Re-thinking corporate social responsibility

Applying corporate social responsibility to address the social, economic, and environmental shortcomings of trade led growth - in the context of Chile's salmon industry

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Development and International Relations

Aalborg University 2009

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Study No.: 20032174

Master thesis

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Development and International Relations

Aalborg University

Spring 2009

Amount of pages: 69 excl. appendix

Amount of characters: 120.105

Amount of standard pages: 50,0

Abstract

This thesis provides a case study of the Chilean salmon industry, in a quest to identify the social, economic, and environmental effects of trade liberalization and examine if, and how, corporate social responsibility can be an effective corporate solution to the shortcomings of the trade led growth model.

It is concluded that, whereas the reduction of trade barriers and integration into world market can be an engine of growth, it fails to secure an environmentally sustainable and socially equitable development, reflected in poor income distribution, social exclusion of economically vulnerable groups, low wages, and environmental degradation. And, while the current CSR strategy of the Chilean salmon sector included the social, economic, and environmental aspects needed to address these shortcomings, lax regulation and a high reliance on self-regulation has been insufficient to effectively address these problems. In conclusion, leaving CSR to the voluntary act of business and the invisible hands of the free marked will do little or no good. However, the problem it not CSR per se, rather how it was used.

This thesis calls for the need to rethink the concept of CSR. In order for corporate social responsibility to be effective, it not only requires that corporations actively engage on a responsible strategy, which addresses the environmental and social shortcomings of trade led growth. It also requires the active engagement of stakeholders - especially a strong state, willing to set up an adequate regulatory framework, as CSR is unlikely to succeed without the pressure of the stakeholders. Consequently, CSR can contribute to a social and environmental sustainable development of the international trading system. Its success does, however, dependent of the context of its use and the engagement of the stakeholders, and can in some cases, where CSR replace actual government regulation, even worsen the situation.

List of Abbreviations

APEC	:	Asia Pacific Economic cooperation
BCC	:	Chile's National Bank
CAN	:	Andean Community of Nations
CASEN	:	National Socioeconomic Survey
CENDA	:	Chile's Centre of National Studies on Alternative Development
CONAMA	:	National Environment Commission
CONAPACH	:	National Confederation of Fishermen
CORFO	:	Chile's National Production Development Corporation
CPA	:	Clean Production Agreement
CSPSS	:	Patagonia without Salmon Farms Social Coordinating Committee
CSR	:	Corporate Social Responsibility
CUT	:	Chile's Central Trade Union.
EU	:	European Union
FDI	:	Foreign Direct Investment
FETRASAL	:	Federation of Salmon Workers
GDP	:	Gross Domestic Product
IADB	:	Inter-American Development Bank
IMF	:	International Monetary Fond
INE	:	Chile's National Statistics Institute
INTESAL	:	Salmon Technological Institute
ISA	:	Infectious Salmon Anemia
MEO	:	Multilateral Economic Organization
NAFTA	:	North American Free Trade Agreement
NGO	:	Non-Governmental Organization
OECD	:	Organization for Economic Co-operation and Development
SAP	:	Structural Adjustment Policies
SERNAPESCA:		Chile's National Fishing Service
SIA	:	Sustainable Impact Assessment
SIGES	:	Integrated Management System
SOFOFA	:	Chilean Federation of Industry
UN	:	United Nations
UNASUR	:	South American Community of Nations
UNEP	:	United Nation Environmental Programme
US	:	United States
USD	:	United States Dollars
WB	:	World Bank
WC	:	Washington Consensus
WCED	:	World Commission on Environment and Development
WTO	:	World Trade Organization
WWF	:	World Wide Fund for Nature

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I

Introduction

This section sets out to introduce the subject of the thesis, and then goes on to present the more specific context of the thesis' problem area, leading to the problem formulation around which this thesis will revolve. Thereafter the structural design of the thesis in outlined. Finally, I present my methodological reflections on the research strategy, the sources of data, and address the issues of reliability and validity.

Chile has become a model for reforming economies throughout the world. Policy-makers, academics, and consultants in Latin America, Eastern Europe, South Asia, and Africa are analysing the Chilean experiment to get insights on how to reform their economies, and the economic success of the Chilean development model, based on free-market policies and active integration into world markets, is frequently emphasized by economists and politicians around the world.

In the second half of the 1970s and throughout the 1980s, the military regime initiated a neo-liberal economic transformation with export promotion and diversification, favourable conditions for foreign direct investment, and a gradual reduction of tariffs. In the 1990s the democratically elected government complemented these elements aimed at global insertion with an extensive program of bilateral and regional trade agreements, making Chilean economy one of the world's most open economies. The implementation of this trade led trade growth model has been followed by a favourable growth in Chile's Gross Domestic Product (GDP) and Foreign Direct investment (FDI). Growth in exports has been achieved a long side a diversification of exports. However, still leaving the country with a relative dependence on cobber. At the same time the importance of natural resource based

exports has not diminished, but has probably even increased, and specialization on resource-intensive production in the export sector has led to increasing concerns about the environmental and social sustainability of economic growth driven by trade. In the earth summit, the Chilean government acknowledged that although some national macroeconomic indicators showed positive signs as a result of the development model implemented by the military government, the transformation that took place in this period (1973-1989) were not free from undesired social and environmental consequences. Traditionally, these concerns have been directed towards the public sector, blaming the multilateral trading system and nation states of failing to introduce adequate social and environmental policies. However, the increasingly central role of the private sector in the world economy, has led to an increasing pressure on the private sector to incorporate social and environmental concerns in corporate governance policies, making corporate social responsibility (CSR) a central concept in the debate surrounding sustainable development, today.

Problem area

This thesis seeks to identify the shortcomings of the trade led growth model and examine if, and how, corporate social responsibility is an effective corporate response to address these shortcomings. The central questions will be addressed within the context of the Chilean salmon industry. Chile is, in many ways, an interesting case study. The success of the Chilean economy in achieving economic growth over the last decades has made the Chilean development model, based on free-market policies and active integration into the world markets, the object of intense research both nationally and internationally. The salmon industry is, in many ways, a product of this trade liberalization. Up until the 1980s, Chilean fish were mostly derived from small-scale fishermen. Today, Chile is the world's second largest producer of salmon, just after Norwey. A massive expansion of salmon production has furthered an economic development in the southern Chile - home to the aquaculture centres - but also disputes and concerns about the social and environmental sustainability. As a response to these concerns, the industry has made a common CSR strategy, providing the perfect case study for this thesis.

Problem formulation

The apparent conflict of interest in the Chilean salmon industry has evoked the central questions of this thesis. These have evolved around the shortcomings of the trade led growth model, and corporate social responsibility applied to their solution. In this ways, this thesis will evolve around the following problem formulation, in the context of the Chilean salmon industry:

> *"What are the social, economic, and environmental effects of trade liberalization and to what extend can corporate social responsibility effectively address these effects?"*

With this problem formulation, I hope to shed light on the relation between sustainable development and trade liberalization, looking into the deficiencies of trade led growth. Having identified the social, economic, and environmental shortcomings of trade led growth, I will examine if, and how, CSR can address these issue. Thus, the problem can be framed around the social, economic, and environmental shortcomings of trade led growth, and CSR applied to their solution, looking into the limits of CSR, and the need for adjustments. Consequently, this thesis serves as a critical assessment of CSR but also as a contribution to the debate surrounding the sustainability of the current economic world order, where trade is seen as a vital contributor to world economic growth and development.

Design

After having introduced the thesis, the problem area, and the problem formulation this chapter goes on to present the research strategy and the sources of data, followed by a critical assessment of the reliability and validity of the data and analysis. Chapter two provides the contextual background for the analysis and discussion. In the first section I look into Chile's macro economic growth and integration of the trade led. Section two explores the development and current state of the Chilean salmon industry. Finally the third section presents the current CSR strategy of the Chilean salmon industry. Chapter three outlines the conceptual framework, presenting the different concepts and a framework for a CSR strategy that effectively addresses the shortcomings of the trade led growth model. The fourth chapter

contains the first part of the analysis, which seeks to identify the social, economic, and environmental effects of trade liberalization in the context of the Chilean salmon industry. Chapter five addresses the limitations and complications of the CSR strategy of the Chilean salmon industry, discussing if, and how, CSR can be an effective solutions the shortcomings of the trade led growth model. Finally, the conclusions and broader implications of these are presented in chapter six.

Research strategy

This thesis sets up a dual research framework by firstly, addressing the social, economic, and environmental effects of trade liberalization and secondly, assessing the adequacy and implications of using CSR strategy to address the shortcomings of the trade led growth model. The central questions are answered within the context of the Chilean salmon industry. The research method can, thus, be charetherized as micro level and inductive. Chile provides a great case study, as it was one of the first developing countries to implement the trade led growth model. Additionally, the salmon industry has been on the forefront of developing a CSR strategy in Chile.

The analysis of the effects of trade liberalization is divided into three sections. Each section focuses on the development in the salmon industry and the development in Chile's 10th region, Los Lagos, which contains 90 percents of the Chilean salmon industry. But also to some extend the 11th and 12th regions, as the aquaculture centres currently are expanding towards these regions. In this way, I will get a more precise picture of the problems in the regions, which the CSR strategy of the salmon industry is trying to address.

In the first section, I assess the social effects of trade liberalization in Los Lagos, by looking into poverty[i], school enrolment, literacy, and household income. I find the national poverty measure to be the most adequate, as this measure is based on surveys in the related areas and therefore relates to the specific cost of life and conditions. Looking into poverty measures gives an overall picture of the social development in the region. In the second part of the analysis, I use measures of job creation, FDI, GDP, and export in Los Lagos and the salmon industry to evaluate economic development and creation of jobs. Here, I also look into measures of development in the sector. This gives a clearer indication of the effects that can be contributed to the salmon industry. In addition, the result of this analysis will also

give a clearer indication of how much of the social development that can be contributed to the salmon industry. Thus, the indicators of economic growth may also serve as indicators of social development. In the third and final section, I evaluate the environmental effects, looking into the harvest from aquaculture centres, industrial and non-industrial fish landings, and Chile's share in world production of salmon. Empirically, the part constitutes the weakest part of the analysis. I therefore look existing studies and literature, addressing the environmental effects of trade liberalizations in the Chilean salmon industry, which will constitute an important part of the environmental assessment.

By assessing the social, economic, and environmental sustainability of the trade led growth model, I will be able to reach a critical conclusion on the shortcomings of the trade led growth model. Once these are identified, I will compare the current CSR strategy of the Chilean salmon industry to the framework for an effective CSR, presented in the conceptual framework. In this way, I will be able to identify the shortcomings of the current CSR strategy and what adjustments that needs to be made if the strategy is to be effective. Thereby, the conclusion will work as an evaluation of the social, economic, and environmental effects of trade liberalisation as well as a critical assessment on how, and if, CSR can be an adequate response to address these shortcoming. Consequently, servings as a contribution to the ongoing debate about the sustainability of trade led growth and the current economic world order, where trade is seen as an engine for macro economic growth and development

Sources of data

In this section, I present the sources of data used in the analysis. All of the data is derived from national institutions, such as the Chilean ministry of planning and cooperation (CASEN) and the national institute of statistics (INE), providing the most adequate picture of the situation currently available, however this are national institutions, I have to the reliability of the data into consideration. The section is divided into three parts; indicators of social effects, indicators of economic effects, and indicators of environmental effects.

