

Chile: Copper is King



Presentation Outline

1. Chile and international trade

- policies, FTAs, tariffs, export and import markets, top trade partners, trade as percentage of GDP

2. Chilean Copper Production

- Chilean copper mine production, history of Chilean copper, copper export destinations, facts on Chilean copper production

3. Chilean Copper Exports to China

- Graphs, Chinese urbanization, examples of Shenzhen and Shanghai industrialization, reasons for Chinese imports of copper

4. Dutch Disease

- Definition, Chilean economy as an example, different graphs demonstrating Dutch Disease

5. Potential Improvements in Trade Practice and Policy

- suggestions to improve trade, practices/policies that should be maintained

Chile and International Trade

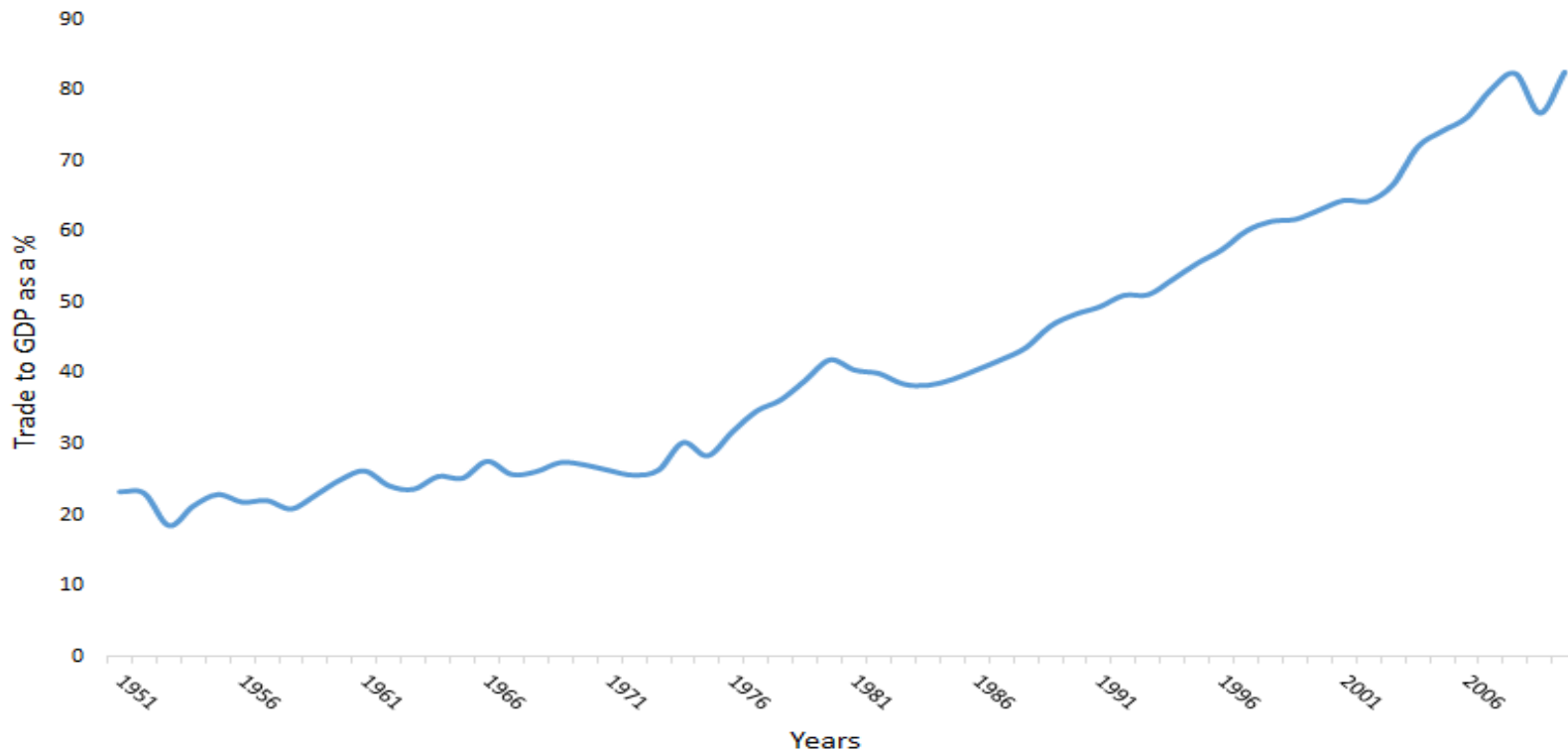


Global Trade Today



- Since 1990, Chile has signed 25 FTAs with countries throughout the world.
 - 2005: China and US FTA passed
 - FTAs with EU, South Korea, New Zealand, Singapore, Brunei, China, and Japan
- Chile was originally a member of GATT in 1949 and became a member of the WTO when it was renamed in 1995.

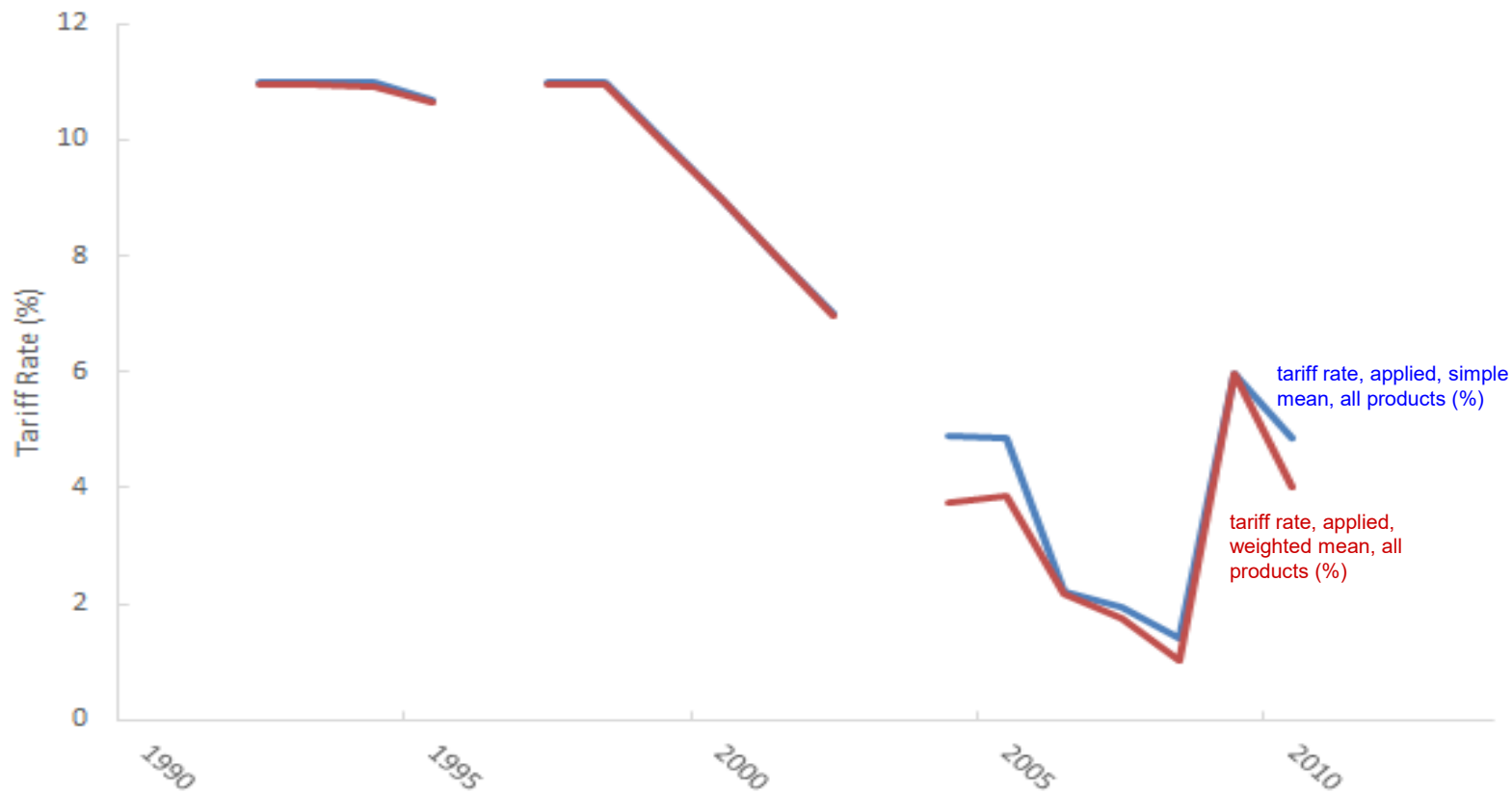
Chile's Open Economy?



