (2016b), *Competition Assessment Toolkit – Volume I: Principles*, OECD Publishing.

Goujard, A. (2018), "Boosting export performance in Chile", *OECD Economics Department Working Papers*, forthcoming, OECD Publishing.

Mind the gaps: boosting productivity and reducing inequality in Chile

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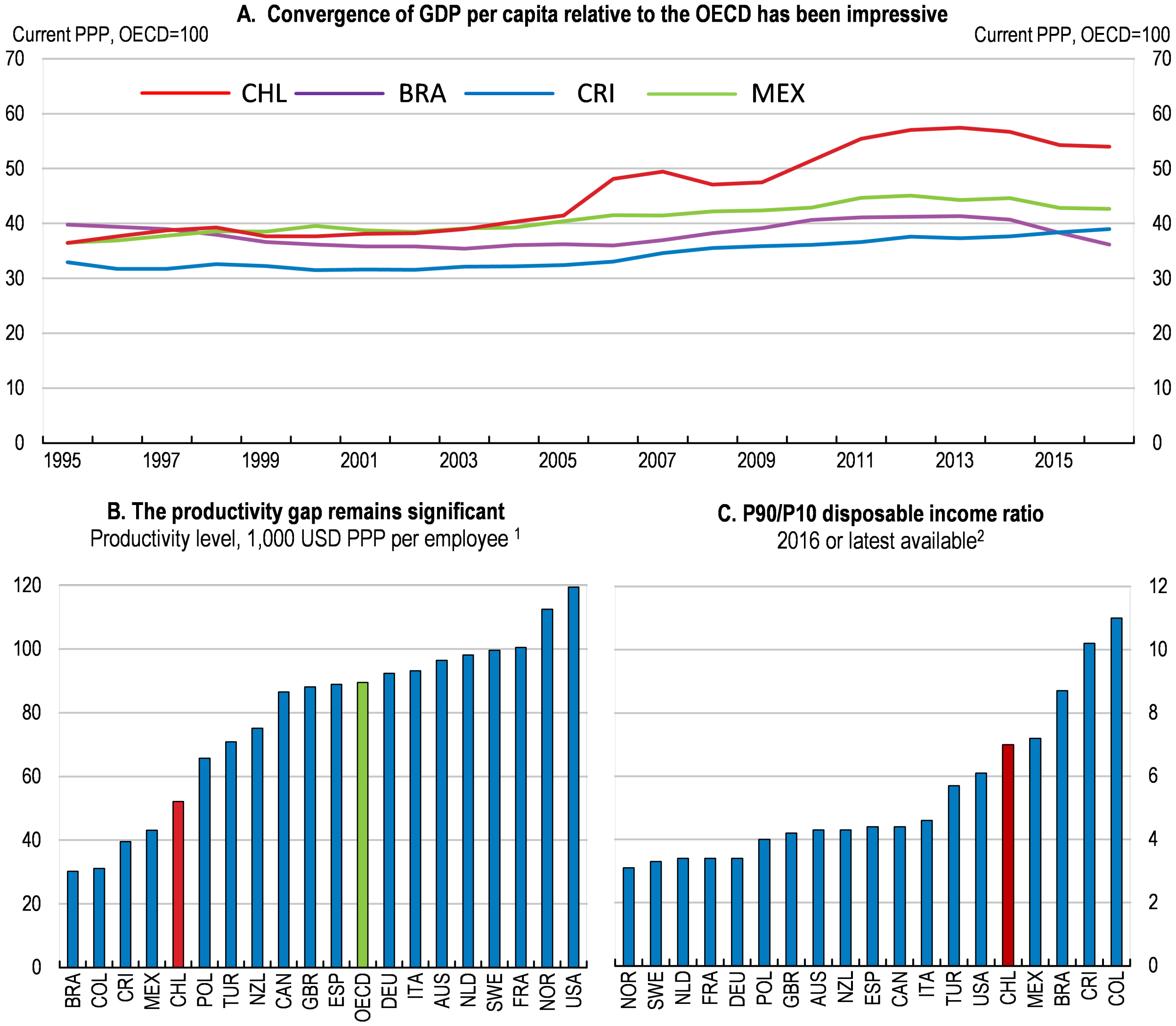
written by oecdecoscope | May 3, 2018
Antoine Goujard and Paula Garda, OECD Economics Department, Chile/Colombia desk

Chile has been one of the fastest-growing economies in the OECD in recent decades. Sound macroeconomic management, bold structural reforms, such as trade and investment liberalisation, and buoyant natural-resource sectors, supported fast convergence in living standards (Panel A). However, progress has slowed: declining productivity gains are limiting prospects for rising incomes and better-quality jobs; and inequality remains stubbornly high (Panels B and C).

The twin challenges for Chile: boosting productivity and reducing inequality



1. 2016 or latest available year.
2. Data refer to 2015 for Chile. The P90/P10 ratio is the ratio of income of the 10% of people with highest income to that of the poorest 10%.
Source: OECD, National Accounts Statistics and Productivity and Income distribution databases.

Chile is at a turning point if it is to continue raising the living standards of all. The 2018 OECD Economic Survey of Chile projects a solid expansion of the economy by 2.9% in 2018 and in 2019. Chile will benefit from more favourable global economic conditions and stronger world trade. The rebound in copper prices will also support short-term growth.

The cyclical recovery offers a key opportunity to address the country's low and stagnant productivity and its persistently high inequality. An ambitious reform agenda could increase GDP per capita by over 5% in ten years and lower inequality, notably through better-quality jobs, according to OECD estimates. This calls for increasing competitive pressures and incentives for innovation, reducing the administrative burden, improving labour market regulations and raising social spending and the employability of all by more training.

Greater productivity would be a major boost for broader-based export growth (Chapter 1 of the Survey). Competition and simplified administrative procedures, notably licences and permits, are key for better competitiveness. The simplification process should include more stakeholders and stronger ex-ante and ex-post evaluations (OECD, 2016). Systematic reviews of competitive pressures and additional technical assistance and mentoring for young and smaller firms would support entrepreneurship and ease access to export markets. Together with higher and well-targeted support for R&D, this will raise innovation and productivity growth. At the same time, further infrastructure investment, notably in intermodal connections, railways and digital networks (OECD, 2017a), are needed to bridge remaining connectedness gaps and to reduce congestion.

Chile has to do more to realise the full potential of its people. Productivity boosting reforms need to go hand-in-hand with measures to raise skills and make the labour market more inclusive (Chapter 2 of the Survey). The recent education reforms will support teaching quality and skills, lowering inequalities (OECD, 2017b). However, continuing to strengthen the quality of education and developing apprenticeships would improve opportunities for all. Female employment and the skills of the youth would benefit greatly from better access to early childcare and extended daycare opening hours. Providing additional relevant training for vulnerable workers would support productivity and employment, notably for women, the lower skilled and the youth. Lower restrictions on permanent contracts and broader access to unemployment insurance would also ease labour market adjustment for workers and firms and increase quality-jobs, thereby reducing informality and boosting well-being.

Further reading:

OECD (2018), OECD Economic Surveys: Chile 2018, OECD publishing.

OECD (2017a), *Infrastructure Governance Review: Chile – Gaps and governance standards of public infrastructure*, OECD publishing.

OECD (2017b), *Education in Chile, Reviews of National Policies for Education*, OECD publishing.

OECD (2016), *OECD Reviews of Regulatory Reform – Regulatory Policy in Chile, Government Capacity to Ensure High –Quality Regulation*, OECD publishing.