Indicators of social effects

The below statistical indicators will be used to determine the social effects of trade liberalization:

Annex I	Poverty in Chile and Los Lagos Indicates: percentage of people below national poverty line. Period: 1990, 1992, 1994, 1996, 1998, 2000, 2003, and 2006. Source: Chilean ministry of planning and cooperation Critique: data is only available from 1990 – 2006
Annex II	Urban and rural poverty reduction in Chile and Los Lagos Indicates: percentage of people below national poverty line in urban and rural areas. Period: 1990, 1992, 1994, 1996, 1998, 2000, 2003, and 2006. Source: Chilean ministry of planning and cooperation Critique: data is only available from 1990 – 2006
Annex III	Poverty among indigenous people in Chile and Los Lagos Indicates: percentage of indigenous and non-indigenous people below national poverty line. Period: 1996, 2003, and 2006. Source: Chilean ministry of planning and cooperation Critique: data is only available from 1996, 2003 and 2006
Annex IV	Age and poverty in Chile and Los Lagos Indicates: age groups below national poverty line. Period: 1990 and 2006. Source: Chilean ministry of planning and cooperation Critique: data is only available from 1990 and 2006
Annex V:	Sex and poverty in Chile and Los Lagos Indicates: percentage of men and women below national poverty line. Period: 1990, 1992, 1994, 1996, 1998, 2000, 2003, and 2006. Source: Chilean ministry of planning and cooperation Critique: data is only available from 1990 – 2006
Annex VI:	Indicators of social development in Chile and Los Lagos Indicates: illiteracy, years of school enrolment among people living in extreme poverty, poverty and non-poverty. Period: 2006 Source: Chilean association of security, ACHS 2006 Critique: data is only available from 2006

Indicators of economic effects

The below statistical indicators will be used to determine the economic effects of trade liberalization:

Annex VII: Household income distribution in Los Lagos
Indicates: level of household income in Los Lagos
Period: 2003
Source: Chilean ministry of planning and cooperation
Critique: data is only available from 2003

Annex VIII: Regional workforce
Indicates: number of persons in the regional workforce
Period: 1986 – 2006
Source: Chile's national statistics institute

Annex IX: Regional rate of unemployment
Indicates: unemployment of the regional work force in percent
Period: 1986 – 2006
Source: INE 2000, INE 2006

Annex X: Regional occupation according to economic sector
Indicates: occupation in Los Lagos according to economic sector.
Period: 1997 – 2006
Source: Chile's national statistics institute
Critique: data is only available from 1997. Agriculture and aquaculture are measured as one sector.

Annex XI: FDI in Los Lagos according to sector
Indicates: FDI in Los Lagos according to sector
Period: 1990 – 2005
Source: Chile's national statistics institute
Critique: data is only available from 1990.

Annex XII: Regional FDI
Indicates: FDI according to region
Period: 1990 – 2003
Source: the Chilean federation of industry
Critique: data is only available from 1990

Annex XIII: Regional GDP
Indicates: growth in GDP according to region
Period: 1996 – 2000
Source: Chile's national bank
Critique: data is only available from 1996 to 2000

Indicators of environmental effects

The analysis of the environmental effects is somewhat different from the other sections of the analysis. This section is partly build on the statistical indicators presented below and partly building on exiting studies and literature, which explore the environmental effects of trade liberalization in the Chilean salmon sector. Here, I look into the work of Borregaard (2004), O'Ryan (2006) and the journalists Franklin (2001) and Witte (2008). Additionally, I look into the sustainable impact assessment of the trade aspects of the negotiations of an association agreement EU-Chile (SIA 2002) and OECD's environmental performance reviews of Chile (2005).

Annex XIV: Chilean salmon and trout export
Indicates: Chilean salmon and trout export
Period: 1996 – 2006
Source: SalmonChile
Critique: data is only available from 1996 to 2006. Exports of salmon and trout are seen as one.

Annex XV: Harvested fish, shellfish, and seaweed from aquaculture centres according to region
Indicates: tons of harvested fish, shellfish and seaweed from aquaculture centres according to region.
Period: 2002 – 2006
Source: Chile's national statistics institute
Critique: data is only available from 2002 to 2006. Fish, shellfish and seaweed are seen as one, giving no clear indication of the salmon harvest.

Annex XVI: Industrial and non-industrial landing of fish, shellfish, and seaweed, according to region
Indicates: tons of fish, shellfish, and seaweed landings according to region and thus pressure on fish stock.
Period: 2002 – 2006
Source: Chile's national statistics institute
Critique: data is only available from 2002 to 2006.

Annex XVII: World production of salmon and trout
Indicates: world production of salmon and trout.
Period: 1996 – 2006
Source: SalmonChile
Critique: data is only available from 1996 – 2006

Reliability and validity

Data availability constitutes a major problem for the analysis, as very little data goes back to the initial year of trade liberalization, in 1973. However, the statistical data covers a broad period of years. Additionally, it is derived from official national institutions. Though, there is no way of knowing if the data from these institutions is bias, it provides the most accurate picture currently available.

Empirically, the analysis of the environmental effects constitutes the weakest part of the analysis, caused by a significant lack of data. It could have been interesting to look into measures of sea fish stock, the number of escaped fish from farms, indicators of water pollution in the area, and waste disposal from the salmon industry. The section is supplemented by data form existing studies and literature, addressing the environmental effects of trade liberalizations in the Chilean salmon industry, adding to the reliability and validity of the analysis.

Concerning the validity, there are multiple ways to analyse the social, economic, and environmental effects of trade liberalization. The indicators I have chosen only illustrate one way of doing the analysis. By choosing another set of indicators I might have reach a different result. I have, however applied a broad range of indicators, adding to the reliability and validity of the analysis.

Generalizability

The choice of doing a micro level, inductive case study of the Chilean salmon industry has certain implications. As the main questions are framed within a case study, I am faced with the problem of generalization, as a study of another country and/or another economic sector, could have generated a different result. The result of this study is very dependent upon the context, wherefore it can be problematic to generalize the findings of this study to other sector or countries. This should, however, not prevent me from generating insight from this case study, which will also be of relevance to the broader debate on the trade led growth model and the adequacy of CSR applied to address the shortcoming of this model.

II

Background

This chapter provides the contextual background of the analysis. In the first part I look into the political context of trade liberalization and its effects on Chile's macro economic performance. I use data from different reports, written in cooperation with the World Bank (WB) and Chiles's central bank (BCC), but also the works of known critics of neo-liberal trade policies, as Naomi Klein. The second part of the chapter describes the development in the Chilean salmon industry, and provides a picture of the current regulation and the discontents, which the Chilean salmon association, SalmonChile, is trying to address with the CSR strategy. To this part I use data from a world wide fund for nature (WWF), a WB report by Niklitschek (2005). In the last part of this chapter, I present the CSR strategy of the SalmonChile, using data from SalmonChile.

Chilean economy before trade liberalization

Going back to Chile's independence in 1810 the economy was built on a combination of mercantilist and free-market policies, where agricultural exports and later copper provided a stabile, but moderate, annual per capita growth rate during the 19th century, establishing Chile as one of the most prosperous countries in Latin America. However, from 1910 to 1940 Chile experienced its worst three decades in terms of economic growth related to both internal and external shocks with the outbreak of the First World War, the Great Depression of the 1930s, the Chilean nitrate crisis[ii], and a strong economic dependence on the export commodities, copper and nitrate, which were in low demand. Indeed, these were bad times for the Chilean economy, which suffered the greatest fall in GDP the world has ever seen (1930 -

1932) (Schmidt-Hebbel 2006: 2). The crisis was followed by an import substitution and industrialization strategy, leading to the creation of a local industry. This was done in an effort to insulate the economy from future external shocks, and eventually between 1930 and 1971, the Chilean economy recovered and experienced what is generally considered to be a moderate average annual per capita growth rate of 2.73 percent (O'Ryan et. al. 2006: 6). However, trade flows were highly distorted with tariff protection such as quotas and import prohibitions. High tariff and controls on import of industrial goods was one of the main ingredients of the import substitution development strategy. The average equivalent tariff for 1960 - 1970 has been estimated at 18.4 percent and reaching 11.4 percent during the administration of Salvador Allende (1970 - 1973) (Niklitschek & Gayoso 2003: 15). Thus, Chile had a relatively closed economy, with high protection rates, and the state played a significant role.

Chile's trade liberalization

In 1973, Chile's political and economic climate changed dramatically. The democratically elected Marxist president, Allende, was overthrown in a military coup led by right-wing military officer Augusto Pinochet. It later became evident that Pinochet was supported by the Nixon administration, who, in the time of the cold war, had been sceptical of the development in Chile since the election in 1970 (Hicthens 2002: 5). Shortly after the coup, Pinochet began an ambitious plan of economic liberalization and pro market reforms with the help of the so-called Chicago boys - a group of young Chilean economists, who trained at the University of Chicago under Milton Friedman and Arnold Harberger, many of whom later worked in Pinochet's administration to create a free market economy and decentralize control of the economy.

In terms of policies Chile's liberalization can be divided into five periods. The first phase (1974-1978) was characterized by a dramatic reduction and simplification of trade barriers, which was part of a comprehensive program of economic stabilization and restructuring. In the second stage (1978-1982) policies were change from a focus on an opening up process, to inflation control. For this reason the exchange rate was fixed in June 1979, maintaining a fixed value for the next three years (Edwards & Ledermann 1998: 3-4).

In these first two phases the economy suffered significant recessions, in part related to the petroleum crisis in 1973-74 and the following debt crisis in 1982. Eventually, the economy collapsed in 1982 related to a combination of exchange-rate overvaluation, a growing trade deficit, massive indebtedness of the private sector, a crisis in the financial sector and foreign-exchange market and a severe international recession (O'Ryan et. al. 2006: 11). The economic collapse initiated the third stage (1983-1985), where trade liberalization was briefly interrupted. As part of the economic measures carried out to cope with the crisis, tariffs were increased to 35 percent. Other duties were also increased in an attempt to compensate the most affected sectors and restrain import growth. The 'peso' (the Chilean currency) was also significantly devalued. These changes put a significant strain on the economy as it adjusted its structure towards export products.

In the fourth period (1985-1990) unilateral liberalization was reinstated - tariffs were slowly reduced once again and the peso suffered significant additional devaluations (Edwards & Ledermann 1998: 3-4). Chile emerged from the debt crisis in 1984 achieving a sustained annual per capita growth averaging 6.8 percent through to 1999, when the country was affected by the aftermath of the 1997 East Asia crisis. Despite the effects of the crisis the Chilean GDP per capita has kept a moderate annual average since 1984. This economic recovery and decreasing unemployment and inflation led to the relatively shared view by main political parties that exports had to continue to be the motor for growth in Chile (ib., O'Ryan 11).

Thus, in the fifth stage, beginning with the transition to democracy (1990), trade liberalization was deepened. In 1992, tariffs were almost uniformly reduced again to 11 percent. In 1998, a law was passed to reduce tariffs to a uniform rate of 6 percent by 2003. Throughout the 1990s the unilateral liberalization strategy was supplemented with free trade agreements (Edwards & Ledermann 1998: 3-4, O'Ryan et. al. 2006: 11-12). Today, Chile has one of the world's most open economies, having signed trade agreements with most of the Latin American Countries, Canada, EU; China, South Korea, Japan, and the US. Moreover, Chiles is member of the Asia pacific economic cooperation (APEC), Andean Community of Nations (CAN), and an associated member of Mercosur.

The above description of the Chilean trade liberalization is graphically displayed in the figure blow. The description as well as the figure does, however, suffer from a curtain degree of oversimplification, as a result of the complexity of the transformation and context. Chile's trade liberalization happened within the context of a broader economic restructuring and, as I will discuss further below, in the context of a military dictatorship.

The transformations of Chilean economy			
Stage	Period	Policies	Indirect and direct result
1.	1974 – 1978	- Reduction and simplification of trade barriers - Economic stabilization and restructuring	- Economic recession - Debt crisis - Massive indebtedness of the private sector - Financial crisis - Economic collapse
2.	1987 – 1982	- Opening up the economy to foreign companies - Inflation control - Exchange rate fixation	
3.	1983 – 1985	- Interruption of trade liberalization - Tariff raise - Import restraints - Currency devaluation - Implementation of export led growth strategy	- Slow economic recovery - Growth in exports
4.	1985 – 1990	- Reinsertion of unilateral trade liberalization - Tariff reduction - Currency devaluation	- Growth in GDP - Decreasing unemployment - Decreasing inflation
5.	1990 <	- Reinsertion of democracy - Tariff reduction - Multilateral free trade agreements	- Relatively stable economy, however, also relatively high dependence on exports - Very open economy

The political context of trade liberalization

The political context and the insertion of these policies in Chile, is a much-debated area – at times described as an economic experiment and political shock therapy, providing near-laboratory conditions for Friedman's neo-liberal theories (Klein 2007). And indeed, Chile was one of the first developing countries to adopt these extensive market and trade reforms. Additionally, the context of the military regime meant, that the government did not need to seek support to enforce its policies, nor did it have to give the public any explanation for the negative consequences, that the reforms had at the beginning, or create instruments that would temporarily alleviate the negative effects of the reform, nor establish mechanisms that would promote a

gradual adjustment to the new conditions (Sáez 2005:110). The military government, thus, had very free hands to transform the Chilean economy, whereas such a reform properly would have been less extensive and much more gradual in the context of democracy. Thus, one might question the validity of the "Chilean miracle", which was frequently emphasized in the era of the Washington Consensus, as a reform model for other developing countries (Thomas 2005:328).