Tariff Rates in Chile

- The MFN tariff is 6% across the board.
- Higher tariffs exist only on wheat, wheat flour, and sugar.
- VAT of 19% on almost all goods that are imported.
- Luxury Taxes of 15% of rugs or fine tapestries.
- Higher tariffs on wheat and sugar are used to protect the domestic producers.

Tariff Rates 1990 - 2013



Non Tariff Barriers and Export & Import Policies

- Price Bands
- Duty Drawback Program
- Import Bans

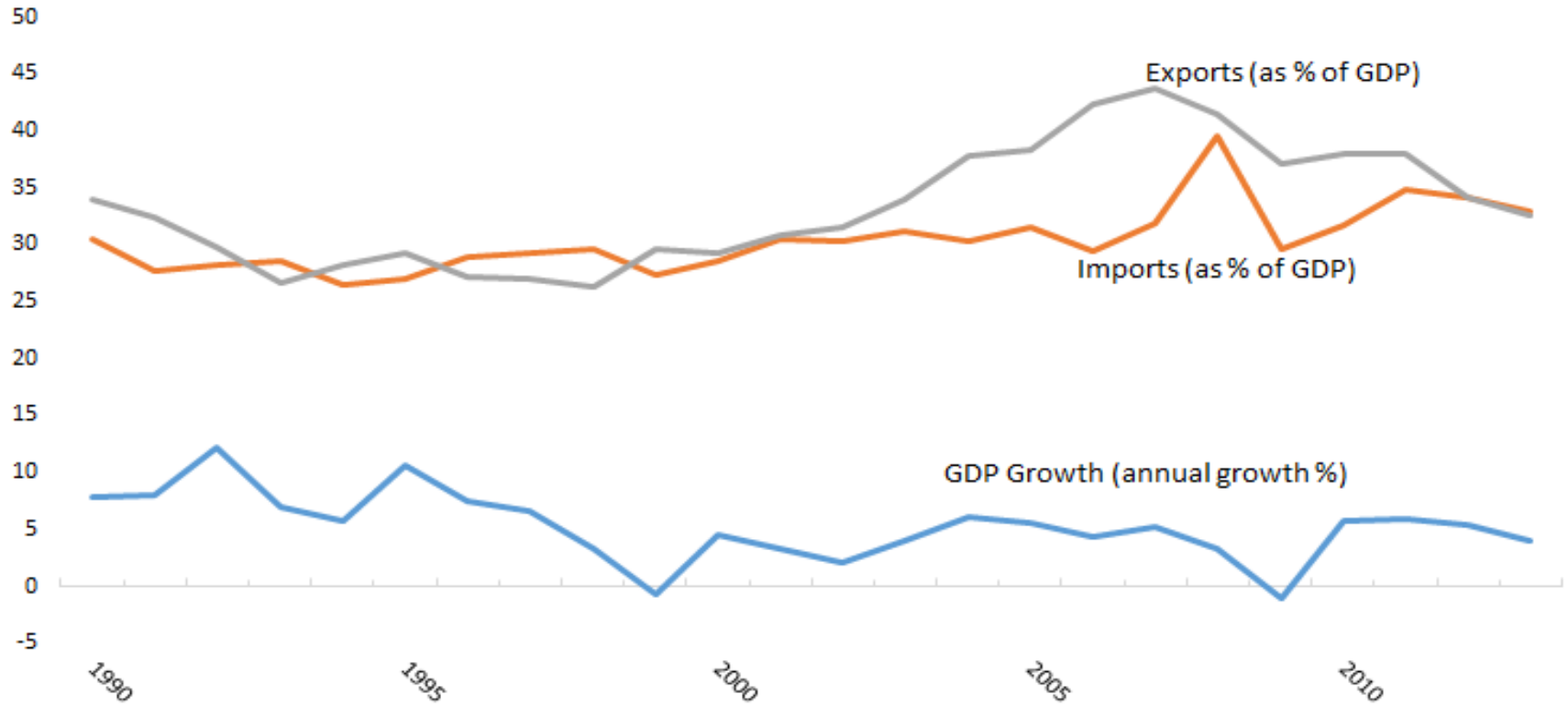
Chile and the WTO

- WTO Committees Chile is a member of:
 - APEC
 - Cairns Group
 - G-20
 - Friends of A-D Negotiations
 - Friends of Fish
 - Joint Proposal

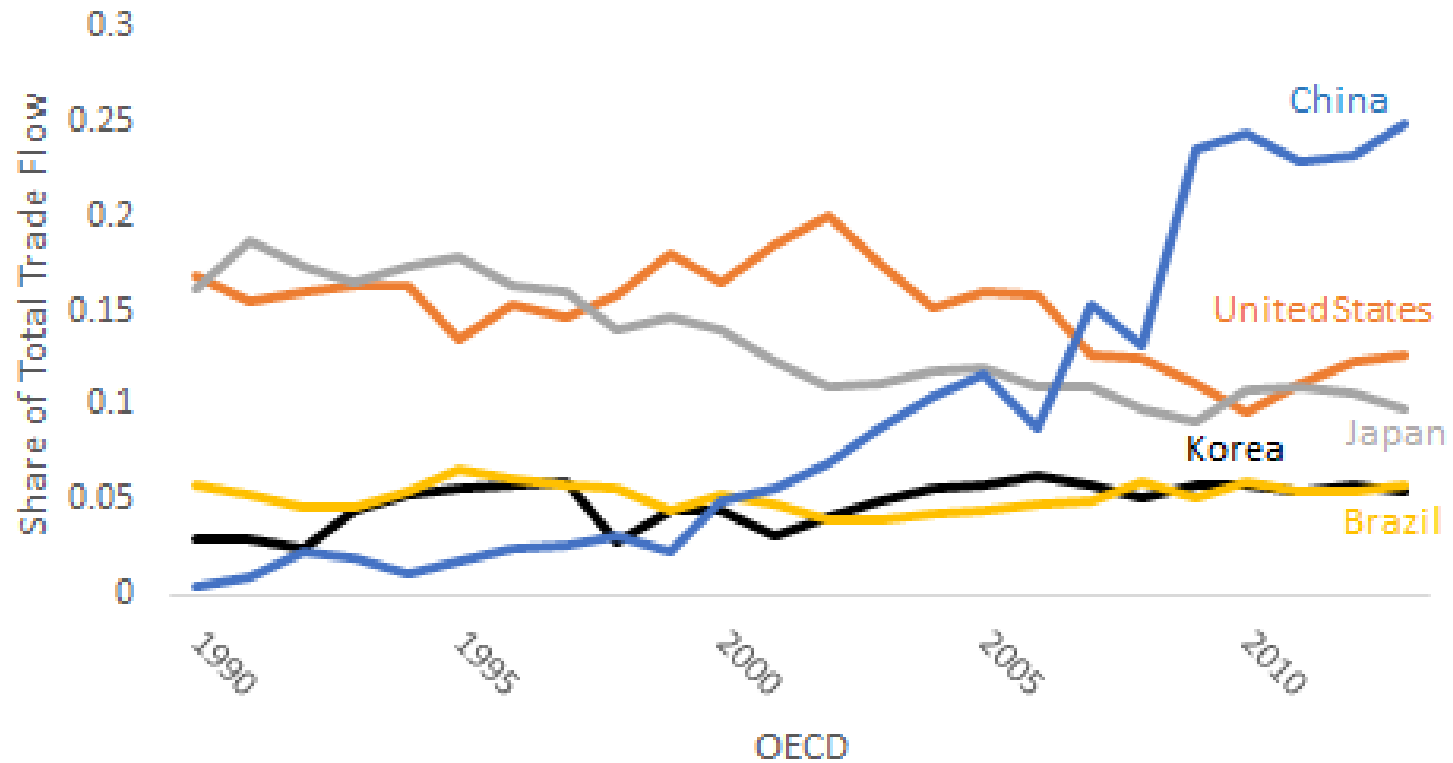
- During the Doha Round, Chile pushed for reduction of agricultural subsidies and improvement on anti-dumping laws



