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THE GLOBALIZATION AND CHILE

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Abstract

The article examines the impact of the globalization on the economy of the Republic of Chile. The impact of the globalization on the dynamics of the Gross Domestic Product is considered in three aspects, namely economic, political and social. The study aims to analyze this impact by applying the generalized method of moments (GMM). The main empirical argument is that the globalization has a moderately beneficial effect on the economy of the Republic of Chile.

Keywords

Globalization – Economic growth – Chile

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Introduction

The globalization is a process that covers all the countries in the world. Chile became involved in the globalization process as early as the 1970s. In the period 1990-2016, Chile is increasingly involved in the process of the globalization and restructured its economy in order to better adapt to the contemporary challenges that result in attracting more investments. Accelerating the economic growth and increasing the well-being of the economic agents. This article aims to explore the impact of the economic, political and social globalization on Chile's economy. The generalized method of moments (GMM) is used to find the answer to the goal.

Literature review

The process of globalization encompasses economic cohesion, political interaction and social assistance. These three aspects characterize the term globalization. Globalization is measured by an index created by Axel Dreher¹. In his research, Dreher concluded that the globalization had a positive impact on the economies of the countries he had considered. A similar thesis is developed by Savina Gygli, Florian Haelg and Jan-Egbert Sturm², who said that the economic development is positively related to political, social and economic globalization. Cuneyt Kilic³, Pisi Bethania Titalessy⁴, and others have come to the conclusion that the globalization as a whole has a beneficial effect on the economic development. Joaquin Vial⁵ examines the impact of globalization on Chile's macroeconomic variables and concludes that the competition in the internal market is increasing, the access to capitals is becoming easier and cheaper, the exports and the imports are being strengthened and the trade barriers are being removed. According to him, the globalization contributes to the development of production capacity through the foreign direct investments. Victor. E. Tokman⁶, studying the effects of globalization on the Chilean economy, he concludes that the globalization is contributing to GDP growth, the poverty reduction, and the infrastructure improvement. Studying the effects of globalization on the Chilean economy, he concludes that globalization is contributing to GDP growth, poverty reduction, and infrastructure improvement.

¹ A. Dreher, "Does Globalization Affect Growth?" Evidence from a new Index of Globalization, Research Paper Series, TWI and University of Konstanz, (2005): 2-19

<https://pdfs.semanticscholar.org/a5ce/cb531920ca4affa4faaf94b0098e4989795.pdf>

² S. Gygli, J-E. Sturm, The KOF Globalisation Index – Revisited, KOF Working Papers, num 439 (2018): 13-16.

https://ethz.ch/content/dam/ethz/specialinterest/dual/kofdam/documents/Globalization/2018/KOF_Globalisation%20Index_Revisited.pdf.

³ C. Kilic, "Effects of Globalization on Economic Growth: Panel Data Analysis for Developing Countries, Economic Insights – Trends and Challenges" Vol: IV (LXVII) num 1 (2015): 1-11. <http://www.upg-bulletin-se.ro/archive/2015-1/1.Kilic.pdf>.

⁴ B. P. Titalessy, "The Impact of globalisation on economic growth In Asia-Pacific", Asia Pacific Journal of Advanced Business and Social Studies, (2018): 79-85. https://apiar.org.au/wp-content/uploads/2018/07/9_APCAR_2018_BRR763_Bus_Journal_APJABSSv4i2_79-85.pdf

⁵ A. Vial, "Globalisation and the Chilean economy", Chapter in Globalisation and deglobalisation, from Bank for International Settlements, Vol: 100 (2018): 83-100. <https://www.bis.org/publ/bppdf/bispap100.pdf>.

⁶ E. V. Tokman, "Globalization in Chile: A Positive Sum of Winners and Losers". International Centre for Trade and Sustainable Development (ICTSD), Geneva, Switzerland, Issue Paper num 14 (2010): 33-35. <https://www.ictsd.org/sites/default/files/research/2010/12/globalization-in-chile.pdf>.

Foreign direct investment is increasing, through which the innovations are transmitted to the Chilean economy. He points out that the globalization, in addition to its positive effects, also leads to negative shocks to the economy.

Such negative shocks endure the agriculture and the commercial and industrial sector, which are composed of local economic agents because they are subject to great external competition. Tokman also points out that the openness of the economy and its` cohesion with other economies also make it easier to carry over financial and economic crises and, consequently, to transfer external unemployment to the internal market.

