

# The impact of globalisation on chile



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Chile's economy is ranked as an " upper middle income developing economy" by the World Bank, and is one of South America's most stable and successful nations, leading Latin American nations in human development, income per capita, competitiveness, economic freedom, globalisation, and low perception of corruption (ranked 21 CPI). However, it has high economic inequality, as measured by the Gini index.

Chile has a population of approximately 17. 1 million people - and has a total land area of 756, 950km<sup>2</sup>(38th). Chile has high living standards (ranking 39th in the world) and a solid foundation for growth, despite employment shortages, with a Gross National Income per capita of \$US 9, 470 in 2010 (in purchasing parity terms, which accounts for exchange rate effects).

Chile has been one of the fastest growing economies since the mid-1980s. During the past 20 years -the period following the return of democracy in 1990- the economy has averaged almost 4. 1% annual per capita growth, raising per capita income for the 17 million Chileans to more than \$7, 000, making them among the most well-off people in South America, and creating a flourishing middle class. Per capita income has doubled in real terms and

the comparative income gap between Chile and high-income OECD countries has decreased substantially.

Today, only 18.7% of the population lives below the poverty line, compared, for example, with 38.7% in Brazil and 62.4% in Bolivia.

At this pace, Chile will become Latin America's most prosperous nation.

The government of Chile is a structure of a democratic republic, where the President of Chile is both head of state and head of government. Chile's legal system is civil law based.

Chile's current Constitution was approved in a national referendum in September 1980, under the military government of Dictator Augusto Pinochet. For the duration of the Pinochet government, Chile moved out of economic statism to adopt a free market economy, which encouraged an increase in foreign and domestic investment. Following Pinochet's power in the 1988, the country was ready to continue with a referendum; and as a result the Constitution was amended to ease requirements for future amendments to the Constitution. From the time of the return of democracy in 1990, Chile has been committed to proceeding economic reforms, a transparent public administration, proactive social investments, and a stable, consensus-based government.

In March 2010, "Coalition for Change" candidate HE Mr Sebastian Piñera was elected president, putting an ending to twenty years of rule by the Concertación political movement. The current president attained office after the worst tidal wave and earthquake in Chile's history. In response to the

emergency, the government's plan prioritised reconstruction during the first part of Piñera's term.

Chile's economy is based on the export of minerals, which account for more than one-fourth of GDP, with commodities making up approximately three-quarters of total exports. Copper is the nation's most valuable resource providing alone one-third of government revenue. Chile is the world's largest producer of copper. The major mining company based in Chile is BHP-Billiton, holding a 57.5 per cent stake of the world's largest copper mine, Escondida, located in northern Chile.

Additionally agriculture is the main employment industry of about 15% of the population; accounting for about 6% of Chile's national wealth, and producing less than half of household wants. The Coastal valleys of Chile are the country's primary agricultural area; its vineyards are the basis of Chile's wine industry \*(Chile is the world's fifth largest exporter of wine and the eighth largest producer). Grapes, apples, pears, wheat, corn, oats, peaches, garlic, onions, beans, and asparagus are the most grown and harvested crops. Livestock production includes poultry and beef. Sheep farming is the leading pastoral occupation, providing meat and wool for domestic use and for export. Lumbering and fishing are also important economic activities.

Chile's industries largely process its raw materials and manufacture a range of consumer goods. The main products are copper and other minerals, iron and steel, fish, processed food, transportation equipment, textiles, and wood and wood products.

The dependence of the Chilean economy on copper prices and the production of an adequate food supply are two of Chile's major economic problems. Chile's main imports are petroleum and petroleum products, chemicals, industrial machinery, vehicles, natural gas, and electrical and telecommunications equipment. The primary trading partners of Chile are the United States, China, Brazil, Argentina, and South Korea.

Australian Government - Department of Foreign Affairs and Trade  
Source: Australian Government - Department of Foreign Affairs and Trade  
Australian Government: Department of foreign affairs and trade: Chile Country brief 2011

Factors that may inhibit ongoing development in Chile

While Chilean salmon and cabernet (red wine grapes) have achieved global success, copper alone still accounts for 46% of all exports; and this is one main challenge Chile faces, there is a need to diversify its copper-dependent economy, for commodities have never been able to absorb the entire workforce, and service industries have not developed satisfactorily to make up the gap. As a result, Chile, the world's leading producer of copper, felt the impact of the global economic crisis as export markets contracted. Low external demand had weakened industrial production, raising unemployment and reducing investment.

It is evident, even with growth of 6% to 6.5% GDP in 2011, due to the vast demand from China for Chilean copper, unemployment is wedged at 8.6%. Amongst people under the age of 24, the rate is virtually three times higher, in part because of firm labour laws that make part-time jobs scarce. But

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employers also mention a skills deficit. Spending on education, at 4.2% of gross domestic product, lags behind the 8.1% Malaysia spends, for example, or the 6.4% Finland budgets.

Currently, the level of education of Chile's labour force is consistent with the country's level of income. However, there is evidence that the quality of education is not as good as the country's high enrolment rates would suggest. Furthermore the curriculum also must be modernized to include more science, math and reasoning skills (speaking English) needed in the workplace. In the latest World Competitiveness Yearbook, compiled by the International Institute for Management Development, Chile ranked low at 41st among 60 nations on the quality of its science education.