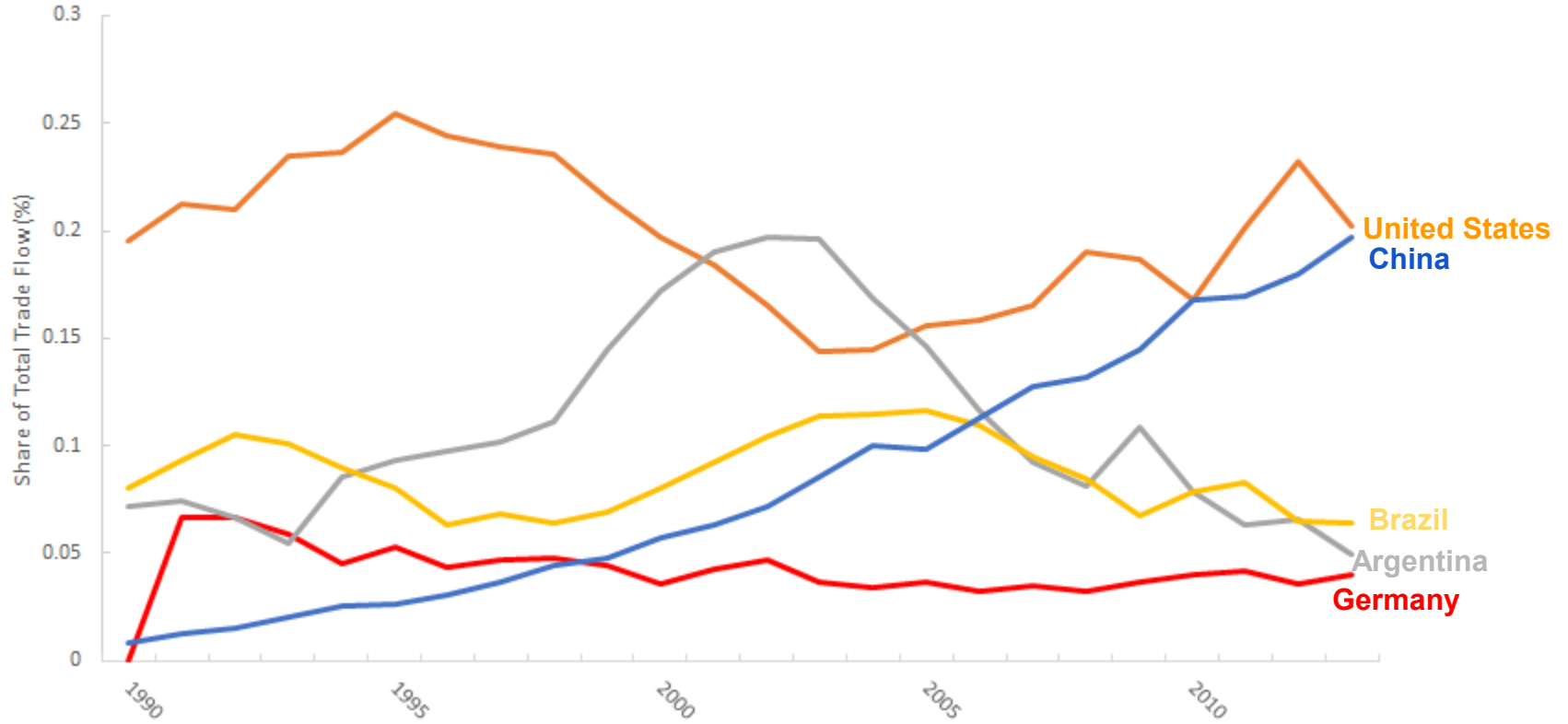
GDP growth (annual %), Exports and Imports growth (% of GDP)