In economy theory the role of political institutions as one of the determinants of economic development has been a subject in vogue during the last few years. Roughly speaking, this comes down to a division between the sceptical approach, which stress the need for a strong state that neglects populist demands, and the proponents of the development approach, who argue that representative institutions contribute to growth (Sen 1999). In the case of Chile, economic growth has been achieved both within the context of a military dictatorship and democracy, making it difficult to decide on any of the two approaches. However, as I will later argue, an effective CSR strategy is highly depended on the power and role of the state.

Development of the Salmon industry

Today, salmon farming is big business in Chile, particularly in the 10th region, which accounts for some 90 percent of the country's total salmon production. However, the creation of the salmon industry is a fairly recent development in Chile. Most of the initial private investments in the Chilean salmon industry were made by Chilean investors and by foreign companies already established in the country, around Chile's trade liberalization. Specialized governmental agencies helped with market identification and product promotion overseas, and soon after, foreign investors started to play a more relevant role in the salmon industry, stimulated by the promising results of the first producers and by Chilean policies that granted all national and foreign companies the same rights. Thus, government policies to attract national and foreign investments have played a mayor role in the creation of the Chilean salmon industry (Niklitschek 2005).

This development has been both a blessing and a curse for southern Chile. The salmon industry has become cornerstone of the local economy and brought major investments to the area, which now employs approximately one out of four in

aquaculture and agriculture. However, the rapid growth and expansion of the industry have also been followed by a great deal of concern about socioeconomic and environmental consequences. These concerns have not become smaller as the so-called AAA, appropriate areas for aquaculture, have decreased dramatically in the 10th region. These areas have mostly been defined by geographical features related to wind, sea depth, and distance form supply centers. However, as the production areas in the 10th region are becoming too dense and diseased, the industry keeps expanding south towards the 11th and 12th region.

Laws and regulations in the salmon industry

The birth and the rapid growth of salmon farming has been a challenge to the legal and institutional framework, as the one existing in the late 1970s, when salmon farming first took off in Chile, was focused on regulating and enforcing industrial and artisan fisheries – not aquaculture. Consequently, a systematic legal body, to regulate an already developed salmon industry, was only sat in place in the 1990s. Hence, the general fisheries and aquaculture law was created in 1991 and the national environmental commission (CONAMA) in 1996, whereas the Chilean Salmon and trout Producers Association (today SalmonChile), a private sector organization, was formed as early as 1986.

In part because of the weakness of the public institutions, the private association assumed a key role in assuring quality standards, as well as promoting salmon in the international markets, solving trade conflicts with competitors and promoting environmental self-regulations in the industry (Niklitschek 2005: 3-6). The late development of a regulatory framework meant that the general fisheries and aquaculture law was first used for the territorial planning of the placement of aquaculture centers in 1993. And according to Niklitschek, this process were defined, mainly, by exclusion of navigation tracks, military, recreational and urban areas, whereas *"A public call for private, social and local governments participations was, at that time, basically unattended by the own stakeholders"* (2005:7).

As for the environmental regulations, there are three main tools ruling salmon farming in Chile: the general fisheries and aquaculture law from 1991, the environmental law from 1996, and the executive decree on environmental norms for the aquaculture. These regulatory tools relates to the environmental impact from

emission of pollutants and fish sanitary regulation relating to disease control. This framework is entirely based upon self-monitoring, and set up very few quantitative standards. Compliance levels are uncertain, while enforcement is known to be low.

Regulations of antibiotics used in animal production build on similar principles. The process to obtaining authorization to marketing drugs in human health pharmacies is heavily biased, but not in their animal equivalents. Moreover, the list of antibiotics authorized for animal use, including aquaculture, tend to be larger than in most other salmon farming countries. National controls for antibiotics used in aquaculture are, however, being updated. Since 2005, the national fisheries services has established the obligation for farms and feed producers to keep records and to inform, on a monthly basis, about all immunization, prophylactic and therapeutic treatments applied, which must now be prescribed by a responsible veterinarian (Nitlitschek 2005: 7-8). Nevertheless, still relying on self-monitoring. In short, the industry was born outside a regulatory framework, which was only made after the salmon industry had been established for quite some time. This have left its trace on the current legal body, which is relatively weak and for the most part leaving regulation and monitoring to the industry itself.

Corporate social responsibility strategy of the salmon industry

Observers has argued, that this lack lax regulation has allowed salmon companies, in their pursuit of rapid profit, to run roughshod on the environment, while, the huge profits have had no impact on the wages earned, neither are they being channeled back into the local communities. As a response to this growing concern, SalmonChile has defined it as its mission to make the Chilean salmon industry perceived by the domestic and international public opinion as a socially responsible industry. They have come up with a CSR strategy turning focus on *"commitments beyond the quality of the product, mainly, the sustainability of the environment where we work today and the health of people taking part in such process, cornerstone of any productive industry"* (SalmonChile 2008c).

For this purpose, SalmonChile has entrusted the Salmon Technological Institute (INTESAL) the design, implementation and management of a system that enables reaching the purposes related to this mission in an integrated and demonstrable fashion, giving the industry as a whole a competitive edge in

international markets. INTESAL has designed an Integrated Management System (SIGES) consisting of a set of verifiable conducts and standardization, whose application allows to demonstrate that companies in particular, and the Chilean salmon industry, produce a safe quality product, through processes that meet regulations and voluntary commitments, enabling them to incorporate systems and standards of quality, production, environmental management and occupational safety and health, widely recognized nationally and internationally.

This is described in INTESAL's manual of regulation and best practices. The manual shall enable the companies to comply with: domestic and international regulations, voluntary commitments considered in the Clean Production Agreement (CPA) and the Industry's desirable standards on quality, fish health, sustainable production, environment, and occupational safety and health, as well as a control base for the permanent improvement of companies (SalmonChile 2008c : 4-5).

III

Conceptual framework

This chapter contains the definition and operationalization of the central concepts, which are going to frame the analysis. In the first part of this chapter, I will briefly present the theoretical ideas behind trade liberalization and the more general discussions and concerns about the effects of trade liberalization. This is an enormous area with a vast amount of literature and debate. Hence, a curtain degree of oversimplification cannot be avoided and much could be added to this discussion. In the second part of this chapter, I will present the concept of corporate social responsibility within the context of stakeholder theory. Finally, the above will be merged into a framework for an ideal CSR strategy, that effectively addresses the social, economic, and environmental effects of trade liberalization. This ideal model will, further on, be used to evaluate the current CSR strategy of the Chilean salmon sector.

The trade led growth model

The world economy has changed profoundly over the last 50 years. Globalization, depicted in advances in communication and information technologies, reduced trade barriers, and reduced barriers to foreign investment, has stimulated international trade directly, by allowing countries to specialize in different sectors, and indirectly, by allowing production units around the world. This development is commonly believed to be the catalyst of the acceleration of the economic growth and consumption that we have seen during the last 50 years. International trade as a source of wealth has always been considered one of the major vehicles of economic growth. In fact, the final two decades of the twentieth century were marked by significant emphasis being placed on the development of world trade as an engine for economic growth and a key aspect of international economic development.

These neo-liberal development policies, also referred to as the Washington Consensus, are based on the assumption that global economic integration through free trade is the most effective route to promote growth (Thomas 2005: 328). The theoretical base of the international trading system is founded in David Ricardo's theory of the comparative advantage (1817), that a country can produce more of the goods in which it is relatively more efficient and export them in return for goods in which its comparative is less. Hence, the idea is that trade allows countries to concentrate on what they can do best. And as no two countries are exactly alike in natural resources, climate or work force, those differences give each country a comparative advantage over the others in some products. Thus, according to this theory, trade translates the individual advantages of many countries into maximum productivity for all (Alam 2008: 1-2). However, economic growth driven by trade has been accompanied by an increasing environmental concern. Consequently, a new concept merges. The concept of sustainable development.

The concept of sustainable development

Generally speaking, the concept of sustainable development emerged in the light of the growing recognition of the need to measure development as mere than just macro economic growth in terms of a raising GDP. The definition of sustainable development that has come to enjoy virtually universal acceptance is derived from the World Commission on Environment and Development's Brundtland Report, our common future: *"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs"* (WCED 1987: 19). The report emphasized the need for a new development path, pointing out that many present development trends are leaving an increasing number of people poor and vulnerable as a result of environmental degradation. And that in maintaining the acceleration of economic growth, rising pressures on natural resources, means that development is achieved increasingly at the expense of the environment (Alam 2008: 5). When we talk about sustainable development, this implies a long list of areas. In the following, we will look into the concerns, that are relevant for this thesis, namely, economic, social and environmental sustainability.

Social and economic sustainability

As mentioned, trade and sustainable development are much discussed areas. This is also true where in comes to economic and social sustainability. However, most scholars generally agree that trade liberalization and integration into the international market generates macro economic growth, however, when it comes to the micro and socioeconomic effects of the trade led growth, the disputes are many.

David Dollar and Art Kraay, WB economists, argue in their article "Growth is good for the poor", that growth induced by open trade and other macro policies benefit the poor as much as it does the average household income (2000: 33). However, this trickle-down effect is rejected by most scholars – among these, Joseph Stiglitz, Nobel Laureate in economics, who argues that economic growth is not always sufficient, as some countries have proved to be far better in reducing poverty than others that have experienced relatively more growth. He does, however, acknowledge that growth is needed to ensure a reduction of poverty (Stiglitz 2002: 80). Similar thoughts have been expressed by, William Easterly, senior fellow in development and international economics, who also rejects the trickle-down effects. He argues that, in the short run, some groups – particularly the poor – cannot take advantage of the opportunities generated by growth in the economy as their sources of livelihood are destroyed and they do not have the flexibility to adapt, wherefore economic growth is likely to result in worse income distribution (Easterly 2002: 290-291). This line of thinking is related to a phenomenon known as 'race to the bottom'. Here, it is argued that in places where trade liberalization is followed by the introduction of new technology and industrialization, it leads to changes in the working conditions, which consequently implies that a highly skilled workforce is more likely to benefit from trade liberalization, whereas unskilled workers are most likely to lose their jobs.

Consequently, it is questionable is macro economic growth benefits throughout society as a whole. It can, however, be a vital element to improve the standard of life. Eventually, it comes down to an empirical assessment of the trade led growth model's ability to improve the social conditions, as some countries have proven to do a better job than other, which can be related to the possibilities of the different population groups to take advantage of an overall macro economic growth.

Environmental sustainability

When it comes to the environmental effects of trade liberalization, Nordström and Vaughan have gathered extensive material on the environmental effects in a WTO special study on trade and the environment. In order to understand where trade enters into the sustainable development debate, they divide the root causes of environmental degradation into market and policy failures. Market failures refer to situations in which the market forces of supply and demand fail to deliver an optimal outcome for a society as a whole, whereas policy failures occur when government regulations, to correct market failures, add distortions of their own (1999: 1-2). They argue that, in an ideal world, where market failures are corrected directly at the source by appropriate taxes and regulations, and policy failures removed, trade liberalization would unambiguously raise welfare without any environmental consequences. However, as this is not always the case, trade liberalization could potentially exacerbate the consequences of poor environmental policies. They argue, that market failures and environmental degradation commonly occur when producers and consumers do not have to bear the full cost of their actions, such as pollution inflicted on third parties, directing too many resources into polluting activities and too few into pollution abatement (ib. 2).

While, a great deal can be learned about the roots of environmental degradation by a careful study of the problems in each sector, this approach could overlook important inter-linkages between sectors and countries, so-called general equilibrium effects. The general equilibrium model decomposes the environmental impact of trade into three interacting elements: a composition effect, a scale effect, and a technique effect. (i) The composition effect arises from trade-induced specialization in the world. That is, countries that used to produce a wide range of products to satisfy local demand will now specialize in a subset of the product range and import the other products. The environmental effect will be positive if expanding export sectors are less polluting than contracting import-competing sectors, and vice versa. (ii) The scale effect arises from the boost of economic activity stimulated by trade. Economic growth is harmful for the environment unless production becomes cleaner and less resource consuming at the same time. (iii) The technique effect is associated with income growth that drives a countervailing

demand for a clean environment. Provided that governments respond to public demands, environmental policies will be upgraded as income grows (ib. 29).

