COMMENTS ON GONZALO SALINAS’ PAPER “IS CHILE A ROLE MODEL OF EXPORT DIVERSIFICATION POLICIES? A REASSESSMENT”

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First of all, many thanks for the invitation. It is a pleasure and an honor to be here, in such important event, it is always great to come to the “FEN”. It is really wonderful opportunity for me for seeing lots of friends and coauthors with whom I have built my career…Pepo, Manuel, Roberto, Valentina, Claudia among others…it was a nice detail inviting me today…

I will start by making a brief summary of the main ideas of the paper, which is a brilliant and provocative article…so I must congratulate the author….I enjoyed a lot reading it..

I had an “epiphany” reading the paper and linking it to my own research….you will see it makes sense….

Thus, I will connect it to my research with Pepo, Daniel Lederman, Manuel Agosin, Roberto Alvarez, Jose Miguel Benavente, Nicolas Eterovic, Pablo Egaña and Bronwyn Hall.
The paper addresses a very polemic issue, is the Chilean economy diversified enough? If it has high complexity exports?

This reminds me an old discussion....Are we really doom to the resource curse? Low growth, low value added in our exports, low technology, low innovation capabilities, low complexity, etc? Is it truly a real curse to have copper, lithium, salmon, wine, fruits....?

I do not think so....any of you can drive an electric car with lots of Chilean copper and lithium, eat salmon, drink white wine and eat a berries cake....seems like a nice evening plan to me....not even close of a curse...more like a blessing....(by the way there still cheaper ways to be carbon neutral than having an electric mini....believe me...)
SUMMARY

• With Pepo (2006) we found in highly cited work...that natural resources are not a curse...but a blessing if we have enough human capital...as Australia, New Zealand, Sweden, Finland, Norway, Denmark, Canada....

• But, what ideas does the paper develop?

• First, the complexity index often used and cited, and where we find that Chile, Australia and other natural resource abundant countries rank poorly....has structural weaknesses in the way they are computed...

• The value of copper exports or natural exports increases with prices...reducing the share of complex exports on total exports therefore decreasing artificially the complexity index from Chile and many others...

• Moreover, as we will see this is a biased and wrong way to state that we are not complex enough....
SUMMARY

The author states that what we truly have to investigate is the evolution of complex export per capita….brilliant….why I did not think on it!!!!!

Using a gravitational model of trade for NHM, Complex, Manufactures and Services he finds that…” reducing distance by half is associated with a 150 percent increase in NHM exports…” and “…one standard deviation increase in educational attainment is associated with a 170 percent increase in NHM exports. One standard deviation increases in governance and infrastructure quality increase NHM exports by also significant 65 and 20 percent, respectively, and reducing the average import tariff from 15 to 5 percent is associated with a significant 45 percent increase in NHM exports.”

These are huge numbers and might just be the tip of the iceberg….there might be many other dimensions to decrease barriers to trade…for example specific infrastructure (ports???)…regulation and standards…English as second language…FTA? Differences among them? Do we know which one has been most effective?
SUMMARY

I also noted, that the impact of distance matter the most in complex exports and it matters a third in services....and in many dimensions complex exports are more sensitive to the explanatory variables...

It came to my mind, and correct me If I am wrong, but with similarly endowed countries complex exports might prosper while for differently endowed traditional HO dominates...do we find this in the data???

What has truly happened is that complex export per capita in Chile have been growing faster than countries of the Andean region, Southern Cone, and they are at a similar level than East Asia Emerging Markets!!!!....
Moreover, not only this, the degree of remoteness....really impacts negatively export complexity in Chile....and that after controlling for it....we are not underperformers....but outstanding performers..

Finally, the author argues that, what he called horizontal policies, in Chile have payoff in the evolution of complex exports....maybe it would be better to talk of public goods provision and investments in infrastructure provision...there is a brief discussion on how much we will improve moving these variables to New Zealand level ...”Attaining all these improvements would triple Chile’s complex exports, considerably surpassing the average in EAEM although not attaining EE’s average largely because of remoteness....

My opinion is that we need to learn a lot in how to improve further...there have been a lot of other horizontal and few vertical policies...do we really know their impact??...do we really know where (sector, destination) and on what to focus??

SUMMARY
CHILE AND REMOTENESS ON THE INTERNET
WHAT DOES MY OWN RESEARCH SAYS ABOUT THESE RESULTS?

I already mentioned our research with Pepo.

A forthcoming (2023) book chapter with Nicolas Eterovic, we show evidence that Chilean remoteness and lack of human capital and infrastructure were key to explain the divergent paths of Scandinavia and Chile in the XIXth century....consistently with this we also argue that global market access was key in the 90’s, 2000’s Chilean growth ....

With Daniel Lederman (2004) we found that infrastructure was key to increase the agricultural sector’s productivity (paved roads, telephones, electricity)....this is consistent with the role of markets access on growth and productivity again....
WHAT DOES MY OWN RESEARCH SAYS ABOUT THESE RESULTS?

With Manuel Agosin and Roberto Alvarez (2011) we found that remoteness increased export concentration and that human capital decreased it....market access and “horizontal policies”...remember Dornbusch, Fischer and Samuelson (1977)...transport costs and more narrow....

With Jose Miguel Benavente and Alvaro Gonzalez (2014) we find that firms that invest in R&D are considerably more likely to export (the reverse is not true). Even though exporting does not stimulate investment in R&D, exports and R&D have a joint effect on improving productivity.....we are still lagging behind on R&D incentives and expenditure....but we show they are a key “horizontal” policies to increase exports and their complexity...
WHAT DOES MY OWN RESEARCH SAYS ABOUT THESE RESULTS?

We are finishing an article with Jose Miguel, Pablo Egaña and Bronwyn Hall where we investigate the role of corruption in a Romer based model of endogenous growth. We find that corruption decreases R&D levels, human capital in R&D and economic growth. Here, we can parallel the “corruption tax” as an “iceberg transport cost” for complex exports….and argue that remoteness decreases R&D, human capital in R&D and economic growth…as we find with Nicolas Eterovic…back to the beginning…we will start working with Pablo Egaña, and now Roberto, in the empirics of this….😊
And what other results in the literature relate to remoteness and transport costs....a beautiful theoretical article from Maurice Obstfeld and Kenneth Rogoff (2001) on the six puzzles of international macroeconomics...in my humble opinion they deserve the nobel prize for this

....with iceberg transport costs they explain “J. McCallum's home bias in trade puzzle, the Feldstein-Horioka saving-investment puzzle, the French-Poterba equity home bias puzzle, and the Backus-Kehoe- Kydland consumption correlations puzzle. That one simple alteration to an otherwise canonical international macroeconomic model can help substantially to explain such a broad arrange of empirical puzzles, ......we term the exchange-rate disconnect puzzle.' The latter category of riddles includes both the Meese-Rogoff exchange rate forecasting puzzle and the Baxter-Stockman neutrality of exchange rate regime puzzle.”
IN SHORT...

Remoteness has undesired effects on the performance of our economy and, we as academics (with research), and the State (with policies) must address the shortcomings of our geographic location...what it is have been done so far has paid off in many respects ...now even who used to criticize recognized it...but we have to push forward and agenda for deepening Market Access for Chilean firms.... roads, ports, airports, train, telecommunications, internet, English as a second language, second generation FTA’s, world class regulations and standards and State agencies (in many aspects they can be also a significant cost for investments and exports....) among others
THAT'S ALL...MANY THANKS....CONGRATULATIONS TO THE AUTHOR....AND “FEN” FOR THIS 50TH ANNIVERSARY OF “ESTUDIOS DE ECONOMÍA.”