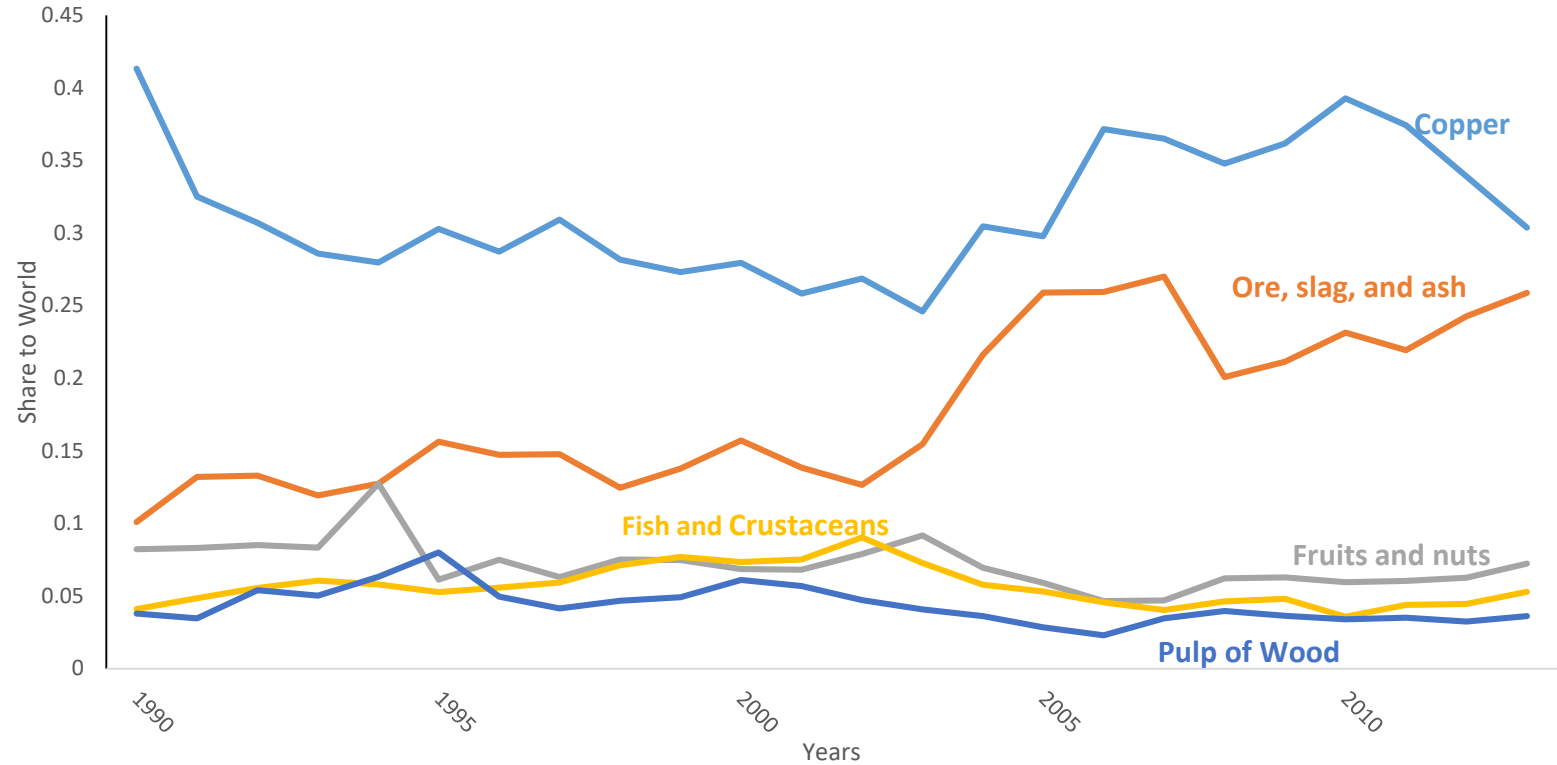
Top 5 Export Sources for Chile



Top 5 Import Sources for Chile



Top 5 Commodity Exports to the World



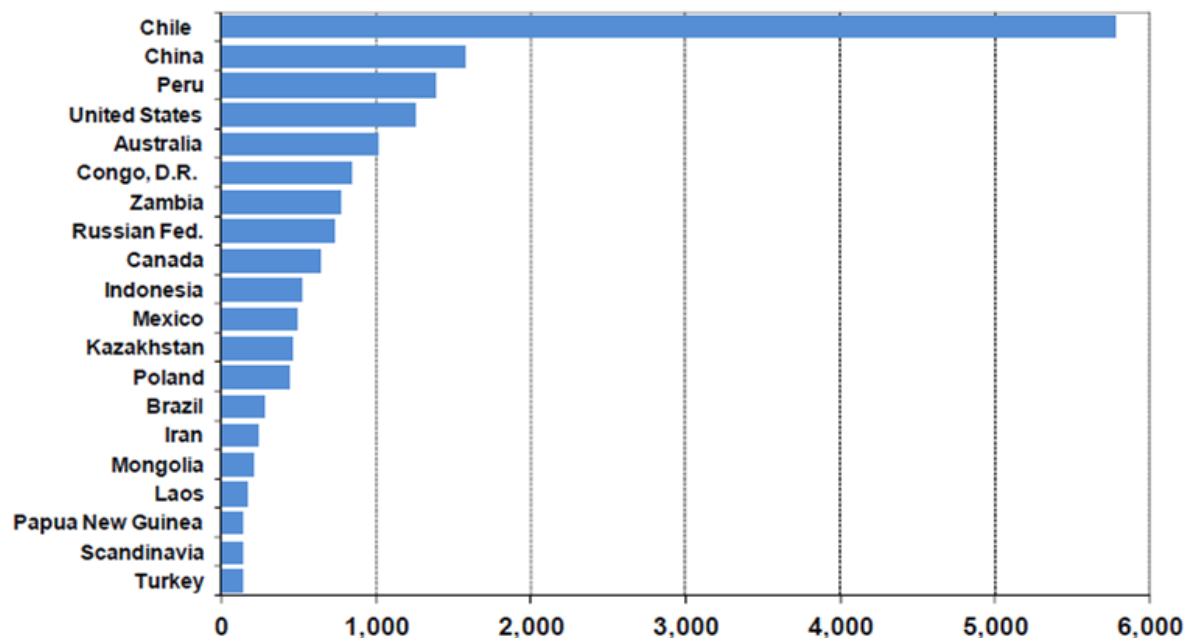
Chilean Copper Production



Copper Mine Production by Country: Top 20 Countries in 2013

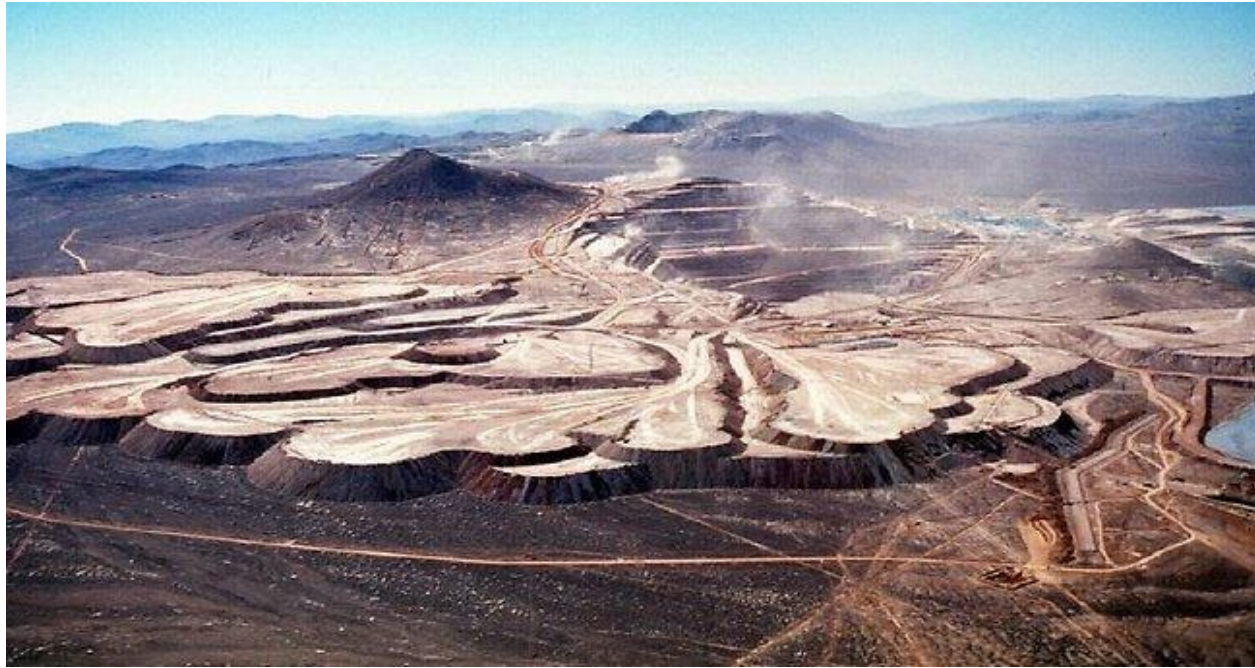
(Thousand metric tonnes)

Source: ICSG



Chile accounted for almost one-third of world copper mine production in 2013 with mine output of almost 5.8 million tonnes copper.