Consequently, there is no direct link between trade liberalization and environmental degradation. Environmental consequences are, however, likely to be worse in situations were proper regulation is not in place or add distortions of its own. It, thus, comes down to an empirical assessment. The result of such an assessment can mostly likely be contributed to regulation – not trade liberalization, which may, however, accentuate the consequences of policies failures. In addition, an analysis of the environmental effects, should include thoughts on the pollution intensity of the sector, the scale of economic growth, as well as it should look into the advances in technology, which can contributed to a cleaner development and, finally, the governments willingness to endorse public demand for a more clean environment and, thus, a more clean production. In the following we will look into the concept of corporate social responsibility, which in many ways can be interpreted as a private sector response to the growing concern for the social and environmental sustainability of the current economic world order, where trade is seen as an engine for growth and development.

Corporate social responsibility

The concept of corporate social responsibility emerged in corporate governance and academical debates in the 1990s, but CSR is not a recent phenomenon. The concept has been known since the 1960s, and thoughts on the private sector's social responsibility are as old as the industrial revolution. However, today, the interpretation of CSR is much broader than earlier (Steiner & Steiner 2003: 127). CSR is not as much a theory as it is a business response to the increasing concern for the sustainability of the current international trading system. It is, hence, argued that the increasing focus on CSR is founded in globalization, as those critical of world integration argue that outsourcing, and the lack of international laws protecting the environment and workers rights, will allow corporations to diminish the possibility of nation states to regulate corporate governance, especially when corporations outsource production to newly industrialized countries, where they are subjected to very little regulation, compared to the regulation in Western countries. Hence, due to the growing power and size of corporations, spreading out production around the

world and, thus, affecting more people and local areas, they are expected to take a greater responsibility in protecting all areas and people affected throughout all of the production chain (Neergaard in Djursø & Neergaard 2006: 29).

There are many different definitions of this responsibility, in part related to different interests and world views. In 1970, Milton Friedman wrote a famous article in the New York Times with the title: *"The Social Responsibility of Business is to Increase Profit"*. His thoughts build on agency theory - basically maximizing shareholders profit - and the underlying assumption expressed by Michael Jensen, that: *"social welfare is maximized when all firms in an economy maximize total firm value"* (2002: 239). Thus, the business of business is business, and corporations' legitimacy is founded in the ability to increase profit. Archie Carroll and Ann Buchholtz take a more philantropical view on CSR, as they hold that *"the social responsibility of business encompasses the economic, legal, ethical and philanthropic expectations placed on organizations by society at a given point in time"* (1999: 35). In this line of thoughts build on the concept of good corporate citizenship. Hence, corporations are seen as citizens and thus have both rights and responsibilities (Crane & Matten 2004: 21,44, Paine 2003: 81). This thesis builds on the international school's definition of CSR, which is also the most common interpretation of the concept, today. Here, *"corporate sustainability, and also CSR, refers to a company's activities – voluntary by definition – demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders"* (Marrewijk & Werre 2003: 107). Consequently, CSR is corporations' voluntary response, demonstrating the inclusion of social and environmental concerns in interactions with its stakeholders.

According to John Elkington's concept of the triple bottom line, corporations also stand to gain a higher economical profit from engaging in CSR. He argues, that the one bottom line, in a traditional capitalistic corporation, is not sufficient, today, as sustainability of different kinds have an impact on the economic bottom line. He argues, that only to include economic profit, as an indicator of surplus would be to neglect the effects that social and environmental factors have on corporations, today. Thus, a corporation should measure its surplus in a triple bottom line: the economic, social, and environmental. In this way, it is argued, that sustainability runs through all of the corporation and its activities (Elkington 1997:

2). A critique of the triple bottom line can, however, be raised, as a large mount of studies on the relation between CSR and the economic bottom line have reached different conclusions.

According to Peter Neergaard corporations engage in CSR of instrumental, institutional and emotional reasons. The instrumental is founded in the belief that CSR gives the corporation a comparative advantage and strengthens the corporation's image. The institutional is found in public pressure. Here, it is expected and sometimes formulated in direct or indirect demands or expectations from stakeholders. Finally, the emotional is founded in an ethical interpretation of CSR. Here, corporations engage in CSR activities because it is the right thing to do (Neergaard in Djursø & Neergaard 2006: 25). Pedersen and Huniche argue, that because CSR are voluntary initiatives, it cannot replace actual government regulation. Hence, it will primarily be corporations who already intended to behave socially responsible who will make social and environmental improvements, whereas irresponsible corporations will only work with CSR if there are negative consequences of not doing so (2006: 111).

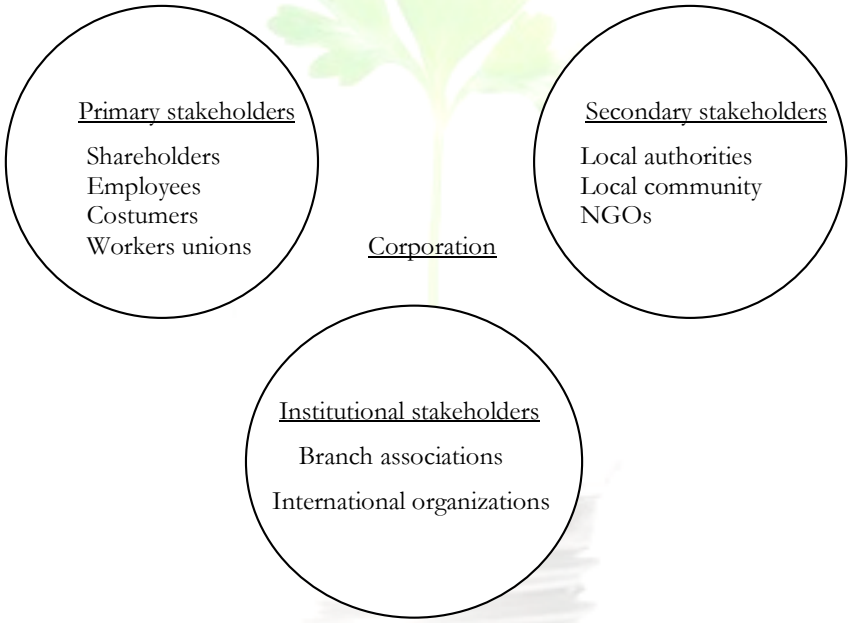
In short, CSR is seen as a corporation's voluntary activities to promote a sustainable social and environmental development in all areas affected by the corporation, in interaction with its stakeholders. The relation between stakeholders and the corporation is discussed further below. An effective CSR strategy cannot only improve the social and environmental bottom line, but also the economical. However, as corporations' main focus is still on generating economic profit and CSR per definition is voluntary, irresponsible corporations will only work with CSR if there are negative consequences of not doing so. Consequently, it cannot replace actual government regulation.

Stakeholder theory

In order for CSR to be affective corporations must identify their stakeholders. CSR has no theoretical foundation, but it is often defined, using stakeholder theory (Freeman 1984) and to a lesser degree capability theory (Leonard-Barton 1992). Stakeholder theory constitutes a significant break with shareholder theory, which basically sets out to maximize shareholders profit. Using stakeholder theory the corporation needs to enlarge that focus. Here, *"stakeholders are those whom the firm's*

operation has benefited or burdened; that is, they have a stake in it" (Steiner & Steiner 2003: 15). Stakeholders can be divided into different groups. The model depict below builds on the works of Freeman & Reed (2004), and Donaldson et. al. (1995). Here, stakeholders are divided into primary, secondary and institutional stakeholders. Primary stakeholders refer to those with whom the corporation makes contracts. It is owners, employees, suppliers, costumers, distributors, loan givers, and workers unions. The secondary stakeholders refer to local authorities, local community, the press and non-governmental organizations. Finally, the institutional stakeholders refer to branch associations, and international organizations such as EU and UN.

Figure II: Stakeholder model



By framing CSR in the context of stakeholder theory the corporation becomes the centre of the network of relations between the corporation and different groups and persons. The different stakeholders take part in forming the CSR strategy as they makes their stakes and interest clear to the corporations, which will then integrate these into their policies, in order to provide the best possible outcome for all. Thus, communication between stakeholders and the corporation is an important tool in this theory, in order for this model to be effective (ib).

Different stakeholders have different interest, which in some cases can be conflicting. Hence, employees and workers are interested in the generation of jobs, decent wages and working conditions. Different customers at different export markets have different expectations and requirements - some are sensitive to price others to production methods etc. When it comes to local authorities and local community an ideal CSR strategy goes beyond the legal obligations set up by local authorities and enters into a dialog on how the industry can contribute to an economic, social, and environmental sustainable development in the local community. In relation to NGOS the strategy should ensure communication and transparency. Finally, institutional stakeholders have a whole other set of interests depending on the relation between the country and the institution in question. Thus, pleasing all stakeholders can be a difficult task, however, necessary in order for the strategy to be effective. In the following, I attempt to boil down the above information to an ideal CSR strategy, which effectively addresses the social, economic, and environmental shortcomings of the trade led growth model in cooperation with the stakeholders.

Framework for an effective CSR strategy

The complex relation between the private sector and its stakeholders is displayed diagrammatically in the figure below. Hence, as the figure indicates, an effective CSR should be one that addresses the social, economic, and environmental effects of the trade led growth model, in the context of a private sector engagement with the primary, secondary, and institutional stakeholders.

The strategy should go beyond a narrow economic focus on corporations ability to create jobs, increased profit and export and beyond the industry ability to attract national and international investment, to include measures to reduce poverty, support the inclusion of socially vulnerable groups, and generally focus on the distribution of the wealth created by trade liberalization. Additionally, it should include measures to safeguard the environmental sustainability throughout the production chain and even go beyond the legal requirements especially in areas where such requirements are jet to be made. Hence, a CSR strategy that only addresses the economic effects, even when it involves collaboration with all the

stakeholders, will not be adequate or effective in correcting the failures of the current trade led growth model. Thus, the adequacy of the strategy and the willingness of the corporations to engage in CSR are important elements for an effective CSR strategy.

Figure III: Framework for an effective CSR strategy

		Social	Economic	Environmental
Private sector				
Primary stakeholders	Shareholders			
	Employees			
	Worker unions			
	Customers			
Secondary stakeholders	Local authorities			
	Local communities			
	NGOs			
Institutional stakeholders	International organizations			

However, as CSR by definition is a voluntary commitment it is essential to identify and engage the stakeholders in this process, in order to keep corporations to their promises and ensure that the interest of the stakeholder are included in the strategy. This requires good communication and collaboration with the stakeholders.

More importantly, the engagement with the stakeholders should not be unidirectional with the private sector making the decision to engage or not, rather a basic assumption of this model is that it must be interactional, as a CSR strategy is likely to be effective where stakeholders proactively encourage the private sector to address the effects of the trade led growth model - e.g. CSR will most likely be effective in situations where governments and local authorities provide regulation and incentives. Similarly, where environmental groups and local communities put pressure on the private sector, CSR is likely to be more effective. Hence, in situations with low engagement of the government and civil society, the reverse may be true. Thus, an effective CSR strategy requires the existence and active engagement of both corporations and their stakeholders.

VI

Trade liberalization and its discontents;

The social, economic, and environmental effects of Chile's trade liberalization

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In this chapter, I will address the first part of the problem formulation: what are the social, economic, and environmental effects of trade liberalization? The findings will be used in the next chapter to address the second part of the problem formulation: how effective is CSR strategy to deal with the problems of the trade led growth model?

The empirically analysis is divided into three sections, looking into the social, economic, and environmental effects of trade liberalization and the expansion of the Chilean salmon sector in Chile's 10th region, Los Lagos, and some extend the 11th and 12th region, Aysen and Magallanes, using the empirical indicators presented in the methodology section of this thesis. Relevant data, from the statistics in the appendix, is presented in figures to highlight the changes. Section one presents the social effects, section two presents the economic effects and the generations of jobs, the third section presents the environmental effects. Finally, the fourth section sums up the main finings and trends of the reviewed data.

Social effects

Annex I indicates that overall poverty has decreased in Los Lagos, falling from 39.8 percent in 1990 to 14.0 percent, in 2006. The region's poverty reduction rate (25.8 percent point) is, thus, slightly better than the national rate at 24.9 percent and indicates an overall improvement of the social conditions in the region. However, the regional poverty rate of Los Lagos is still slightly above the national poverty level of 13.7 percent.

Figure IV: Population below the national poverty line in Chile and Los Lagos (percent) 1990 - 2006						
	National			Los Lagos		
Year	1990	2006	Var.	1990	2006	Var.
Poverty %	38.6%	13.7%	24.9%	39.8%	14.0%	25.8%

Annex II indicates that, both today and historically, poverty in the 10th region is higher in urban areas than in rural areas, where the poverty rate is well below the national average. Los Lagos has been successful in reducing both rural and urban poverty, leaving Los Lagos' urban poverty rate at 16.5 percent, slightly above the national rate of 13.9 percent, and rural poverty at 8.4 percent, 3.9 percent point below the national average. Thus, trade liberalization has led to a reduction in both rural and urban poverty rates, however, the urban poverty is still significantly higher than the rural poverty rate, and higher than the national average.