In summary, it is clear that the quality of education in Chile is low, but this may be the result either of inefficient education expenditure, or of high income inequality, or both. More research needs to be done to separate these effects. Estimates suggest that increasing the quality of education can offer quite a large boost to economic growth.

Lastly, it is important to point out that the payoffs of improving quality of education take time to deliver significant results. The children that today could receive good education will be a large proportion of the labour force in about 20 more years. For this reason is important to also look for improving abilities of people already in the labour force through training programs. However, despite these lags on the effects of education, improving its quality is a powerful tool for equalizing opportunities, and for integrating poor families to the benefits of economic progress.

Although Chile has keenly invested in social protection programs, middle- and low-income households remain susceptible to crises. Despite the significant improvement recorded over the past 20 years, public services and infrastructure are still out of reach for many Chileans.

Furthermore, Inequality remains high in Chile. Despite considerable improvements in living standards in 2009, 15.1 percent of Chileans live below the poverty line while many millions survive unsteadily just above it. The annual income for the most of Chileans remains low. Income distribution is one of the most uneven in the world and there are few favourable circumstances for growing social mobility. Also little progress has been made in ensuring the equal distribution of wealth and the closure of income gaps. Despite strong economic growth and specific policies such as 'Chile solidarity', the income ratio among the highest and lowest incomes remained mostly unchanged between 1990 and 2009. The 20/20 ratio shows that the average income of the wealthiest 20 percent of Chileans was 12 times larger than that of the poorest 20 percent in 2009. The Gini Coefficient continued to be persistently high in 2009, at approximately 0.53, where the 10 percent of households with the highest income received 46 percent of total income while the 20 percent with the lowest income received just 3.7 percent.

Over all, although Chile does have a high level of inequality, Chile has largely avoided the distortions that often hamper growth in countries with similar levels of inequality. However, other understanding shows that the trade-off between efficiency and inequality is ever-present in public policy and cannot be avoided. An example is the minimum wage.

Finally, growth itself helps in the implementation of good policies. Inequality is only one aspect of a country's living conditions, and in a country with a fairly unchanged income distribution from 1998 to 2008, a period of doubling income per capita is also a period of doubling of the incomes of the poor. Indeed, the poverty rate in Chile declined over this period, from 45 percent of the population to 19 percent. This has allowed public policy to focus on easing poverty without creating significant distortions in economic growth. Although a country's income distribution changes slowly, and no recipe for dramatic change in the distribution is available, growth can reduce the distortions that inequality imposes on policies and institutions.

Additionally Chile must also redouble efforts to acquire foreign investment, which lately has been floating around \$3 billion a year. The current government's efforts to lure cutting-edge industries, such as biotechnology and software, have tumbled, somewhat because the government refuses to offer the types of generous tax incentives that lured Intel Corporation (INTC ) to Argentina and Costa Rica. Chile has had more success with companies such as Eastman Kodak (EK ), Delta Air Lines (DAL ), and Unilever, which have established regional back-office operations and call centres in Santiago, tapping its modern, low-cost telecommunications infrastructure.

More over for inspiration and ideas, Chile is looking to the efficient economies of New Zealand, Finland, Ireland, and Malaysia. Chile's congress recently permitted a special tax on mining profits earned as a result of current record-high prices and will feed the proceeds (around \$US175 million) to researchers and companies developing and innovating technologies or processes that will diversify exports and boost productivity



and efficiency. A public-private committee will select only projects that could be commercially profitable. The problem being that Chile has always had a low level of R&D expenditure, and the increase since 2001 has been small compared with the East Asian countries, and even compared with the world average. The most recent data from the OECD show that Chile, with R&D expenditure of 0.6 percent of GDP, spends less on R&D than the average of a sample of developing countries (0.7 percent of GDP).

Also the composition of R&D in Chile is very different from what one typically finds in the rest of the world, which raises the question of whether that composition is efficient. In 2005 about 55 percent of Chilean R&D expenditure was in basic science, as opposed to applied research. In the industrialized countries and in the East Asian countries, this share is generally between 10 and 20 percent. Nevertheless, Chile should try to increase its R&D expenditure, and the additional spending should be devoted mainly to applied R&D. Increased spending on R&D would surely help the country grow faster.

Finally the first trading partners a country should have are its neighbours. Distance, language, and culture should be the basis for integration into the world economy. Even when neighbouring Economies have similar structures; intra-industry trade can help to increase the basis for trade. Unfortunately, intraregional trade in Chile and Latin America is low and although it has increased in recent years, it remains comparatively low.

Recent trade disputes such as the problems over natural gas with Argentina and Bolivia, have affected the Chilean economy.

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Q 3 Examine the impact and responses of this Economy undertaken by the government or specific industries to the challengers and/or opportunities presented by globalisation

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## **Describe**

Provide characteristics and features

## **Analyse**

Identify components and the relationship between them; draw out and relate implications

## **Examine**

Inquire into

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<http://www.smithsonianmag.com/travel/chile.html#ixzz1KOclJ2In>

Chile: Economy - Infoplease.com <http://www.infoplease.com/ce6/world/A0857288.html#ixzz1JwAjQkzx>

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