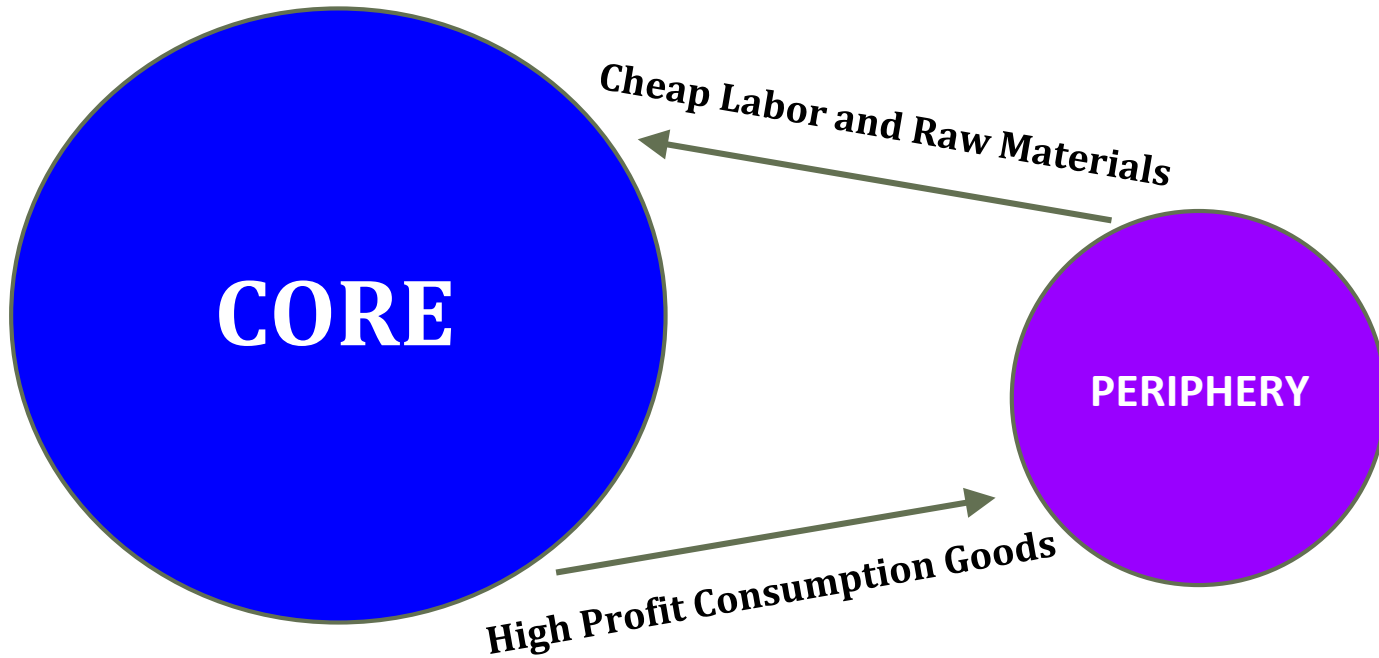
Escondida Mine



History of Chilean Copper

- 1930's: Great Depression shocks market and illustrates dependence.
 - Nitrate disappears as major export, copper to take over
- 1969: copper and iron make up 85.1% of total exports.
- 1971: Salvador Allende nationalizes Chile's American-owned copper mines, disorganized tariff structure makes international trade difficult.
- 1973: "The Miracle of Chile": Coup d'états, Chicago Boys, copper remains nationalized.
- 1976: CODELCO formed, all copper deposits managed under one company.

Dependency Theory



History of Chilean Copper

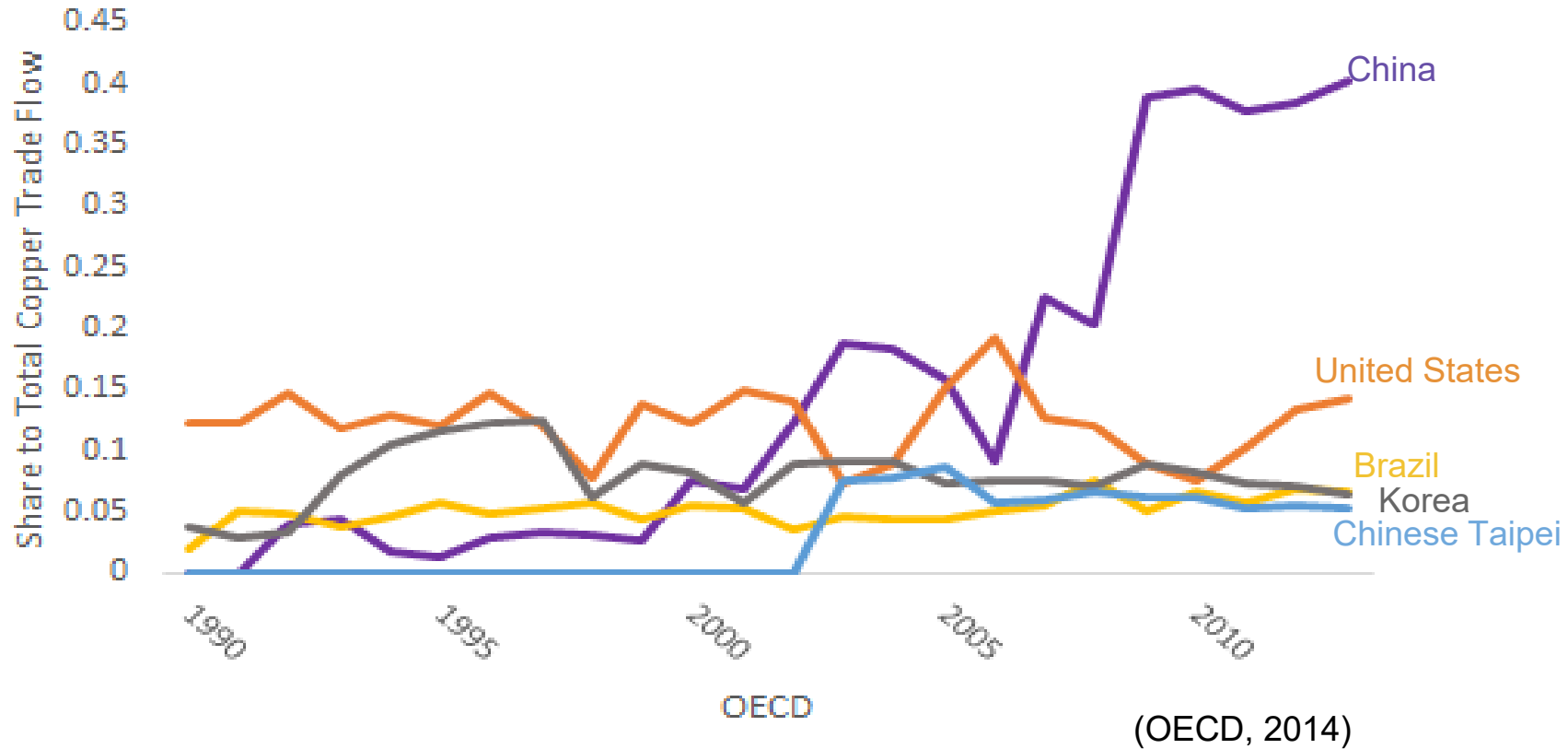
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Copper is King

- Today, CODELCO mines over 1/10 of world's copper.
- Chile mines over 1/3 of the world's copper.



