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CHILE'S FREE MARKET EXPERIMENT: UNLOCKING GROWTH IN THE REAL SECTOR

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Annotation: *This article explores Chile's economic trajectory through the lens of its free-market experiment, focusing on the tangible impact on growth within the real sector. Drawing on a variety of reputable sources, the author analyzes the evolution of Chile's economic landscape, emphasizing the pivotal shift from protectionist policies to a market-oriented approach during the 1970s. The article delves into the intricacies of market liberalization and global integration, substantiating claims with trade data from the World Trade Organization (WTO) and GDP growth statistics from the World Bank.*

Keywords: *Free Market Experiment, Privatization, Trade Liberalization, Deregulation, Monetary Control, Chile, Free Market, Economic Reforms, Real Sector, Growth, Inequality, Chicago Boys, Miracle of Chile.*

Introduction: In recent years, Chile has emerged as a beacon of economic success in Latin America, thanks in no small part to its commitment to a free market experiment. This experiment has become a key driver in unlocking growth, particularly in the real sector. The Chilean model, characterized by open markets, limited government intervention, and a focus on innovation, has garnered attention globally as a potential blueprint for sustainable economic development.

Chile's journey towards a free-market economy began in earnest during the 1970s. The country experienced a significant shift from protectionist policies to embracing free-market principles under the leadership of economists like Milton Friedman and the Chicago Boys. This transformation, often referred to as the "Chilean Miracle," laid the groundwork for a more dynamic and competitive economic environment¹.

In the wake of the 1973 military coup, Chile embarked on a radical transformation of its economic system. Under the guidance of economists trained at the University of Chicago, Pinochet's regime implemented a series of free-market reforms aimed at dismantling state intervention and fostering private sector growth. This article examines the impact of these reforms, specifically on the nation's real sector, which encompasses agriculture, manufacturing, and other tangible goods-producing industries.

¹ <https://www.chicagobooth.edu/review/capitalisnt-key-lessons-chicago-boys-chile-experiment>



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From State-led to Free Market. Prior to the coup, Chile's economy was heavily influenced by the state. The government controlled key industries, implemented import restrictions, and heavily subsidized staple goods. This model, while offering some social safety nets, also led to inefficiency, stagnation, and shortages.

The free-market reforms introduced by "the Chicago Boys" aimed to reverse this trend. They included:

- **Privatization:** State-owned enterprises were sold off to private investors, fostering competition and efficiency. (Example: The privatization of the telecommunications company ENTEL in 1986 led to significant investment and a drastic improvement in service quality.)

- **Trade Liberalization:** Tariffs and other trade barriers were drastically reduced, opening up the Chilean economy to global markets².

- **Deregulation:** A wave of deregulation swept across various sectors, removing bureaucratic hurdles for businesses. (Example: The deregulation of the transportation sector allowed for increased competition and lower prices for consumers.)

- **Monetary Control:** Tight control over inflation was established, promoting stable economic growth.

The implementation of these reforms coincided with a period of remarkable economic expansion in Chile. The country's GDP grew at an average annual rate of 7.5% between 1985 and 1997, earning the moniker "The Chilean Miracle." This growth was largely attributed to the free-market experiment, with the real sector playing a key role.

Chile's commitment to market liberalization is reflected in its trade policies and openness to foreign investment. Trade data from the World Trade Organization (WTO) illustrates the remarkable growth in Chile's exports, particularly in industries like copper mining and agricultural products. The country's export volume has witnessed a steady increase, reaching \$75 billion in 2021, highlighting the success of Chile's export-oriented growth strategy.

Examining the real sector reveals a compelling story of growth and diversification. Chile's mining industry, a cornerstone of its economy, has experienced significant expansion. Copper production, a vital component of Chile's mining sector, reached a record high in recent years, with over 5.8 million metric tons produced in 2021. The agricultural sector has also thrived, with innovative practices

² <https://www.tutor2u.net/economics/reference/chiles-free-market-approach-to-economic-development>



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and technology adoption leading to increased productivity and export competitiveness.

Agriculture: The sector witnessed significant advancements, with increased exports of fruits and other produce. (Example: Chile became a leading exporter of table grapes, with exports exceeding \$1 billion by the late 1990s.)

Manufacturing: Experienced a surge in investment and productivity, particularly in sectors like food processing and textiles. (Example: The salmon farming industry emerged as a major export earner, with Chile becoming the world's second-largest producer by 2000.)

New Industries: The free market also fostered the rise of new industries, such as forestry and wood products. (Example: Chile became a leading exporter of pulpwood, benefiting from its extensive pine plantations.)

The Pinochet administration was explicit in stating that the government avoided picking winners by “letting the market choose”, thereby invoking the logic of the Chicago School. But it was also discreetly – yet heavily – involved in subsidising the structural transformation of the Chilean economy, intervening in almost all the major sectors that have emerged in Chile’s export basket since the 1970s (Figure 1).