Figure V: Rural and urban poverty in Chile and Los Lagos (percent) 1990 – 2006						
	National			Los Lagos		
Area	1990	2006	Var.	1990	2006	Var.
Urban poverty	38.5%	13.9%	24.6%	46.3%	16.5%	29.8%
Rural poverty	38.8%	12.3%	26.5%	30.0%	8.4%	21.6%

Looking into annex III, it shows that indigenous and non-indigenous poverty rates were relatively high in Los Lagos in 1990 compared to the national average. However, the data shows a substantial reduction in the rates of poverty among both indigenous people and non-indigenous people in Los Lagos, respectively going down 24 and 18.1 percent point, leaving the region very close to the national average. However, poverty remains the highest among the indigenous population.

Figure VI: Poverty in Chile and Los Lagos among indigenous and non-indigenous people (percent) 1990 – 2006						
	National			Los Lagos		
Race	1990	2006	Var.	1990	2006	Var.
Indigenous poor	35.1%	19.0%	16.1%	43.1%	19.1%	24%
Non-Indigenous poor	22.7%	13.3%	9.4%	31.0%	12.9%	18.1%

Annex IV looks into poverty according to age group. Both nationally and regionally we can see a substantial reduction in all age groups. However, poverty remains higher among the youngest part of the population. This is not only a problem in Los Lagos, but throughout the country.

Figure VII: Poverty in Chile and Los Lagos according to age (percent) 1990 - 2006						
	National			Los Lagos		
Age	1990	2006	Var.	1990	2006	Var.
< 18	50.7%	20.6%	30.1%	51.8%	20.1%	31.5%
18 – 29	35.9%	11.4%	24.5%	37.6%	13.0%	24.6%
30 – 44	37.6%	13.6%	24.0%	38.0%	13.5%	24.5%
45 – 59	26.6%	9.3%	17.3%	27.7%	9.3%	18.4%
> 60	20.6%	7.5%	13.1%	21.3%	8.7%	12.6%

When it comes the relationship between poverty and gender (annex V), the trend is very similar to what we just witnessed about poverty and age. Both nationally and regionally there is a slight overweight in the proportion of poor women. Both have achieved substantial reductions, and the latest available data indicates that the gender divided is at a similar level nationally and regionally. However, poverty remains higher among women.

Figure VIII: Poverty in Chile and Los Lagos according to gender (percent) 1990 - 2006						
	National			Los Lagos		
Gender	1990	2006	Var.	1990	2006	Var.
Men	37.9%	13.1%	24.8%	38.7%	13.3%	25.4%
Women	39.3%	14.3%	25%	40.9%	14.7%	26.2%

In spite of the improvement in all poverty rates, Los Lagos's illiteracy rate is still higher than the national average. The same goes for years of school enrolment with is lower than the national average (annex VI). Looking into household income distribution it becomes evident that the income distribution in Los Lagos is poor. Hence, the region has most households in the three lowest income groups (annex VII).

In conclusion, Los Lagos has improved its poverty rate substantially since 1990, however, the region is still slightly below the national average. In Los Lagos poverty is mainly found in urban areas, whereas the rural poverty is lower than the national average. Like the rest of the country poverty is highest among young, indigenous, and women - the difference being most outspoken when it comes to indigenous people. Thus, in spite of improvement in the regional poverty rate, Los Lagos is still faced with many of the problems that have been characteristic of Chile: poor household income distribution, social exclusion of indigenous people, and poor regional development. The data on social development in Los Lagos indicates that trade liberalization and the expansion in the salmon industry have contributed to a substantial reduction of poverty, however considering the extent of development in the salmon industry, it is disappointing to see that the region is still below national averages and still faces problems of poor income distribution, illiteracy and poverty.

Economic effect – employment generation

Looking into annex VII, we see a significant growth in the workforce of the 10th region from 271,990 workers in 1986 to 440,000 in 2000, indicating a substantial job creation in the region, placing it as the 5th most labor intensive region out of Chile's 13 regions. Whereas the 11th and 12th regions have relatively small workforces of respectively 37,090 and 63,220 (2000), having grown only with around 10,000 workers since 1986. The data on Chile's regional workforces indicates that the metropolitan region, which contains the country's capital, *Santiago de Chile*, still attracts the most workers. According to the latest available data (2000) the workforce of the metropolitan region is estimated at 2,503,610, representing 42.6 percent of the national workforces. However, six other regions, among these the 10th and the 11th region, have seen a higher proportional growth than the metropolitan, in the period 1986 – 2000, indicating a trend toward more regional development in Chile. Hence, trade liberalization and the expansion in the salmon industry have attracted labor force and created more jobs in the salmon producing regions (X, XI, and XII).

Figure IX: Regional workforce (1000 of persons) 1986-2000			
Region	1986	2000	Var. %
Metropolitan	1,813.06	2,503.61	38.1%
X	271.99	392.55	44.3%
XI	27.02	38.77	43.5%
XII	52.79	64.64	22.5%

Annex VIII looks into regional rates of unemployment. Here all three salmon producing regions are doing well with unemployment rates of 5 percent, 3.7 percent, and 6.4 percent, which is considerably below the national average of 8.3 percent. However, in the 11th and 12th region unemployment rates have gone up from very low rates of respectively 1.9 percent and 2.7 percent in 1986, whereas the unemployment rate in the 10th region has been relatively stable around 5 percent. On the whole the salmon regions are among the regions with the least unemployment. In conclusion, trade liberalization and the expansion in the salmon industry has had a positive effect on employment in the region.

Figure X: Regional unemployment (percent) 1986- 2000		
Region	1986	2000
X	5,2%	5,0%
XI	1,9%	3,7%
XII	2,7%	6,4%
National	10,4%	8,3%

Annex IX looks into employment in Los Lagos according to economic sector. It is found that most people are employed within agriculture and aquaculture, occupying almost one out of four in the region. However, there has been a slight decrease in the number of people employed in these sectors. On the other hand there has been an increasing number of employed in industry, trade and services - possibly a spill-over effect from aquaculture and agriculture, which remain the primary form of occupation in the region. Consequently, a great portion of the low unemployment rates can be contributed to the salmon industry.

Figure XI: Employment in Los Lagos according to economic sector (1000 of persons) 1997 - 2006					
Year	Total	Agriculture/Aquaculture	Industry	Trade	Services
1997	364.76	120.23	47.56	50.33	84.75
2006	419.68	116.96	59.30	62.46	100.84

Looking into the distribution of FDI in Los Lagos (annex X), it becomes evident that most investments go into the industrial sector, followed by the forestry sector, leaving the aquaculture sector third in the row. Investment in the industrial sector is commonly known to increase demand for skilled labor and increase demand for unskilled labor, thereby creating a so-called race to the bottom. Thus, these investments may explain the decreasing employment in the aquaculture/agriculture sector in annex IV. However, the salmon industry remains an important player in the region, both in terms of employment and attraction of FDI.

Figure XII: FDI in Los Lagos according to economic sector (US$ 1000) 1990 – 2003				
	Industry	Forestry	Aquaculture	Total
1990	8,754	2,330	560	12,444
1991	59,326	1,157	-	62,100
1992	11,954	986	1,365	15,244
1993	18,985	8,817	290	18,942
1994	3,511	4,158	832	10,809
1995	10,020	37,663	808	52,171
1996	318	1,472	-	6,077
1997	915	2,790	5,000	10,616
1998	837	2,423	1,300	36,965
1999	7,613	5,586	-	19,462
2000	373	3,186	92,470	110,680
2001	71,378	940	3,168	76,752
2002	13,040	993	-	23,796
2003	11,799	821	10,000	22,620
2004	-	150	-	227
2005	-	30	-	176

Annex XI indicates that even though the 10th region has received substantial amounts of FDI varying between US$ 6,080,000 (1996) and US$ 110,068,000 (2000) Chile's northern regions - home to most of the country's economically important copper mines - and the metropolitan region still runs of with most of the FDI, as well as forestry and agriculture in the regions just north of the regions of the salmon industry. Among the salmon producing regions the 10th region has traditionally been the one receiving most FDI, however in a period from 1996 - 1999 considerably more FDI was invested in the 12th region compared to both the 11th and the 10th region, averaging US$ 141,556,250 in this four-year-period. Hence, Chile's salmon producing regions has attracted substantial amounts of FDI, following trade Chile's trade liberalization.

Figure XIII: FDI according to region (US$ 1000) 1990 – 2003

	X	XI	XII	Metropolitan	National
1990	12,444	314	3,116	494,809	1,314,756
1991	62,100	0	1,059	418,515	982,099
1992	15,244	2,291	1,157	395,403	998,987
1993	28,971	1,876	25,335	604,709	1,735,368
1994	10,809	1,480	5,497	503,362	2,525,016
1995	52,171	94,047	58,210	522,504	3,037,671
1996	6,080	4,930	218,635	2,069,126	4,836,177
1997	10,615	20,748	139,254	1,222,018	5,217,762
1998	36.965	23.067	104.881	2.089.368	6.034.442
1999	19.462	1.307	103.455	2.533.487	9.198.378
2000	110.680	7.737	48.949	436.397	3.022.459
2001	76.752	4.127	0	1.050.291	4.781.803
2002	23.796	4.531	304	1.506.314	3.376.480
2003	22.620	6.729	461	302.121	1.276.370

Looking into regional measures of GDP (annex XII), it becomes evident that the 10th region is responsible for 4.4 percent of the national GDP (2000), making it the 5th largest contributor to Chile's national GDP, whereas the 11th and 12th region only contribute with respectability 0.5 percent and 1.3 percent, placing them at the bottom

of the regional contributions to the national GDP. Looking into growth in GDP in the period 1996 – 2000 both the 10th and the 11th region have experienced significant growth rates (26.1 percent and 24.8 percent) well above the national average (13.8 percent). In conclusion, the trade led growth model has been successful in increasing GDP in the salmon producing regions, making the salmon industry a substantial contributor to the overall economic growth.

Figure XIV: Regional GDP (mil. of pesos) 1996 – 2000

Region	1996	1997	1998	1999	2000	Var. %
X	1.249.677	1.395.171	1.452.797	1.456.623	1.576.034	26.1%
XI	141.716	156.021	159.580	170.167	176.830	24.8%
XII	401.360	422.651	444.828	454.480	444.611	10.8%
National	31.237.288	33.300.694	34.376.596	34.115.043	35.536.743	13.8%

The positive economic effects of trade liberalization is also displayed in Chile's export of salmon (Annex XIII), which has more than tripled over a ten years period from 1996 to 2006, reaching a total export value of 2207 US$ mil. in 2006, accounting for 3.8 percent of Chile total export. But also the overall development in Chile's total export has improved substantially in this period, reaching a total of 57,757 US$ mil. in 1996, 275.2 percent more than in 1996.

Figure XV: Salmon export (Mio. US$) 1996 – 2996

	1996	2006	Var.
Salmon and trout	US$ 538 mil.	US$ 2207 mil.	310.2%
% of total export	3.5%	3.8%	0.3% point
Total Chile	US$ 15,395 mil.	US$ 57,757 mil.	275.2%

In conclusion, Chile's export of salmon has gone up 310 percent over a ten years period (1996 – 2006). The total export value of 2207 US$ mil., in 2006, represents 3.8 percent of Chile's total export, which also has experienced a great development, increasing export by 275 percent in the same period. Most of Chile's salmon is still produced in Los Lagos, the 10th region, however, both the 11th and the 12th region have increased their contribution to the national GDP and attracts more and more

FDI. Significant investments in the 12th region indicates an expansion of the aquaculture sector in this region, however the 10th region is still Chile's most important region, when it comes to aquaculture. In the salmon producing regions the workforce is increasing and unemployment is the lowest in the country, however, slightly growing in the 11th and 12th region. In the 10th region one out of four is employed within agriculture and aquaculture. There is, however, a trend towards decreasing employment with aquaculture and agriculture, whereas other sectors such as trade, industry and services has increased employment. In conclusion, the salmon industry has witnessed a massive expansion and become a vital contributor to the economic development in the salmon producing regions, attracting labor force, keeping unemployment rates low, increasing export, and becoming a substantial contributor to national GDP. Comparing these findings to the findings on the social effects of trade liberalization, it is surprising that poverty rates in the salmon producing regions remain above the national average. Especially, as these regions have the lowest unemployment rates in the country.