Top 5 Copper Export Destinations

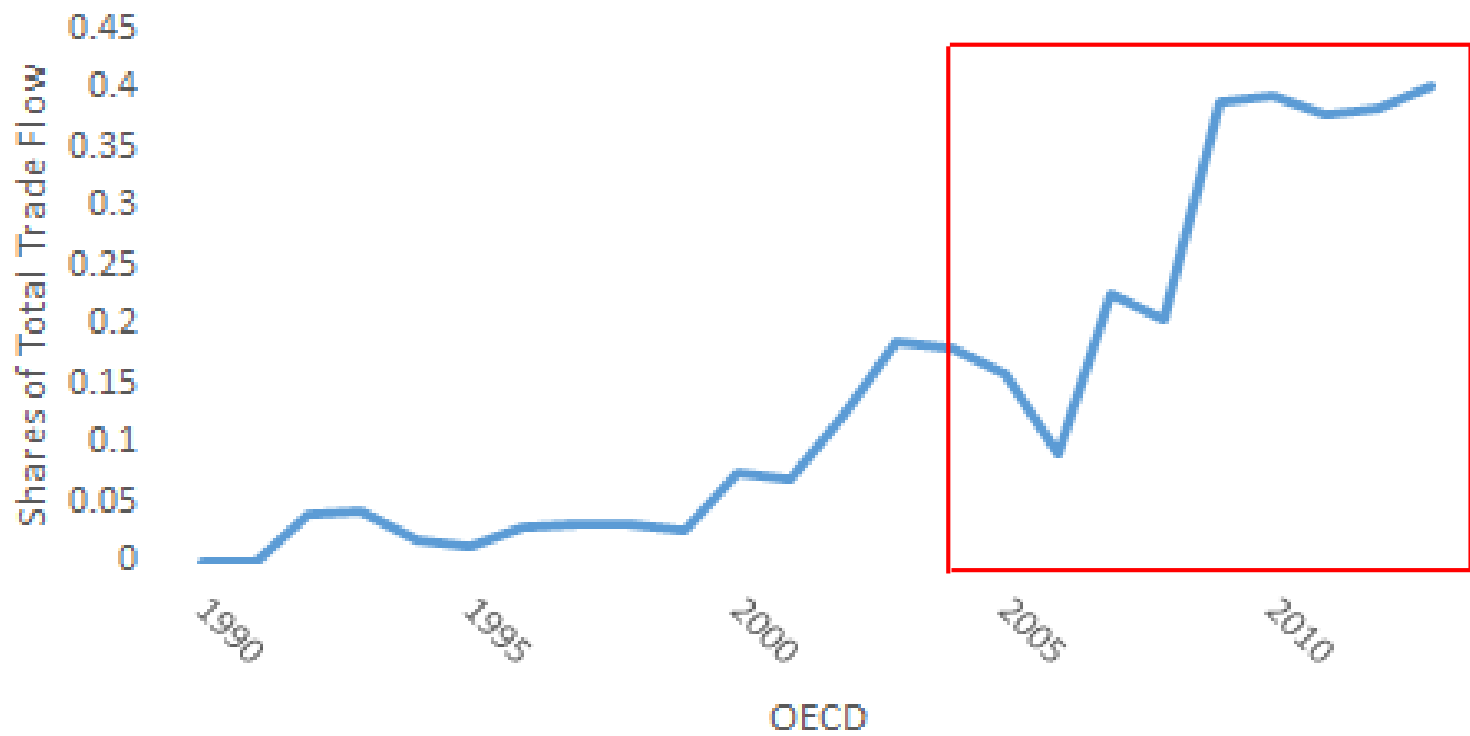


Chilean Copper Exports to China

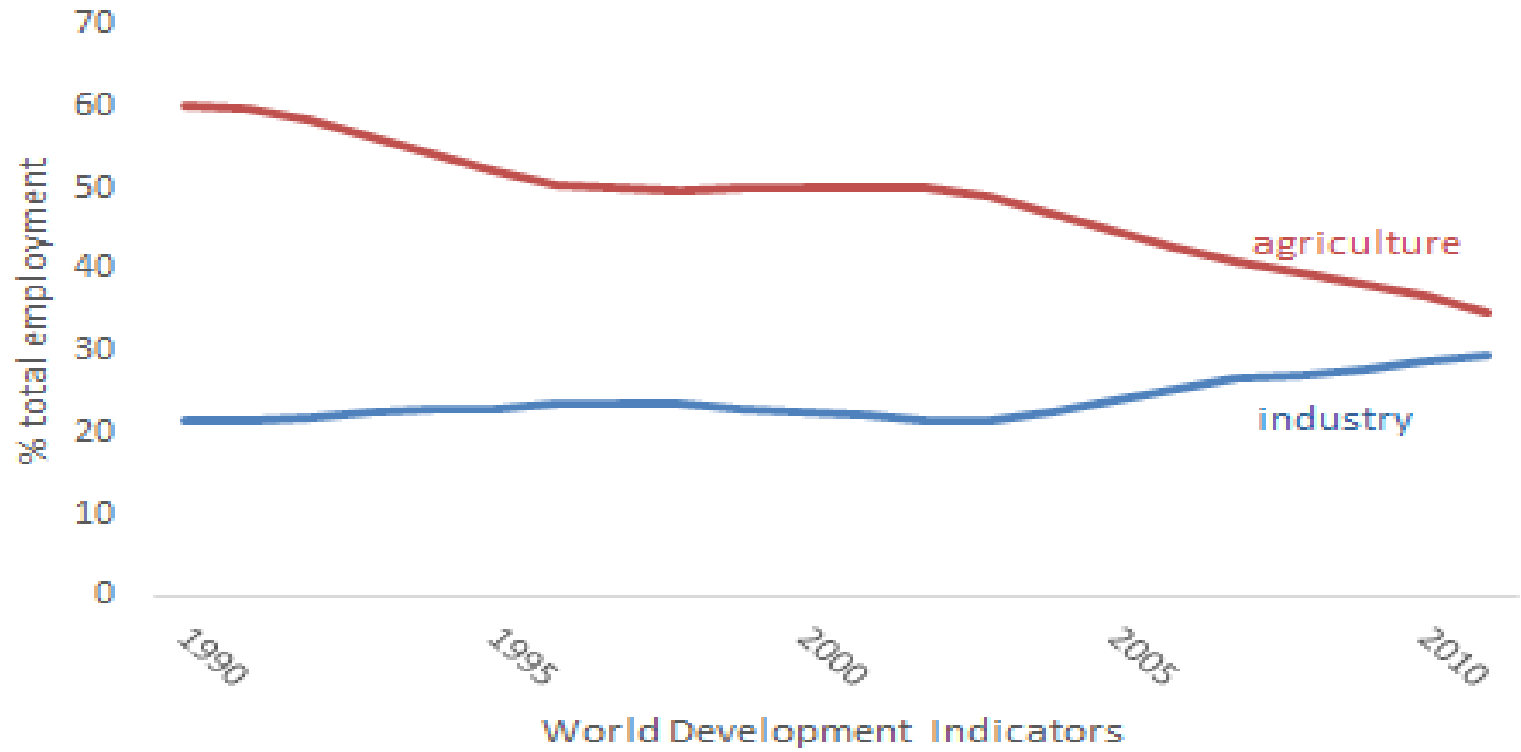


wiseGEEK

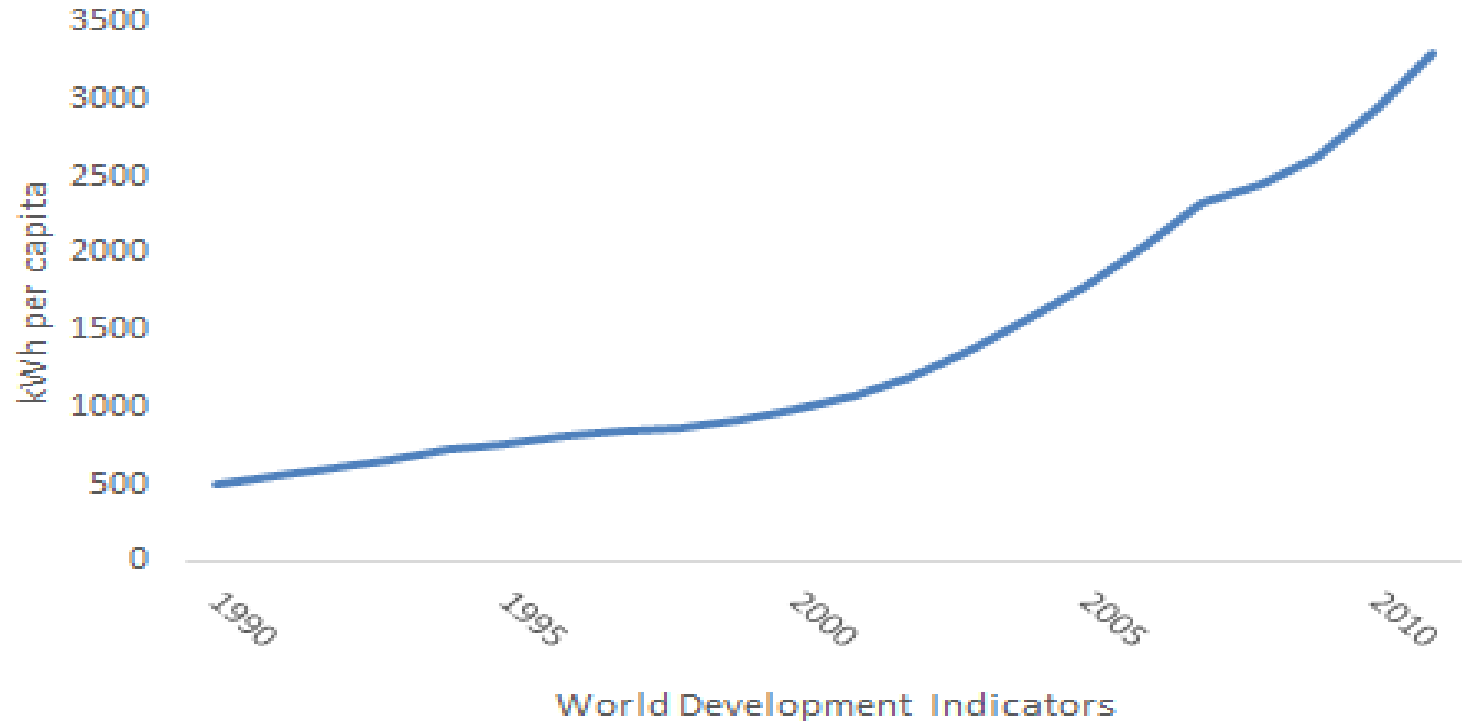
Copper Exports to China