The theoretical review of the problem gives the following direction of reasoning. The globalization is mainly contributing positively to the development of the economy, although there are also negative effects.

Features and methodology of the study

This study covers the impact of the globalization on Chile's economy from 1990 to 2016. The data source is the World Bank and 2018 Globalization Report (https://www.bertelsmannstiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/MT_Globalization_Report_2018.pdf). The variables considered in this study are:

GDP	G. domestic product
KOF	Index of common globalization
KOFeconomy	Index of economic globalization
KOFSocial	Index of social globalization
KOFPolitics	Index of political globalization

Table 1
Table of variables

The software product through which the study is realized is Eviews10.

The methodology used is a stationarity test Dickey-Fuller (ADF) and the generalized method of moments (GMM).

After applying the ADF test, it is found that the variables KOFeconomy, GDP, KOF are non-stationary and the variables KOFSocial, KOFPolitics are stationary.

Augmented Dickey-Fuller test statistic		Test critical values:		t-Statistic	Prob.
GDP	1% level	-3.724070	-0.629376	0.8467	
	5% level	-2.986225			
	10% level	-2.632604			
KOF	1% level	-3.711457	-2.304007	0.1782	
	5% level	-2.981038			
	10% level	-2.629906			
KOFECONOMY	1% level	-3.711457	-1.619369	0.4588	
	5% level	-2.981038			
	10% level	-2.629906			
KOFSOCIAL	1% level	-3.724070	-3.597519	0.0133	
	5% level	-2.986225			
	10% level	-2.632604			
KOFPOLITICS	1% level	-3.711457	-4.065330	0.0043	
	5% level	-2.981038			
	10% level	-2.629906			

Augmented Dickey-Fuller test

Figure 1

Source: The World Bank, 2018 Globalization Report
Data: author`s calculation

As it is seen in the Augmented Dickey-Fuller test, the methodology that can be applied is the generalized method of moments (GMM). GMM is a reliable estimator as it does not require information on the exact distribution of the disturbance. The summarized method of moments is mathematically expressed by the following function:

$$E = (m(YT, \beta)) = 0$$

The function shows the basic assumption in GMM, which is that $L \geq K$, where L are the momentary conditions and K are the measurable parameters. Therefore, the GMM associates the parameters with the moments, extracting information from the parameter values that are denoted by β , thus overcoming heteroskedicity, autocorrelations, uncertainty, and non-stationarity.

Analysis of empirical results

The globalization is a process that has had a beneficial effect on the development of Chile's economy over the period 1990-2016.

Figure 2

Method: Generalized Method of Moments				
Dependent Variable: GDP				
Instrument specification: KOF				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOF	5.17E+09	1.06E+09	4.877473	0.0001
C	-1.55E+11	4.14E+10	-3.745439	0.0009
R-squared	0.477563	Mean dependent var	1.21E+11	
Adjusted R-squared	0.456666	S.D. dependent var	7.62E+10	
S.E. of regression	5.62E+10	Sum squared resid	7.89E+22	
Durbin-Watson stat	0.115558	J-statistic	1.40E-45	
Instrument rank	2			

Figure 2

Source: The World Bank, 2018 Globalization Report
Data: Authors` calculations

The convergence of Chile's economy with the global economic centers such as the European Union, China and the US, has had positive effects, resulting in free and cheap access to capital and innovation. This access leads to an increase in GDP. Despite these positive effects, it can be concluded that globalization, as a combination of economic, political and social interaction, does not strongly determine the dynamics of Chile's economic development. The empirical analysis shows that the deepening of globalization on the one hand leads to a multiplier economic effect, but on the other hand, this economic effect is due to other factors. The interaction between the economic, political and social globalization has an overall moderate impact on the dynamics of GDP growth.