Environment effects

Chile harvested 628,000 tones farmed salmon in 2006, making it the second largest producer of salmon in the world, closely behind Norway (Annex XVI). Annex XV and XIV show, that while the total harvest from aquaculture centres has increased in the period 2002 – 2006, fish landings from industrial and non-industrial fisheries has decreased in the same period. Hence, there has been a partial and progressive replacement of wild fish for farmed fish, properly decreasing pressure on the local fish stock.

Figure XVI: Harvested fish, shellfish, and seaweed from aquaculture (tons) 2002 – 2006					
	2002	2003	2004	2005	2006
X	494,338	482,592	573,693	581,283	658,896
XI	90,994	77,648	85,788	129,139	142,733
XII	4,960	4,436	5,709	5,685	6,485
National	617,303	607,214	696,258	739,365	839,878

Figure XVII: Industrial and non-industrial landings (tons) 2002 - 2006					
	2002	2003	2004	2005	2006
National	4,387,306	3,328,333	4,839,962	4,337,855	4,092,345

Figure XVIII: Chile's share of world production of Salmon (1000 of tons) 1996 - 2006												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	% 2006
Chile	184	224	258	223	302	450	506	494	601	614	628	38.2
Norwey	313	347	387	458	458	478	530	583	602	632	652	39.7
World	751	835	926	1010	1112	1327	1438	1508	1586	1617	1642	100

As mentioned, in the section concerning the validity and reliability, it is difficult to come to any final conclusions on the environmental effects of trade liberalization based on the data in the appendix, as a result of limited data availability. However, looking into the findings from existing literature the picture becomes clearer.

Borregaard (2004) has examined how trade liberalization has affected the environment and development in Chile. In accordance with the theory, she concludes that the environmental impacts from trade liberalization are not very significant, however, existing trends and pressures on the environment and its resources are reinforced through liberalization.

EU's Sustainable Impact Assessment (SIA 2002) report on the trade aspects of the negotiations of an Association Agreement EU-Chile has a similar emphasis on the regulatory framework. It was found that benefits derived from cleaner technologies cannot outweigh the negative effect of increased industrialization, if a proper national regulatory framework is not in place.

OECD's (2005) report on Chile's environmental performance has looked into the regulatory framework. They recognizes significant environmental improvements over the past decade, most notably with the establishment of the National Environment Commission (CONAMA) in 1996, while emphasizing a need to further improve environmental integration in fast-growing primary sectors (mining, tree planting, aquaculture). The report concludes, that progress towards sustainable aquaculture is recent, and identifies water pollution, extensive use of antibiotics, increased pressure on aquatic ecosystems and fish stocks as areas with room for improvement within aquaculture.

Finally, a joint WWF and WB study (O´Ryan et. al. 2006) remarks that Chile has evolved from a very unregulated environmental policy up in the mid 1990s, to an increasingly regulated scheme, where self-regulation plays a key role, arguing that Chile has shown to be highly sensitive to environmental and social demands from consumers at targeted market, as the Chilean economy is highly dependent on export. It is, however, found that the resources allocated to research are insufficient to provide the scientific and technical knowledge needed to guide adequate policy and regulatory designs, in order to adjust production to regional carrying capacities, as well as controlling the impact of escaped salmon, stressing the need to reduce nutrition emissions in an effective way.

A more explicated critic of the practices of the salmon industry comes from non-governmental organizations (NGOs) and journalists. Among these Jonathan Franklin (2001) points his finger at overcrowding of fish in pens, overuse of antibiotics, and fish disease outbreaks. He points out how low production costs, low wages, coupled with minimal government oversight has made the Chilean aquaculture a highly competitive industry, constituting a serious risk, as lack of regulation allows companies to be sloppy on e.g. sanitary goals, which are based on 'gentleman's agreements'.

Similar concerns have been uttered by NGOs, as Fundación Terram and Ecoceanos, who argue that lax regulation has run roughshod on workers' rights and on the environment, leading to highly concentrated fish farms creating tremendous amounts of organic pollution and 'dead zones', extensive use of antibiotics and other environmental consequences taking a major toll on native fish species, on which small-scale fisherman rely for survival (Witte 2008).

Judging by the reviewed literature and the statistical indicators trade liberalization has negative environmental effects, related to increased pressure on natural fish stock and local ecosystems. However, there seems to be general consensus that environmental degradation is not a direct effect of trade liberalization, rather trade liberalization accentuate exiting trends and pressure on the environment as a result of bad production practices, lax of government regulation, and the lack of redirection of resources into scientific and technology needed to guide policy and regulatory design.

Sum up on empirical findings

In conclusion the economic activities have increased substantially, in the salmon producing regions, following Chile's trade liberalization in the 1970s. This development has been followed by increases in exports and FDI, while keeping unemployment rates low. This has also affected the social development in the region, where poverty has decreased over the years. However, the poverty indicators of the salmon producing regions indicates, that these regions still have a social development, which is lesser than the national average, in terms of school enrolment, illiteracy and poverty rates. Additionally, poor income distribution and social exclusion remain substantial problems. Hence, indigenous women living in urban areas are still the most likely to be poor.

On the environmental front trade liberalization is found to accentuate existing trends and pressure on the environment – a so-called scale effect. This is mostly likely related to lax regulation and a relative dependence on self-regulation and monitoring. The result has been increasing water pollution, pressure on aquatic ecosystems and fish stocks, as well as extensive use of antibiotics. With reference the general equilibrium model, there seem to have been no positive technique effect of trade liberalization, as too little resources are directed into research and technology.

In the following chapter, these finding will be used to address the second part of the problem formulation: can CSR effectively address the shortcomings of the trade led growth model?

V

CSR and Chile's trade led growth model;

Is CSR an adequate response to the shortcomings of the trade led growth model?

Having looked into the social, economic, and environmental effects of trade liberalization, this chapter contains a stakeholder analysis of the current CSR strategy of the Chilean salmon sector, assessing both the private sector's and the stakeholders' engagement with this strategy. The analysis is followed by a short graphical summery of the finings, which will be further discusses in the last three sections of this chapter. In the first of these remaining sections, I discuss the limitations and implications of the current model. In the second I address the role of the state, before I in the final section discuss if, and how, CSR can be an effective solution the shortcoming of the trade led growth model.

Stakeholder analysis

In the conceptual framework, I presented a framework for a CSR strategy that effectively addresses the social, economic, and environmental shortcomings of the trade led growth model. An effective CSR strategy entail a strategy that goes beyond a narrow focus on economic profits. An effective CSR strategy should include measures to reduce poverty, support the inclusion of socially vulnerable groups, and generally focus on the distribution of the wealth created by trade liberalization. In addition, it should include measures to safeguard the environmental sustainability, beyond the legal requirements, especially in areas where such requirements are jet to be made. Most importantly, the private sector's engagement with the stakeholders should not be unidirectional with the private sector making the decision to engage or not, rather interactional, as a CSR strategy is likely to be effective where stakeholders proactively encourage the private sector to address the effects of the trade led growth

model. This is particularly important given the voluntary nature of CSR. Using the framework for an effective CSR model, it thus become central to see if the current strategy includes measure to enhance the social and environmental development. Equally important becomes the question: to what extend are the private sector and its stakeholders engaged in CSR?

In the following I will make an assessment of the private sector's CSR strategy and engagement, after which I will look into the engagement of each individual stakeholder group to see if the current CSR strategy fit the ideal model for an effective CSR strategy presented earlier. In that way I will be able to assess if CSR can be an effective solution to the shortcomings of the trade led growth model.

The salmon industry and its shareholders

SalmonChile's common CSR strategy, SIGES, was *"created as a response to the need of the Chilean salmon industry for an objective instrument to achieve, sustain, and demonstrate conducts and standards of performance according to the expectations and aspirations of different stakeholders, namely: customers, owners and workers, the community, and national and international authorities, among the most relevant"* (SalmonChile 2008b).

Looking into SIGES' manual of regulations and best practices, it becomes evident that the salmon industry induces social, economic, and environmental responsibilities, as the manual goes beyond domestic and international regulations to include voluntary commitments considered in the Clean Production Agreement and the industry's desirable standards on quality, fish health, sustainable production, environment, and occupational safety and health (SalmonChile 2008c: 4). Here, social responsibility is viewed as the responsibility *"to generate work, and higher skills for the people in the communities they participate, increasing their life quality, culture and future perspectives"* (SalmonChile 2008c: 3). This covers both the social and economic development as described in this thesis. Emphasis is also being put on the environment, as it is stated that the *"salmon industry intends to comply with commitments beyond the quality of the product, mainly, the sustainability of the environment where we work today"* (ib). Thus, focus is on a *"sustainable development [that] satisfies the real needs without endangering the ability of future generations to satisfy their own"* (ib).

Today, SIGES has 17 associated companies, constituting approximately 80 percent of the national production associated to SalmonChile. Consequently, the

private sector is seemingly aware of its responsibility towards its stakeholders and the need to ensure social, economic, and environmental sustainability. The industry's willingness to address the social, economic and environmental effects of the trade led growth model is, however, characterized as 'moderate', as the industry endorse these concerns for instrumental reasons, founded in the belief that CSR will give the industry a comparative advantage and strengthen its image, which is still the primary goal of the industry. This becomes clear looking into the industry' own description of the advantages and benefits of SIGES, described as the ability to *"generate tangible benefits of profitability, value added and entrepreneurial solvency"* and assure *"the competitiveness of our products and the value of our industry"* (ib). But also institutional reasons, founded in stakeholders' demands and expectations, as another advantage, seen by the industry, is the ability to *"demonstrate to stakeholders (public, private, NGOs and other) the compliance with regulations applicable to the salmon industry and the application of different best practices aiming to improve standards beyond the requirements of domestic authorities and international markets"* and to give *"confidence and satisfaction to customers in quality of products and their processes, and enable introduction to new markets"* (ib).

As owners of the industry the shareholders' interests are assumed to be in line with the interest of the industry. Their social, economic, and environmental sustainability concerns are therefore considered to be 'moderate'. They have most likely endorsed CSR of the same instrumental and institutional reasons as the industry - that is - for reasons related to image, stakeholders' pressure, and an economic interest in added value.

The fact that the shareholders' and salmon industry' reasons to engage in CSR can be identified as instrumental and institutional further stresses the need for stakeholder engagement, as argued by Pedersen and Huniche, CSR is a voluntary initiative, thus, it will primarily be corporations who already intended to behave socially responsible who will make social and environmental improvements, whereas irresponsible corporations will only work with CSR if there are negative consequences of not doing so. Consequently, the stakeholders' expectations and demands are critical to the effectiveness of CSR. The question then becomes: to what extend do the stakeholders focus on social, economic and environmental sustainability?

Worker unions

Francisco Pain, president of the Federation of Salmon Workers (FETRASAL) criticizes the working conditions, saying that: *"workers are standing up for nearly eight hours a day, and their bathroom breaks are actually timed. Some pregnant women have even miscarried on the job as a result of the difficult conditions*" (Estrada 2006: 2). He directs his critique at 'transnationalization' of the salmon industry in Chile, where 40 percent of the capital invested in salmon farms is now foreign, mainly from Norway, the Nederland's, Japan and Spain, stating that *"foreign corporations fail to apply the same labor standards as those followed in their home countries, taking advantage of lax Chilean legislation and enforcement"* and *"the authorities in Chile are just now waking up and becoming aware of the impact of salmon farming"* (Estrada 2006: 2). He criticizes, that the huge profits that salmon farming corporations are raking in have no impact on the wages earned by their employees, and neither are they being channelled back into local communities. In conclusion, the worker unions have a 'strong' emphasis on both the social and economic shortcomings of the trade led growth model, but merely a minor focus on environment degradation.

Employees

During the last couple of years there have been several strikes among employees in the salmon industry. These mostly concern working conditions and wages, as in 2006, where 420 employees from AquaChile, the biggest salmon farming company in Chile, went into a two-week strike. They demanded a raise of 26,000 pesos (approx. 50 USD), while the company only offered 4,000 pesos (approx. 7 USD). In the end, the company appeared to have won, granting a raise of just 4,000 pesos a month for 2006 and offering similar amounts for 2007 and 2008. Considering the recent rates of inflation in Chile, this was a pretty bad deal for the employees. The company, however, reported that the collective agreement included new benefits, such as bonuses, student scholarships, housing and credit programs, and life insurance (Estrada 2006: 2). Consequently, employees have a 'strong' focus on wages and labor conditions, a 'weak' focus on addressing the social and environmental issues.