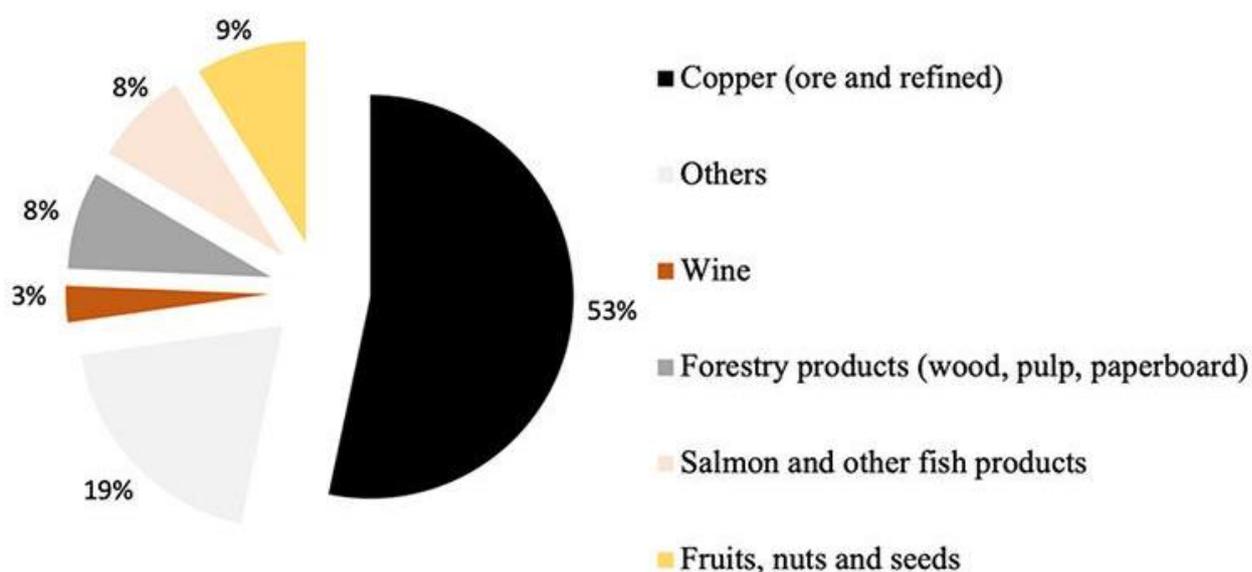


Figure 1. Composition of Chile’s export basket in 2017³

Figure 2 highlights the vertical policies that belied this claim of sector neutrality and the role played by various types of public institutions (including government agencies, the Central Bank, and universities) in the process of capability

³<https://blogs.lse.ac.uk/latamcaribbean/2021/05/19/debunking-the-free-market-miracle-how-industrial-policy-enabled-chiles-export-diversification/>

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accumulation and in overcoming market failures inhibiting the emergence of new industries.