Dependent Variable: GDP				
Method: Generalized Method of Moments				
Instrument specification: KOFECONOMY				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOFECONOMY	3.69E+09	8.61E+08	4.281888	0.0002
C	-4.59E+10	2.56E+10	-1.795454	0.0847
R-squared	0.424957	Mean dependent var		1.21E+11
Adjusted R-squared	0.401956	S.D. dependent var		7.62E+10
S.E. of regression	5.89E+10	Sum squared resid		8.69E+22
Durbin-Watson stat	0.116849	J-statistic		0.000000
Instrument rank	2			

Figure 3

Source: The World Bank, 2018 Globalization Report

Data: Authors' calculations

The economic convergence of the Chilean economy with the world economic centers, as an effect of globalization, is proportional and positive with a coefficient of 3.69. However, this coefficient explains only 42 percent of the changes in the dynamics of the economic growth. While the coefficient of the aggregate globalization explains 47 percent of the changes in GDP growth. Therefore, the economic as well as the aggregate globalization have moderate explanatory power over the Chile's GDP divide.

Dependent Variable: GDP				
Method: Generalized Method of Moments				
Instrument specification: KOFPOLITICS				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOFPOLITICS	8.32E+09	1.71E+09	4.875343	0.0001
C	-5.59E+11	1.36E+11	-4.117055	0.0004
R-squared	0.681599	Mean dependent var		1.21E+11
Adjusted R-squared	0.668863	S.D. dependent var		7.62E+10
S.E. of regression	4.39E+10	Sum squared resid		4.81E+22
Durbin-Watson stat	0.259878	J-statistic		0.000000
Instrument rank	2			

Figure 4

Source: The World Bank, 2018 Globalization Report

Data: Authors' calculations

The political impact on Chile's economy is significant and the change in the political conditions determines the Chile's economic growth rate by 8.32. Also, the political decisions are decisive for Chile's GDP dynamics.

Dependent Variable: GDP				
Method: Generalized Method of Moments				
Instrument specification: KOFSOCIAL				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOFSOCIAL	9.21E+09	2.50E+09	3.688162	0.0011
C	-3.37E+11	1.08E+11	-3.109644	0.0046
R-squared	0.289075	Mean dependent var		1.21E+11
Adjusted R-squared	0.260638	S.D. dependent var		7.62E+10
S.E. of regression	6.55E+10	Sum squared resid		1.07E+23
Durbin-Watson stat	0.060880	J-statistic		1.35E-43
Instrument rank	2			

Figure 5

Source: World Bank, 2018 Globalization Report
Data: Authors calculations

The social globalization, although it has the highest coefficient of 9.21, determines the smallest part of Chile's economic growth. The social integration is important because it shows that there is a tendency for technological linkage between the Chilean economy and the world's innovation and technology centers China, the US and the EU. The social globalization is proving extremely important to Chile. Therefore, it must occupy much of Chile's GDP deviation in the future.

The globalization in general has a positive impact on the Chilean economy, but this impact is a moderate one. The main channel that has the greatest impact on Chile's economic growth is the politics, which speaks to the presence of centralization, which is manifested internally. It is important to note that the regional and geopolitical decisions of the EU, China, but most of all the US, influence the Chile's economic growth.

Conclusion

The economy of Chile is actively involved in the globalization process. The globalization has moderately but positively affected Chile's economic growth. The political globalization has the strongest impact on Chile's economic growth, which shows that the geopolitical interests of the EU, China and most of all the US over Chile's economy are decisive. This positive but moderate economic convergence of the Chilean economy with the world economic centers allows for cheaper and faster attraction of capital and foreign direct investment, which would trigger technological and innovative restructuring of the Chilean economy. The social globalization has the highest rate of change in Chile's economic growth, but this change determines only 28 percent of the GDP deviation. Chile has a leading political process that also determines the development of other components of the globalization. The moderate cumulative impact of the globalization on the Chilean economy is an argument leading to the thesis that the interaction between economic dynamics and political decisions and social trends is not synchronous but asymmetrical, which has an inefficient effect on Chile's economic growth.

Chile needs to reform its economy and to change the led economic, social and foreign policy in order to meet the challenges of the globalization.

Although this study covers the main link and impact of the globalization with the economic growth, it does not claim to be complete, but raises important questions that may arise in the future.