Customers

As the final group within the primary stakeholder, we find the customers; the Chilean salmon industry' biggest export market is the US, which takes of 27.8 percent of it exports, followed by Japan (27.4 percent), EU (10.6 percent), the rest of Asia not including Japan (11.8 percent), Latin America (12.3 percent) and others (8.8 percent) (SalmonChile 2008c). There are of course big differences between these consumer markets. However, the phenomenon of political consumers is still weak in many countries. Hence, focus on social, economic, and environmental sustainability is considered 'weak'. However, advocacy groups in the northern hemisphere are organizing to educate consumers on farmed salmon techniques, including the use of dyes to colour farmed salmon flesh pink. (Farmed salmon naturally maintain a gray hue, so manufacturers are compelled to mix colorants into the food to produce shades of consumer friendly pinks). Besides aesthetic issues, the campaigns include warnings about misuse of antibiotics (Franklin 2001: 3). Thus, consumers' awareness is likely to grow within the future. Consequently, the industry needs to be aware of the increasing consumer awareness, in order to keep their market shares. Additionally, the industry must be ready to comply with the changing requirement and regulations on the respective markets. However, the current pressure from the customers is considered to be weak.

Local authorities

Turning to the secondary stakeholders. The local authorities affecting the Chilean salmon industry are embodied in the national environment commission, CONAMA. However, as described in the background chapter of this thesis, regulations are few and mostly based on voluntary initiatives, such as the CPA and industry' desirable standards included in the CSR strategy of SalmonChile. SalmonChile points to the CSR agreement, which is stricter than current regulation, although they acknowledge that there is no penalty for not complying with the agreements (Witte 2007:1). Thus, the use of self-regulation is widespread, whereas regulation is lax. Additionally, the minimum salary in Chile is relatively low (approx. 240 USD) in comparison the cost of living. In urban areas the poverty line is estimated at approx. 94 USD a month (CASEN 2008). Thus, the authorities' pressure on the salmon industry is very low –

in the form of lax environmental regulation and low minimum wages. These facts give way to the concerned argument that the increasing power of corporations diminishes the power of the nation state, which keeps lax regulation in order to avoid scaring of FDI and employment on the expense of sustainable development. An example of the weak pressure from the local authorities was found in 2006, where Douglas Tompkins[iii] was told, that *"It's preposterous to think of putting the brakes on a growing industry"* (Dingle 2006: 1). He had said, that the Chilean government should impose density restrictions on the salmon industry - *"not only the number of cages, but also the number of fish per cages, per cubic meter"* (Dingle 2006: 2) and encouraged other such as the Endesa[iv], which owns 35,000 hectares alongside Parque Pamalín, to *"take action against this dirty industry"* (ib). In conclusion, the social, economic and environmental concerns of local authorities are considered to be 'weak'.

Local community

Today, the resistance of the local communities towards the salmon industry is most noticeable in the 12th region, where the industry is looking to expand production. Disease problems in the 10th region, where the ongoing Infectious Salmon Anemia[v] (ISA) outbreak continues to be concentrated, have salmon companies looking to expand south - into the cleaner and presumably infection-free-waters of the 11th and 12th region. Indeed, last year the 12th region received 972 applications for aquaculture concessions, a staggering number considering that during the last 20 years the government office processed only about 500 such requests. As of June 2008, an additional 80 concessions had already been issued to companies expected to launch operations by the end of 2008 (Witte 2008: 2). And as we have just seen in the previous chapter, increasing sums of FDI are directed into the region.

In Puerto Natales, a small city of some 20,000 residents in the 12th region, a groups of mostly tourism and local fishing industry representatives, among them representatives from the Puerto Natales Association of Indigenous Artisan Fishers, the Puerto Natales Artisan Fishing Women's Groups and the Association of Ultima esperanza Guides, launched the Patagonia without Salmon Farms Social Coordinating Committee (CSPSS). In its first declaration, the CSPSS called for a moratorium on southward expansion of Chiles's salmon industry, joining

organization such as Fundación Terram, Oxfam Chile and the National Confederation of Artisan Fishermen in demanding that the government cease issuing new aquaculture concessions. *"We've seen what happened when the salmon companies were given free reign to set up shop on region X and XI. And that's what worries us. We don't want that happened there to be repeated here in our region"* (Witte 2008: 1).

They fear salmon farms will pollute the area's waters and spoil the local fishing and tourism industries, on which the city depends heavily. Puerto Natales is the primary jumping off point for visitors to Chile's world famous Torres del Paine National Park. They are not against the companies per se but have a very 'strong' concern for the environment; *"along the coast we have the problem of red tides and now, here in the interior, they're going to contaminate with ISA and with all of the chemicals they put in the salmon feed. They'll pollute everything"* and *"that's the danger. That's what we're afraid of. That's why the people of Puerto Natales are panicked about this. We're not against the companies. We're not against development. But we are for the environment"* (Witte 2008: 2-3).

CSPSS is also concerned about SERNAPESCA's apparent lack of transparency on the issues of industry expansion and ISA. *"We asked for a ton of information; everything that could help make this whole thing more transparent. Unfortunately, they arrived without anything*" (Witte 2008: 3) are the words of one of the members. National Confederation of Fishermen (CONAPACH) has raised concerns about the lax regulation, arguing that the unregulated farming practices are causing major damage to the country's lakes and coastal waters. *"They can't continue with their shoddy farming practices. They can't continue trying to maximize their investment. They're shooting themselves in the foot"* (Witte 2007: 2) he said about the salmon farmers. According to CONAPACH *"the industry needs to adopt urgent measures to protect itself, its workers and the marine environment it depend on"* (ib). Thus, the local communities have a 'strong' focus on all three aspects of sustainable development.

Non-governmental organizations

The interests of NGOs are represented by the labor and environmental observatory. The 'observatory' was created in 2006, with support of Oxfam International, by a NGO, Fundación Terram, along with another local environmental groups, el Canelo de Nos, the Centre of National Studies on Alternative Development (CENDA); and

the Central Unitaria de Trabajadores (CUT) central trade union's labor observatory. They acknowledge the economic profit generated by the salmon industry, but are very sceptical towards the environmental and labor problems *"in economic terms, the salmon industry has made a major contribution to Chile, but its growth has been associated with environmental and labor problems"* (Estrada 2006: 1). Economist, Francisco Pinto, coordinator of the natural resources program at the Fundación Terram, stated, that *"under the current conditions, the salmon industry is not sustainable"* (ib). They criticize the salmon farms for use of antibiotics and for the large amounts of fish feed and feces that end up in the water below the offshore pens, arguing that it depletes the oxygen needed by the marine species in the surrounding ocean, which have also been linked to toxic algae outbreaks. According to Pinto, if the projections for the growth of Chile's salmon industry to a total production of 1.2 million tons by 2013 hold true, *"practically the entire fish feed industry in the southern Pacific Ocean will be dedicated to feeding farmed salmon"* (ib). Additionally, Fundación Terram and Ecoceanos have argue that the environmental consequences take a major toll on the native fish species, on which local, small-scale fishermen rely for survival (Witte 2008: 2).

This view is shared by Marcel Claude, director of Oceana, who argues that existing salmon production is deeply problematic, as *"salmon farming has developed with extremely poor controls"* and *"it's clears that the serious degradation in the lakes and cannels of Region X has been caused by the salmon industry"* (Dingle 2006: 2). Oceana believes that environmental problems cannot be separated from social problems, arguing that those on the receiving end of the contamination in the 10th Region have been the local fishermen and the coastal communities, who have seen their means of subsistence threatened. *"All the social indices of the 13 communities which house salmon farming in Region X are below the national average,"* (Dingle 2006: 2) Claude added. According to environmental groups, while salmon farms themselves require extremely clean water, the untreated food, drugs and feces created by salmon farming are highly damaging. Salmon pens are usually constructed within public water systems such as rivers and bays, facilitating untreated waste release and the escape of farmed salmon. In addition, lobbyists argue that the pens create a concentrated environment, which facilitates the spread of disease (Dingle 2006: 2). Thus, the NGOs' have a 'strong' focus on all three aspects in the model.

Institutional stakeholders

Finally, the institutional stakeholders in the form of international organizations are represented in variety of organizations and institutions such as IMF, WB, UN, WTO and trading partners such as MERCOSUR, APEC and the EU among others. Thus, institutional stakeholders' interest are multiple and complex. Many of these institutional stakeholders have a focus on the sustainable social, economic and environmental development. They do, however, to a high degree rely on the market forces to auto-correct these flaws, or find that inadequate social and environmental development in the context of economic growth is a consequence of bad policies in the respective countries. They may make recommendations for improvements of the national legal system, but the only real pressure form theses institutions are derived from legal requirements in trading nations. These generally concern the quality of the product – not production methods. An example of this is the statements of Mena Miller, former head of the United Nations' fisheries program for Latin America and the Caribbean. *"Aquaculture has an assured future; to oppose it is to deny reality. Although, without a doubt, to accept it badly done – which is currently the case – is not correct. It ought to be clean production, which consumers deserve"* (Franklin 2001: 3). The pressure on the private sector can therefore only be characterized as 'moderate

Graphical summery

The above assessment of the private sector's and stakeholders' engagement with CSR can be graphically summarized in the model below, using the variables weak, moderate and strong. The remaining question then becomes: is CSR an adequate response to address the shortcoming of the trade led growth model?

Private sector and stakeholder engagement with CSR

		Social responsibility	Economic responsibility	Environmental responsibility
Private Sector		M	M	M
Primary stakeholders	Shareholders	M	M	M
	Employees	W	S	_
	Worker unions	S	S	_
	Customers	W	W	W
Secondary stakeholders	Local authorities	W	W	W
	Local communities	S	S	S
	NGOs	S	S	S
Institutional stakeholders	International organizations	M	M	M

Is CSR and adequate response to address the shortcoming of the trade led growth model?

It can be drawn from the above assessment of CSR, that while the CSR strategy includes the social, economic, and environmental aspects, which is needed to address the shortcomings of the trade led growth model, lax regulation and a high reliance on self-regulation has been insufficient to effectively address the problems of poor income distribution, social exclusion of economically vulnerable groups, low wages, and environmental degradation. As mentioned in the conceptual framework, CSR is highly dependent on strong stakeholder-engagement in order to be successful, but as we have just witnessed in the above assessment of the stakeholder engagement, it is

NGOs and those directly affected by the increasing activities in the sector (local communities, employees, worker unions) who are the most keen on addressing these issues, whereas other stakeholders, such as the customers, local authorities and international organizations, only apply a weak or moderate pressure on the industry to address these issues. Must critical to the effectiveness of CSR is the local authorities, which relay on the industry's own self-regulation and apply a relatively weak pressure on the industry. According to the theory, this is problematic in three ways; first, self-regulation cannot replace actual regulation; secondly, as CSR is voluntary only responsible corporations, who already endorse social, economic, and environmental concerns, are likely to engage in CSR, whereas irresponsible corporations will only do so if there are negative economic consequences related to not doing so; thirdly, the private sector cannot do it on its own; an effective CSR strategy must be interactional, meaning that stakeholder must be engage in the process by applying pressure on the private sector. The CSR strategy of the Chilean salmon industry will not adequately address the failures of the trade led growth model, as long as customers, local authorities and international organizations only apply a weak or moderate pressure on the industry to address these issues. Especially, the lack regulations set out by the Chilean authorities hampers the effectiveness of CSR, which could in truth be an effective tools to address the shortcomings of the trade led growth model, given that all stakeholders actively engage in the process. This is true, following the logics of Nordström and Vaughan, who have argued that, if market failures are corrected directly at the source by appropriate taxes and regulations, trade liberalizations would unambiguously raise welfare (1999: 1-2). However, as a result of the lacking stakeholder pressure the private sector will keep its focus on economic profit, wherefore concerns for the social economic and environmental development in the areas of operation will only become secondary concerns, which are merely engaged in areas and situations where not doing so will have economic repercussions.

