



Chile needs a renewed pact between government, business and civil society

Santiago, 9 January 2018 - To reap the benefits of global changes, Chile needs to update its economic model, according to the *OECD [Production Transformation Policy Review \(PTPR\) of Chile](#)* released today at the presentation hosted by Chile's Ministries of Economy, of Foreign Affairs and the Production Promotion Corporation.

The report has been produced by the Development Centre of the Organisation for Economic Co-operation and Development (OECD), in collaboration with the Economic Commission for Latin America and the Caribbean of the United Nations (ECLAC) and the United Nations Conference on Trade and Development (UNCTAD).

Since 2000, sound macroeconomic management, openness to global markets and sustained Chinese demand for raw materials have enabled Chile to enjoy higher and more stable growth than most other Latin American economies, an annual average of 4%.

According to the PTPR, the successful economic performance brought about significant progresses. Living standards have improved together with access to better services and infrastructure; today, the average income of a Chilean equals 40% of that of a US citizen, up from 26% in 1990.

At the same time, the PTPR alerts that low productivity is holding back Chile's growth potential. Total Factor Productivity (TFP), which measures the efficiency of all inputs to a production process and is a good indicator of an economy's long-term technological dynamism, has remained stagnant since the beginning of the 1990s. This is mostly due to mining, a sector where TFP has been declining at a yearly average of 4,7% in the last 25 years. The number of workers per unit of output in mining is three times higher in Chile than in Sweden. In addition, most workers in Chile are employed in low productivity activities.

The report points out that despite progress Chile still has a limited knowledge and learning base. Economic opportunities are concentrated in few activities, a few regions, and a few firms: mining accounts for more than 55% of Chilean exports; and 40% of Chileans live in the Santiago Metropolitan Region and generate 48% of national GDP. Those imbalances hamper progress and limit innovation. Large firms play a dominant role in Chile's economy, but they innovate less than the ones in other OECD countries. They account for 73% of the domestic business turnover and 57% of total business research and development (R&D) expenditures, while in Germany, for instance, such firms account for half of the business turnover and for 85% of business R&D. Chile has one of the lowest R&D intensities of all OECD countries (0.39% of GDP), and its private sector's contribution – only 33% of total R&D expenditure – is significantly below the OECD average of around 68%.

“Chile has potential to be part of the next production revolution. But being a stable and open economy will not be sufficient to sustain business development and respond to the Chileans' evolving demands for a more inclusive, green and prosperous society. A pro-innovation mind-set from the business community and targeted policies to facilitate business development and foster learning and innovation will be critical to seize the unique window of opportunity of Chile's current momentum.” said Mario Pezzini OECD Development Centre Director and Special Advisor to the OECD Secretary General on Development while launching the report.

“Active public policies are required to sustain the expansive cycle opened with the rebound of Latin American growth. Chile's strategic programmes for diversification stand out, as well as the support given both to traditional and new industries and the active participation of private actors in the design and governance of these programmes”, stressed Mario Cimoli, ECLAC's Deputy Executive Secretary *ad interim*.



Seizing these opportunities requires making the economy more knowledge-based and less reliant on natural resources. This includes tackling the skills, infrastructure, standards and supply chain gaps to make mining and other traditional activities more productive and environmentally sustainable and to foster openings in future competitiveness areas, including solar energy, an area in which Chile has a major potential. The PTPR also highlights the need to ensure resilient, reliable and safe Internet connection and to modernise training at all levels – from vocational to post-graduate – to endow the next generation of workers and managers with the skills needed for the future. Chile can reap increasing benefits from its trade openness by improving its participation in global value chains (GVCs) and seeking opportunities beyond mining, including in services.

The PTPR calls for modernising the country's economic model with a renewed approach to the government-business-society relationship.

"Finding such an approach tailored to local economic circumstances and institutional conditions will be key to forging an industrial strategy that can help Chile avoid the dangers of a middle income trap", said Richard Kozul-Wright Director of UNCTAD's Division on Globalisation and Development Strategies.

Making advances in closing the skills gap and consolidating the progress of strategic consultations between government and business to address future challenges will be of crucial importance. The report identifies three game changers for the long-term:

- Advancing in modernising public institutions and governance to cope with the more complex roles that the government will have to play in the future. Strengthening inter-ministerial coordination on innovation and economic transformation and enabling long-term financing for strategic investment will be critical. Furthermore, consolidating the progress in articulating production, Foreign Direct Investment, trade, energy and education agendas will be important. And the government's successful consultation initiated with firms now needs to be extended to civil society, entrepreneurs, SMEs and start-ups.
- Strengthening the anticipation capacity at the highest strategic level. Chile currently lacks an institutional space for planning and scenario building. Re-building this capacity would contribute to achieving consensus on national development challenges – such as greening the economy – and align interests for change. It would also contribute to fully exploiting the potential of existing initiatives such as the 2050 Energy Agenda and the 2030 roadmaps of strategic programmes for economic transformation.
- Shifting to a place-based approach to policy making. Chile would benefit from continuing advancing in its regional agenda to identify new sources of growth and make it more inclusive. Regional governments in Chile suffer from capability gaps with respect to the national administration, it is crucial to increase capabilities in regional and local governments as well as to implement effective mechanisms for resource transfers between the national and regional governments.

To obtain a copy of the report, journalists are invited to email bochra.kriout@oecd.org.

For more information on the PTPR Chile, visit: www.oecd.org/publications/production-transformation-policy-review-of-chile-9789264288379-en.htm.

And follow the discussions about the report on social media: #PTPRChile

PRESS CONTACTS:

- ECLAC: Public Information Unit, prensa@cepal.org ;Tel +56 2 22102040



- OECD Development Centre: bochra.kriout@oecd.org; Tel: +33 145 24 82 96
- UNCTAD: Catherine Huissoud: catherine.huissoud@unctad.org; Tel: + 41 22 917 55 49

About the report:

The PTPR of Chile is based on good practices from the OECD Initiative for Policy Dialogue on GVCs, Production Transformation and Development and peer advice from Emilia Romagna (Italy), Germany and Sweden.