Applications

Null Hypothesis: KOFECONOMY has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=6)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-1.619369	0.4588
Test critical values:		
1% level	-3.711457	
5% level	-2.981038	
10% level	-2.629906	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(KOFECONOMY)
Method: Least Squares
Date: 10/28/19 Time: 13:38
Sample (adjusted): 1991 2016
Included observations: 26 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOFECONOMY(-1)	-0.077622	0.047933	-1.619369	0.1184
C	4.543386	2.258119	2.012022	0.0556
R-squared	0.098502	Mean dependent var		1.038462
Adjusted R-squared	0.060940	S.D. dependent var		3.387988
S.E. of regression	3.283134	Akaike info criterion		5.289277
Sum squared resid	258.6953	Schwarz criterion		5.386054
Log likelihood	-66.76061	Hannan-Quinn criter.		5.317146
F-statistic	2.622355	Durbin-Watson stat		1.667660
Prob(F-statistic)	0.118436			

Null Hypothesis: KOF has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=6)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-2.304007	0.1782
Test critical values:		
1% level	-3.711457	
5% level	-2.981038	
10% level	-2.629906	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
 Dependent Variable: D(KOF)
 Method: Least Squares
 Date: 10/28/19 Time: 13:38
 Sample (adjusted): 1991 2016
 Included observations: 26 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOF(-1)	-0.090634	0.039337	-2.304007	0.0302
C	5.789531	2.133016	2.714246	0.0121
R-squared	0.181123	Mean dependent var		0.961538
Adjusted R-squared	0.147004	S.D. dependent var		2.199650
S.E. of regression	2.031549	Akaike info criterion		4.329277
Sum squared resid	99.05256	Schwarz criterion		4.426054
Log likelihood	-54.28061	Hannan-Quinn criter.		4.357146
F-statistic	5.308448	Durbin-Watson stat		1.812377
Prob(F-statistic)	0.030188			

Null Hypothesis: KOFSOCIAL has a unit root
 Exogenous: Constant
 Lag Length: 1 (Automatic - based on SIC, maxlag=6)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-3.597519	0.0133
Test critical values:		
1% level	-3.724070	
5% level	-2.986225	
10% level	-2.632604	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
 Dependent Variable: D(KOFSOCIAL)
 Method: Least Squares
 Date: 10/28/19 Time: 13:39
 Sample (adjusted): 1992 2016
 Included observations: 25 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOFSOCIAL(-1)	-0.208340	0.057912	-3.597519	0.0016
D(KOFSOCIAL(-1))	0.256093	0.158553	1.615191	0.1205
C	10.79525	2.956338	3.651562	0.0014
R-squared	0.552144	Mean dependent var		0.480000
Adjusted R-squared	0.511430	S.D. dependent var		1.357694
S.E. of regression	0.948998	Akaike info criterion		2.845347
Sum squared resid	19.81314	Schwarz criterion		2.991612
Log likelihood	-32.56683	Hannan-Quinn criter.		2.885914
F-statistic	13.56147	Durbin-Watson stat		2.118398
Prob(F-statistic)	0.000145			

Null Hypothesis: GDP has a unit root
 Exogenous: Constant
 Lag Length: 1 (Automatic - based on SIC, maxlag=6)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-0.629376	0.8467
Test critical values:		
1% level	-3.724070	
5% level	-2.986225	
10% level	-2.632604	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
 Dependent Variable: D(GDP)
 Method: Least Squares
 Date: 10/28/19 Time: 13:38
 Sample (adjusted): 1992 2016
 Included observations: 25 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP(-1)	-0.022861	0.036324	-0.629376	0.5356
D(GDP(-1))	0.471516	0.191110	2.467252	0.0219
C	6.91E+09	5.09E+09	1.357220	0.1885
R-squared	0.218017	Mean dependent var		7.80E+09
Adjusted R-squared	0.146928	S.D. dependent var		1.40E+10
S.E. of regression	1.30E+10	Akaike info criterion		49.52037
Sum squared resid	3.70E+21	Schwarz criterion		49.66663
Log likelihood	-616.0046	Hannan-Quinn criter.		49.56093
F-statistic	3.066809	Durbin-Watson stat		1.789969
Prob(F-statistic)	0.066860			