Percent Chinese Population Employed by Sector



Measure of Urbanization - Electrical Power Consumption Per Capita (China)





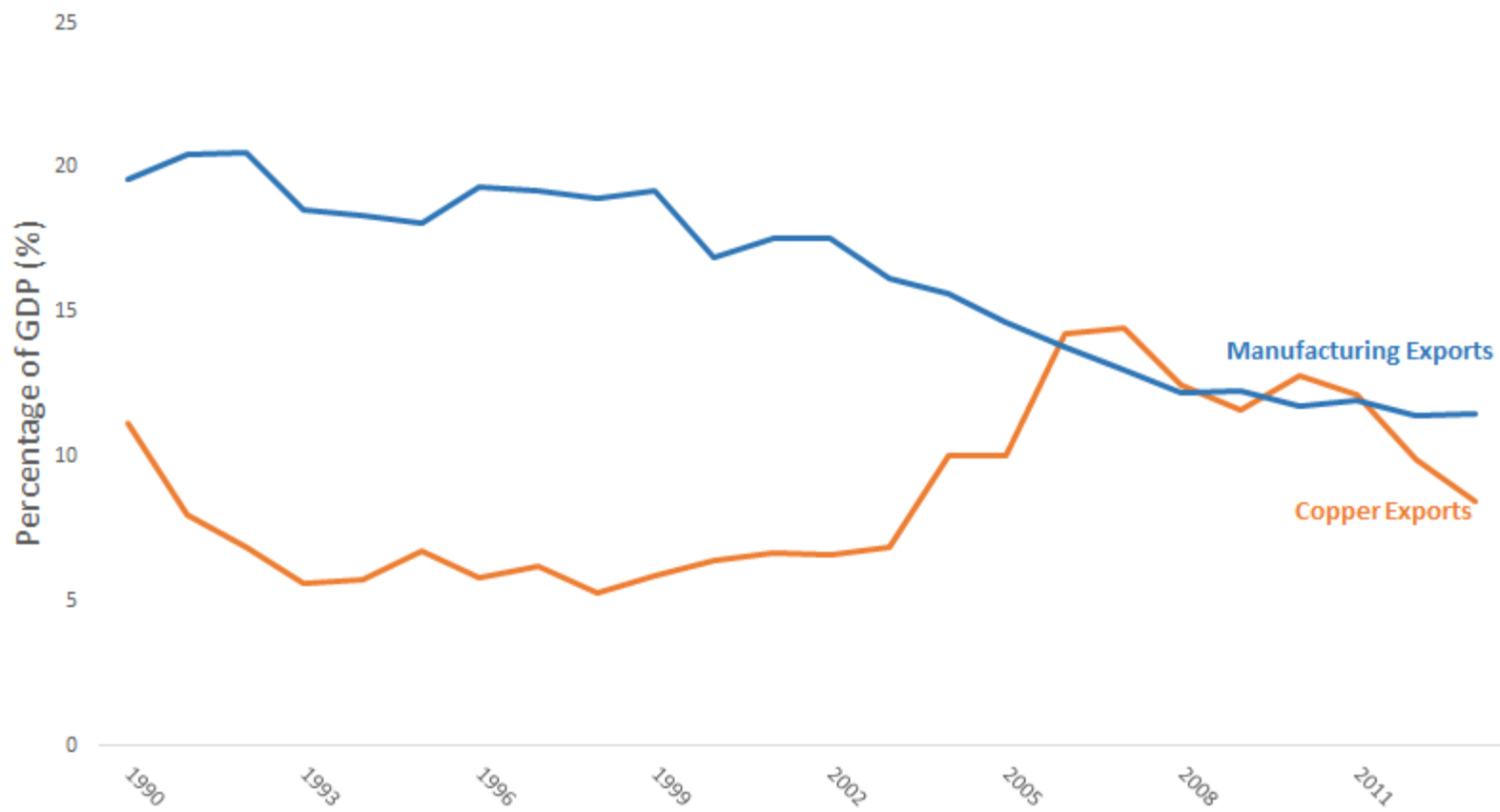
Dutch Disease



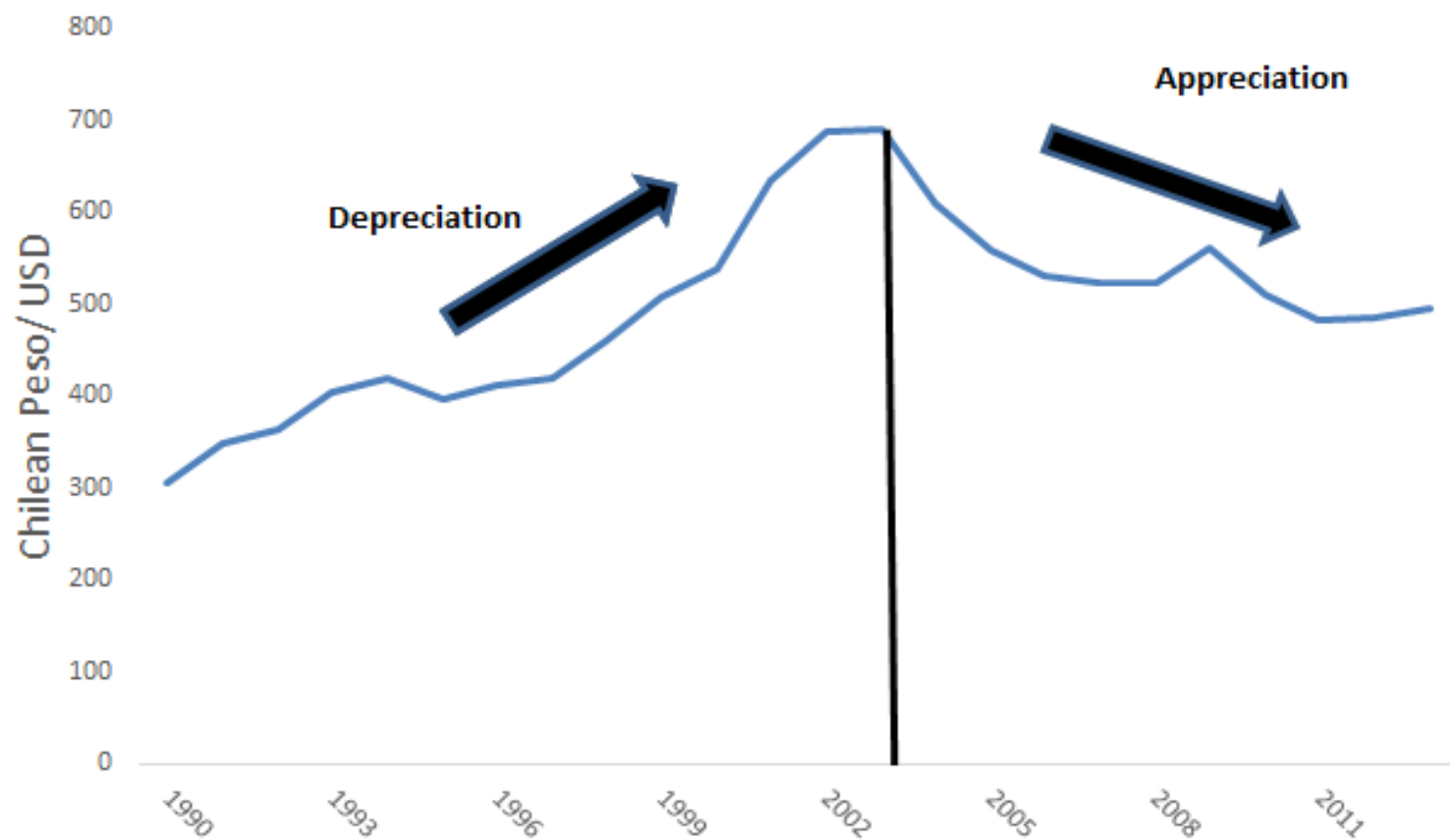
Chilean Dutch Disease?