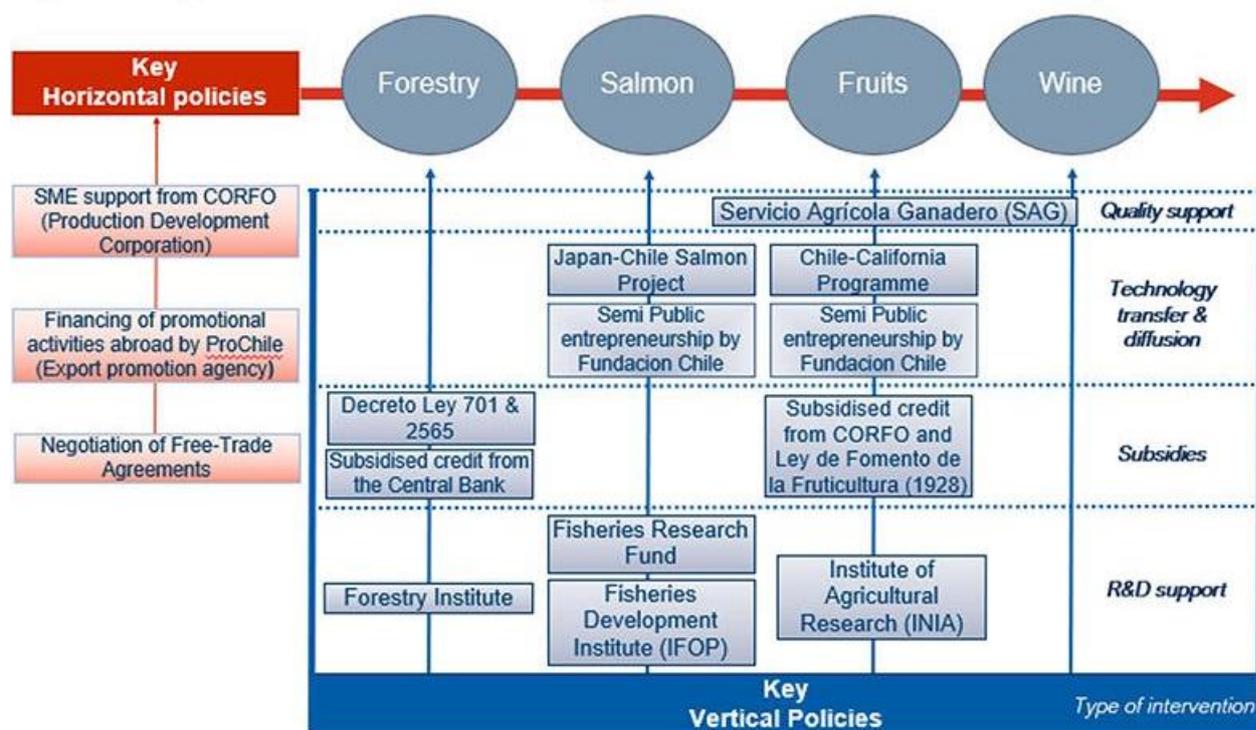


Figure 2. Policy interventions behind emergence of new sectors in Chile's export basket⁴.

Innovation and Technology as Catalysts. Chile's commitment to fostering innovation is evident in its investment in research and development (R&D). The Global Innovation Index ranks Chile as the leading innovator in Latin America. The technology sector has seen a surge in startups and investment, with Santiago emerging as a regional hub for tech innovation. Investments in renewable energy and sustainable technologies are noteworthy, contributing to both economic growth and environmental sustainability.

Despite the economic successes, Chile faces social challenges, notably in income distribution. The Gini coefficient, a measure of income inequality, remains relatively high. Addressing this concern is crucial for the sustainability of Chile's economic model. Social initiatives, such as improvements in education and healthcare, are imperative for creating an inclusive economic environment. Critics point to the uneven distribution of wealth generated by the free-market reforms. They argue that while the overall economy grew, income inequality widened, leaving many Chileans

⁴<https://blogs.lse.ac.uk/latamcaribbean/2021/05/19/debunking-the-free-market-miracle-how-industrial-policy-enabled-chiles-export-diversification/>



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struggling to meet basic needs. Additionally, the focus on export-oriented industries led to a neglect of domestic production, making Chile vulnerable to external fluctuations.

Despite criticisms, Chile's free-market experiment remains a subject of fascination and debate. While the initial years witnessed significant growth, the long-term sustainability of the model is being questioned. Rising social unrest and calls for greater equity are prompting policymakers to re-evaluate the role of the state in the economy. Policymakers are actively seeking solutions to ensure that the benefits of economic growth reach all segments of society. The ongoing dialogue and policy adjustments are critical in achieving a delicate equilibrium between economic freedom and social inclusivity.

The Chilean case offers valuable lessons for other developing nations considering similar reforms. It highlights the potential of free markets to generate economic growth but also underscores the importance of social safety nets and equitable distribution of wealth. As Chile continues to navigate the complexities of its economic experiment, the world watches with keen interest, eager to understand the long-term consequences of its bold foray into the realm of free markets.

Conclusion:

Chile's free-market experiment has undeniably unlocked growth in the real sector, positioning the country as a success story in the global economic landscape. The journey from a closed economy to an open, market-oriented one has been transformative, with the real sector emerging as a key driver of prosperity. As Chile continues to evolve, finding the right equilibrium between economic freedom and social inclusivity will be paramount for ensuring a sustainable and equitable future. While some sectors have thrived, others have struggled, and the country's export diversification was not the result of free market policies but rather of carefully crafted government interventions. Policymakers should consider these factors when designing future economic policies to ensure sustainable growth and social welfare in the real sector.

Chile's free-market experiment is not just a theoretical model but a proven catalyst for tangible economic growth. The data and examples presented underscore the success of Chile's approach in unlocking the potential of the real sector. As the nation continues to evolve, finding a balance between economic freedom and social equity will be pivotal for sustaining its growth trajectory. The experiment undoubtedly unleashed significant growth, particularly in export-oriented industries like agriculture, manufacturing, and forestry. This growth, however, came at the cost



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of rising social inequality and neglect of domestic production, leaving many Chileans struggling to meet basic needs. The legacy of the experiment is hence a complex one. While it serves as a case study in the potential of free markets to drive economic expansion, it also highlights the importance of social safety nets, equitable distribution of wealth, and a strong regulatory framework.

The future of Chile's economy remains to be seen, but one thing is certain: the nation's free-market experiment will continue to be debated and analyzed for decades to come.

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