Null Hypothesis: KOFPOLITICS has a unit root
 Exogenous: Constant
 Lag Length: 0 (Automatic - based on SIC, maxlag=6)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-4.065330	0.0043
Test critical values:		
1% level	-3.711457	
5% level	-2.981038	
10% level	-2.629906	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
 Dependent Variable: D(KOFPOLITICS)
 Method: Least Squares
 Date: 10/28/19 Time: 16:58
 Sample (adjusted): 1991 2016
 Included observations: 26 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOFPOLITICS(-1)	-0.175218	0.043101	-4.065330	0.0004
C	15.35720	3.527237	4.353890	0.0002
R-squared	0.407801	Mean dependent var		1.076923
Adjusted R-squared	0.383126	S.D. dependent var		2.076980
S.E. of regression	1.631288	Akaike info criterion		3.890420
Sum squared resid	63.86640	Schwarz criterion		3.987197
Log likelihood	-48.57546	Hannan-Quinn criter.		3.918288
F-statistic	16.52691	Durbin-Watson stat		1.380901
Prob(F-statistic)	0.000447			

Dependent Variable: GDP
 Method: Generalized Method of Moments
 Date: 10/28/19 Time: 13:55
 Sample: 1990 2016
 Included observations: 27
 Linear estimation with 1 weight update
 Estimation weighting matrix: HAC (Bartlett kernel, Newey-West fixed bandwidth = 3.0000)
 Standard errors & covariance computed using estimation weighting matrix
 Instrument specification: KOF
 Constant added to instrument list

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOF	5.17E+09	1.06E+09	4.877473	0.0001
C	-1.55E+11	4.14E+10	-3.745439	0.0009
R-squared	0.477563	Mean dependent var		1.21E+11
Adjusted R-squared	0.456666	S.D. dependent var		7.62E+10
S.E. of regression	5.62E+10	Sum squared resid		7.89E+22
Durbin-Watson stat	0.115558	J-statistic		1.40E-45
Instrument rank	2			

Dependent Variable: GDP
 Method: Generalized Method of Moments
 Date: 10/28/19 Time: 13:55
 Sample: 1990 2016
 Included observations: 27
 Linear estimation with 1 weight update
 Estimation weighting matrix: HAC (Bartlett kernel, Newey-West fixed bandwidth = 3.0000)
 Standard errors & covariance computed using estimation weighting matrix
 Instrument specification: KOFECONOMY
 Constant added to instrument list

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOFECONOMY	3.69E+09	8.61E+08	4.281888	0.0002
C	-4.59E+10	2.56E+10	-1.795454	0.0847
R-squared	0.424957	Mean dependent var		1.21E+11
Adjusted R-squared	0.401956	S.D. dependent var		7.62E+10

S.E. of regression	5.89E+10	Sum squared resid	8.69E+22
Durbin-Watson stat	0.116849	J-statistic	0.000000
Instrument rank	2		

Dependent Variable: GDP
 Method: Generalized Method of Moments
 Date: 10/28/19 Time: 13:57
 Sample: 1990 2016
 Included observations: 27
 Linear estimation with 1 weight update
 Estimation weighting matrix: HAC (Bartlett kernel, Newey-West fixed bandwidth = 3.0000)
 Standard errors & covariance computed using estimation weighting matrix
 Instrument specification: KOFPOLITICS
 Constant added to instrument list

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOFPOLITICS	8.32E+09	1.71E+09	4.875343	0.0001
C	-5.59E+11	1.36E+11	-4.117055	0.0004
R-squared	0.681599	Mean dependent var		1.21E+11
Adjusted R-squared	0.668863	S.D. dependent var		7.62E+10
S.E. of regression	4.39E+10	Sum squared resid		4.81E+22
Durbin-Watson stat	0.259878	J-statistic		0.000000
Instrument rank	2			

Dependent Variable: GDP
 Method: Generalized Method of Moments
 Date: 10/28/19 Time: 13:57
 Sample: 1990 2016
 Included observations: 27
 Linear estimation with 1 weight update
 Estimation weighting matrix: HAC (Bartlett kernel, Newey-West fixed bandwidth = 3.0000)
 Standard errors & covariance computed using estimation weighting matrix
 Instrument specification: KOFSOCIAL
 Constant added to instrument list

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KOFSOCIAL	9.21E+09	2.50E+09	3.688162	0.0011
C	-3.37E+11	1.08E+11	-3.109644	0.0046
R-squared	0.289075	Mean dependent var		1.21E+11
Adjusted R-squared	0.260638	S.D. dependent var		7.62E+10
S.E. of regression	6.55E+10	Sum squared resid		1.07E+23
Durbin-Watson stat	0.060880	J-statistic		1.35E-43
Instrument rank	2			

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