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Issues Brief

The Export-Production Decision of Chilean Farmers: Implications for Chile's Agricultural and Export Policies

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The Export-Production Decision of Chilean Farmers: Implications for Chile's Agricultural and Export Policies

By **Rodrigo Echeverría and Munisamy Gopinath**

To help Chile achieve its long-term goal of expanding agricultural exports, increased attention should be focused on improving education in rural areas, especially in the southern regions, and improving farmers' access to irrigation and drainage systems. The government should also strengthen the efforts of institutions such as Prochile, which provide training and information to firms seeking to enter foreign markets.

One of Chile's most ambitious recent agricultural policies is "Chile Potencia Agroalimentaria (Chile, a global agricultural and food power)." This policy aims to consolidate and strengthen Chile's agricultural and food exports to help the country become one of the world's top ten food and agricultural product exporters by 2015.

The integration of Chile's economy into international markets during the last few decades has encouraged many local firms to orient their production towards foreign markets. Although agricultural exports have grown dramatically in recent decades, from US\$98 million in 1974 to US\$7,800 million in 2008, the growth of agricultural production and exports has been geographically uneven. Export-oriented firms are located mainly in the central zone of the country (from Valparaíso to El Maule regions), while domestic-oriented firms are located mainly in the south (La Arucanía, Los Ríos and Los Lagos regions).

There has been extensive study of the decision by manufacturing firms to produce for foreign markets. However, little is known about the export behavior of agricultural firms.

Moreover, as Chile's government seeks to develop effective policies to increase agricultural exports, it would be particularly helpful to have information concerning the factors that affect farmers' decisions to produce for foreign markets. To fill this information gap, a study was conducted recently to provide insights into the export-production decisions of Chilean farmers (Echeverría, Gopinath, Moreira and Cortés 2009). Using farm-level data, economic models were estimated to identify and evaluate the relative impact of farmers' attributes and farm-specific geographic characteristics on the export-production decision through a case study of blueberry producers in southern Chile. The spatial distribution of the blueberry producers - who export 90 percent of their production - and the traditional, domestic-oriented farmers in the study suggests that the export-production decision is likely influenced more by producer-specific attributes and farm-specific geographic characteristics than by regional geographic characteristics.

The results of the economic analysis suggest that the level of education is a producer attribute that is key to the export-production decision. Specifically, farmers with a higher level of education were found to be more likely to produce an exportable good (blueberries).



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In fact, when farmers have a college-level education, the probability of producing blueberries can reach up to 50 percent. Thus, policies aimed at encouraging agricultural exports should include efforts to improve farmers' formal education as well as their technical training.

The availability of irrigation and drainage also appear to be important factors in the export-production decision. The results of the study indicate that the probability of producing an exportable good increases with the presence of irrigation and drainage systems; the probability of producing blueberries reaches up to 30 percent when there is good soil drainage. The positive effects of irrigation and good soil drainage on agricultural production are well known in Chile. The study suggests, however, that although the government's current policy of subsidizing irrigation and drainage projects has been successful in helping many farmers increase their production possibilities, the policy does not appear to have benefited traditional farmers. Thus, another way to encourage export production would be to improve the availability of and access to water for farmers, which would expand their production choices.

Finally, the results of the analysis suggest that the availability of labor is an important factor in the farmer's decision to produce an exportable good. The study found that the probability of producing blueberries will be higher if farms are located near urban areas that have abundant labor and/or the cost of transporting labor is low. Policy options to encourage the movement of people to rural regions require further assessment and analysis. However, it is clear that investments in mechanized agriculture can help alleviate the labor issue for export production.

In summary, the results of the study suggest that an effective way to promote agricultural exports in the long term is to strengthen education and technical training, especially in southern rural areas, and to improve farmers' access to irrigation and drainage systems. However, to achieve results in the shorter term, it is recommended that Chile also strengthen programs that promote export activity, such as the one developed by Prochile. Prochile, the institution responsible for implementing and enhancing Chile's trade policy, provides funding for marketing research on specific products and participation in trade shows, training about the exporting process, and a framework to facilitate trade deals between Chilean firms and foreign buyers. Efforts to enhance the role of institutions like Prochile should focus specifically on providing assistance to firms and farms in Chile's southern regions, which historically have been less oriented towards foreign markets.

Reference

Rodrigo Echeverría, Munisamy Gopinath, Víctor Moreira, and Pedro Cortés. 2009. The Export-Production Decision of Chilean Farmers: The Case of Blueberry Producers. *Journal of International Agricultural Trade and Development* 5(2): 273-289.

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