Implications of seeking a business response

The implications of seeking a business response to address the failures of the trade led growth model, in the form of CSR as it is currently being apply in the Chilean salmon sector will, thus, be a failure. According to the theory, the current model may

even accentuate existing socio-economic and environmental trends, as the lack of regulations in the context of trade liberalization is likely to led to further environmental degradation. Hence, Nordström and Vaughan hold that market failures and environmental degradation commonly occur when producers and consumers do not have to bear the full cost of their actions, such as pollution inflicted on third parties, directing too many resources into polluting activities and too few into pollution abatement. However, in an ideal world where market failures are corrected directly at the source by appropriate taxes and regulations, trade liberalization would unambiguously raise welfare. However, as this is not always the case, trade liberalization could potentially exacerbate the consequences of poor environmental policies (1999. 1-2). Hence, the current CSR strategy of the Chilean salmon sector does not favour an environmental sustainable development. Neither does it seem to benefit the socio-economic development to the fullest. This becomes evident when comparing the sector's increased income gained to the social conditions in the 10th region, which concentrates most of the Chilean salmon production. The 10th region still has social indicators below the national average in spite of the region being the 5th largest contributor to the national GDP, and salmon constituting an important part of Chilean exports.

Back to the drawing table

Consequently, leaving CSR to the invisible hand of the market, or to the voluntary acts of business, will be of little or no help. However, as we have just seen in the case of the Chilean salmon sector, the issue is not the use of CSR per se, rather how it is used. Giving the right circumstances CSR can be an effective tool to address the failures of the trade led growth model, which have proven to be an effective engine for growth. However, as we have just seen in the Chilean case, the private sector, left on its own, will not be able to achieve a socio-economic or environmentally sustainable outcome. It is, essential for CSR to be effective, that it is used as an interactional tool, implying that all stakeholders must engage proactively and pressure the private sector to act responsible. Only in this way, both the private sector and its stakeholders stand to gain from such a strategy. In the case of Chile's socio-economic development, regulation is needed to redirect some of the resources back into the community. This will not only support the social and economic

development in the region, it will also further a sustained education of the private sector's employees, furthering a private sector development and responding to the increasing demand for a skilled worker force. Likewise, environmental regulation may not only secure the livelihood of the inhabitants of the region, but also a sustainable development, which allows for the private sector to continue in a way that secures business in the future. Hence, the industry and its stakeholder could potentially gain form an effective CSR strategy. They, however, must go back to the drawing table and figure out a new strategy where stakeholders' concerns are heard and inscribed in the new CSR strategy. This is, however, not possible if the local authorities are not willing to regulate the industry and keep favouring economic growth over sustainable development. CSR will only be effective, when all parties engage in sustainable practices. If local authorities fail, we must turn to the political consumer and international institutions such as WTO, however, without the willingness of the national government to carefully investigate these issue and design adequate policies to address the shortcomings of the trade led growth model, the social, economic, and environmental development will not improve, but more likely worsen.

The role of the state

In the case of Chile, trade liberalization was initiated in the context of a military rule, with very little regard for the social and environmental development. This eventually proved to be an effective engine for growth, asides from some initial hardship. However, the trade led growth model failed to achieve an equitable socio-economic development, as the economic growth spurred by trade liberalization did not automatically trickled down through society and the different regions of the country. After 17 years, the military rule left a transformed neo-liberal economy to the democratically elected government in the 1990s, which continued on the road of trade liberalization, making the country investment-friendly towards foreign investors. Consequently, the legacy of the military rule and the continued belief in the invisible hand of the market forces, has contributed to the current situation in the Chilean salmon sector, where especially the local authorities fail to engage proactively in CSR, reflected in a reliance on the private sector self-regulation and an unwillingness to risk economic development, in the form of jobs and FDI, to secure

a sustainable social and environmental development. Consequently, the CSR strategy of the Chilean salmon sector has failed to address the shortcomings of the trade led growth model, as CSR can only be effective given it is being used as an interactional tool, where all stakeholder proactively engage. From the Chilean case study it can be drawn that, as corporations' main focus is on economic profit, corporate social responsibility based on voluntary commitments, and the economy relying on the 'indivisible hand' of the market forces, an effective CSR strategy is highly dependent on a strong state that is willing and able to address the effects of the trade led growth model.

In conclusion, trade can be an effective engine for growth. It is, however, not free from undesired social and environmental effects. The current CSR strategy of the Chilean salmon sector will not be effective and may indeed worsen the situation, as it in some areas has become a replacement for national regulation. However, given the right circumstances CSR *can* be effective. This requires, that the concept of CSR is re-thought as an interactional tool, and not merely a unidirectional business response to the shortcomings of the trade led growth model. CSR must be international as it is as much dependent on the engagement of the stakeholders, holding the private sector to its responsibilities, as the private sector's own engagement. Especially, the political context and the role of the state is important for CSR to be effective, as we have just witnessed in the Chilean case, CSR's effectiveness is highly dependent on the willingness and ability of the state to address the effects of the trade led growth model.

VI

Conclusion

This final chapter contains the conclusions of this thesis. The first section sums up on the topic and central questions. Section two presents the main findings of the analysis of the social, economic, and environmental effects of trade liberalization and the adequacy of CSR to address the shortcomings of trade led growth. The third and final section discusses the further implications of this thesis' findings in the broader context of development and international relations.

Salmon farming is big business in Chile, particularly in the 10th region, which accounts for some 90 percent of the country's total salmon production. It is also a fairly new and rapidly growing industry. Between 1996 and 2006, sales for farmed salmon exports jumped from 538 mil. USD to 2207 mil. USD. The growth has been both a blessing and a curse for southern Chile. A cornerstone of the local economy, the industry has brought major investment to the area, which now employs approx. one out of four in aquaculture and agriculture. But observers also say that in their pursuit of rapid profit, salmon companies – allowed for the most part to regulate themselves – have run roughshod on worker's rights and on the environment. Highly concentrated fish farms create tremendous amounts of organic pollution leading to 'dead zones' in the surrounding waters. While lack of regulation has allowed salmon companies to pump their fish with antibiotics at levels unheard of in other salmon producing countries. Meanwhile, the huge profits that salmon farming corporations are raking in have had no impact on the wages earned by their employees, and are not being channelled back into local communities. It was this apparent conflict of interests in Chilean aquaculture and the growing concern for the environment that tricked this thesis.

Central questions

The initial questions of this thesis evolved around the social, economic, and environmental shortcomings of the trade led growth model, wondering if, and how, corporate social responsibility could be an adequate solutions to these problems. Consequently, the thesis evolved around the following problem formulation:

> *"What are the social, economic, and environmental effects of trade liberalization and to what extend can corporate social responsibility effectively address these effects?"*

I, thus, looked into the social, economic, and environmental effects of trade liberalization and the adequacy and implications of seeking a market solution, as CSR, to address the shortcomings of the trade led growth model. The subject was explored in the context of the Chilean salmon industry, using a combination of empirical indicators and exiting literature to identify the effects of trade liberalization. The second part of the problem formulation was addressed by looking into the CSR strategy of SalmonChile, the Chilean salmon industry's trade association, and the engagement of both the private sector and its stakeholder with this strategy.

Main findings

In the case of Chile, trade liberalization was initiated in the context of a military rule, with very little regard for the social and environmental development. This eventually proved to be an effective engine for growth, asides from some initial hardship. However, the trade led growth model failed to achieve an equitable socio-economic development, as the economic growth spurred by trade liberalization did not automatically trickled down through society and the different regions of the country.

In the salmon producing regions, trade proved to be a solid provider of macro economic growth, as trade liberalization led to an extensive expansion in the salmon industry, having a positive effect on the macro economic indicators of GDP and FDI, ultimately leading to job creation and poverty reduction. However, shortcomings of the trade led growth model were found in the failure to correct the high levels of income inequality and social exclusion of groups – particularly

affecting young, women and indigenous people. The damages proved to be the most staggering on the environmental front, as trade liberalization was found to accelerate environmental degradation. Not as a direct consequence of trade liberalization, but rather related to lax regulations and the lack resources directed into research and technology.

Through the assessment of the private sectors' and stakeholders' engagement with CSR, it became evident, that while the CSR strategy includes the social, economic, and environmental aspects, which is needed to address the shortcomings of the trade led growth model, lax regulation and a high reliance on self-regulation has been insufficient to effectively address the problems of poor income distribution, social exclusion of economically vulnerable groups, low wages, and environmental degradation.

This result was found to be related to the legacy of the military rules's disregard for the social end environmental development and the continued belief in the invisible hand of the market forces. Consequently, the local authorities fail to engage proactively in CSR, reflected in a reliance on the private sector self-regulation. However, an effective CSR strategy is highly dependent on a strong state that is willing and able to address the effects of the trade led growth model, as corporations' main focus is on economic profit and corporate social responsibility per se is based on voluntary commitments.

Consequently, leaving CSR to the invisible hand of the market, or to the voluntary acts of business, will be of little or no help. However, the issue is not the use of CSR per se, rather how it is used. Giving the right circumstances CSR can be an effective tool to address the failures of the trade led growth model, which have proven to be an effective engine for growth. However, the private sector, left on its own, will not be able to achieve a socio-economic or environmentally sustainable outcome. It is, essential for CSR to be effective, that it is used as an interactional tool, implying that all stakeholders must engage proactively and pressure the private sector to act responsible. Only in this way, both the private sector and its stakeholders stand to gain from such a strategy. In conclusion, the industry and its stakeholder could potentially gain for an effective CSR strategy. They must, however,

must go back to the drawing table and figure out a new strategy where stakeholders' concerns are heard and inscribed in the new CSR strategy.

Implications of this thesis' findings

Though, the thesis concluded that the current CSR strategy of the Chilean salmon sector will not be effective and may indeed worsen the situation, this is not a general truth. Given the right circumstances CSR *can* be effective. This, however, requires that the concept of CSR is re-thought as an interactional tool, and not merely a business response to the shortcomings of the trade led growth model. CSR must be international, as it is, as much dependent on the engagement of the stakeholders, holding the private sector to its responsibilities, as the private sector's own engagement. Thus, CSR has the potential to address the shortcomings of the trade led growth model, and, thus, further a socially and environmentally sustainable development, with the private sector acting as a responsible actor in development. CSR is, however, highly dependent on the engagement of the stakeholder - especially, on the willingness and ability of the state to address the effects of the trade led growth model.

These findings imply that the concept of CSR needs to be re-thought as an interactional tool, which looks as much into the stakeholder engagement as into the engagement of the private sector. Additionally, the thesis showed that context matter. This means that the use of CSR to correct the shortcomings of international trade is limited to sectors and countries, providing the adequate foundation for an effective CSR strategy. In this thesis, I looked into the political context, but also cultural and other aspects could have been relevant. I found that the neo-liberal legacy from the former military rule had a crucial influence on the effectiveness of CSR. Thus, in addition to framing CSR within context of stakeholder theory to identify the stakeholder, it is important to look beyond these and into the underlying structural foundations in order to set up an effective CSR strategy.

VII

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VIII

Footnotes

i) Poverty in Chile is measured by looking at income and the cost of covering basic needs. According to this measure a person is poor if income is less than the minimal cost of covering basic needs (alimentation and no-alimentation) (CASEN 2003: 4). In urban areas the poverty line is estimated at 47,099 pesos (approx. 94 USD) a month and 31,756 pesos (approx. 64 USD) for rural areas (CASEN 2006: 5). Using this measure a person live in extreme poverty if income is less than the cost of satisfying the minimum cost of alimentation (CASEN 2003: 4). In urban areas extreme poverty is estimated at 23,549 pesos (approx. 47 USD) a month and 18,146 pesos (approx. 36 USD) in rural areas (CASEN 2006: 5). The difference between the urban and rural poverty line reflects a lower cost of living in rural areas (CASEN 2003: 4). An urban area is defined as an area with more that 2000 inhabitants or between 1001 and 2000 inhabitants whereof 50 percent or more is economically active. A rural area is defined as an area with less than 1000 inhabitants or between 1001 and 2000 inhabitants whereof less than 50 percent are economically active (CASEN 2003: 3).

ii) After Chile defeated Bolivia and Peru in the War of the Pacific (1879 – 1883) nitrate mines in the conquered areas became a vital contributor in the Chilean economy. Chile was faced with a severe crisis when the nitrate bonanza ended abruptly, as a result of the invention of a synthetic substitute by a German scientist. Gradually, copper replaced nitrate as Chile's main export commodity – which is also the case today (CORFO 2008).

iii) Douglas Tompkins; U.S. businessman, ecologist and owner of Parque Pamalín - of a 289,00 hectares park in the 10th Region.

iv) A Chilean company in the forestry sector

v) Infectious Salmon Anemia (ISA) a highly contagious virus that can be lethal to fish but does no affect humans. The disease is pronounced in the marine environment, where it is transmitted by cohabitation with infected live salmon or infected biological materials such as animal wastes or discharges from normal culture operations, slaughter facilities etc. (Witte 2007: 1).