- When a country increases its exploits of a natural resource, and in turn, the manufacturing sector becomes less competitive
- Increase in revenues due to the global export of the natural good leads to an increase in the value of the national currency, and therefore the country's other exports become more expensive, and therefore, less competitive
- Example of a seemingly *good* thing having a largely negative impact

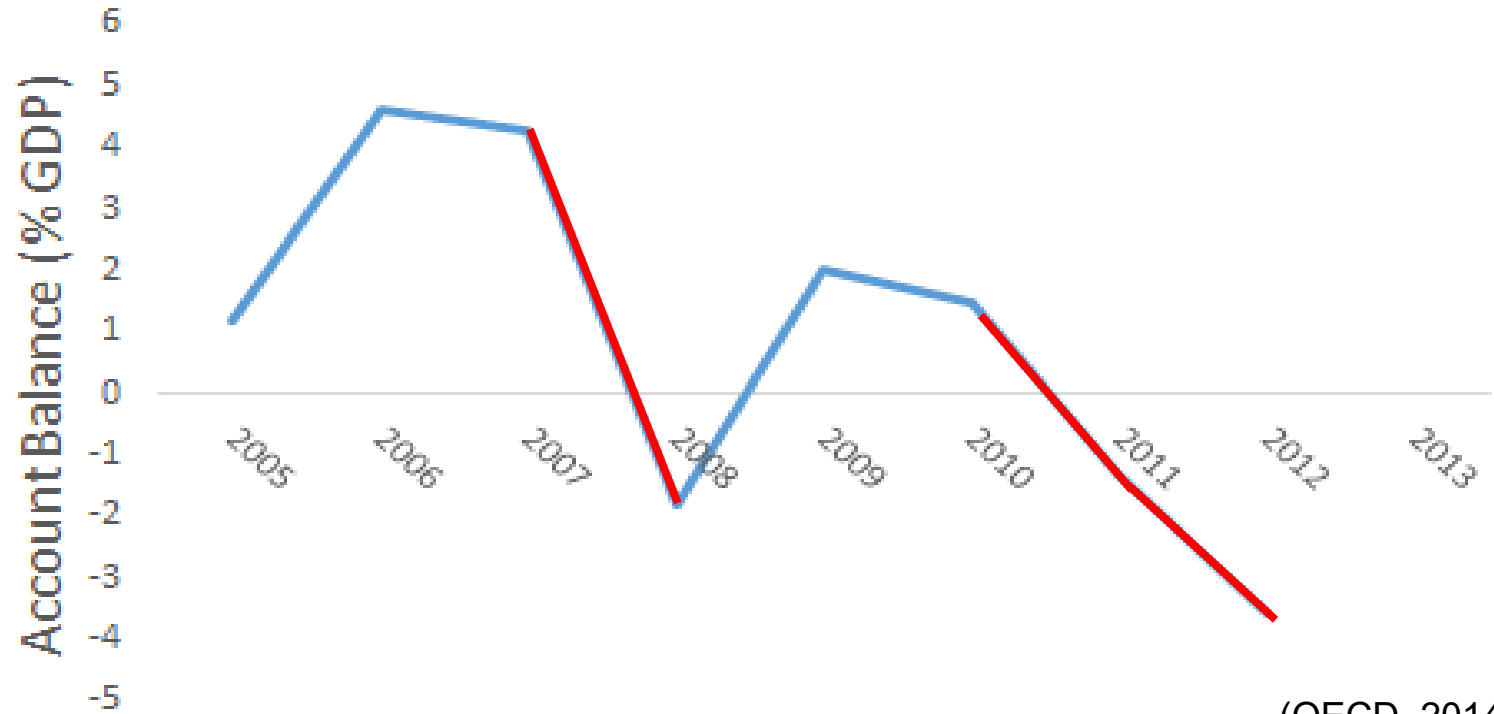
Copper and Manufacturing Exports



Official Exchange Rate 1990-2013




Current Account Balance (% of GDP)



(OECD, 2014)

Challenges Facing the Copper Industry

- High grade ores are becoming more difficult to access
 - Declining rates of copper production
 - Inadequate exploration funding
 - Declining working age population
- 

Other reasons China has been importing so much copper

- Construction inputs
- Approximately 60% of copper imported by China is used as trade collateral for bank loans
- Some theorize that China has been trying to obtain hard assets, as opposed to holding American bonds.
- Potentially dressing up trade numbers with copper imports because total imports from the world have declined.



Potential Improvements in Trade Practice and Policy



Ways to Improve Trade Practices

- Decrease reliance of economy on copper
- Continue to seek direct foreign investment and strengthen the private sector
- Focus on growing sustainable sectors of the economy
- Decrease reliance on foreign petroleum, both crude and refined
- Do not participate in the TPP

Good policies and practices to maintain

- Copper Stabilization Fund
- Flat tariff rate
- Software and tech industry continued growth
- Fishing industry continues to grow
- Aggressively seeking direct investment from foreign countries
- Sustainable Land Management Project



(Food and Agricultural Organization of the United Nations, 2014)

Question 1

How much did China spend on copper imports from Chile alone in 2013? (USD)

- a. \$9,480,531,429
- b. \$500,459,332
- c. \$3,455,903
- d. \$923,789,201

(OECD, 2014)

Question 2

The Chilean government made \$2.1 billion a year on the copper industry between 2000 and 2005. Chilean copper exports to China surged roughly around 2005. What was the government's average yearly profit from copper between 2005 and 2011?

- A. \$5.7 billion/yr
- B. \$9 billion/yr
- C. \$11.5 billion/yr
- D. \$17.45 billion/yr

(The Economist, 2013)

Question 3

Which fish species that Chile cultivates commercially are indigenous to Chile?

- a. Pacific Salmon
- b. Atlantic Salmon
- c. King Salmon
- d. Rainbow Trout
- e. Turbot
- f. None

Question 4

How much copper is used in the production of a standard sedan vehicle?

- A. 5 pounds
- B. 20 pounds
- C. 40 pounds
- D. 70 pounds