

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Statement made by the Representative of Chile at the Council Meeting on 30 May 1962

On many occasions, and more especially since 1956, I have had the privilege of explaining to the CONTRACTING PARTIES the problems connected with balance of payments and currency reserves which Chile has had to cope with, as well as the steps taken by our Government to solve gradually these problems, and at the same time promote the development of our trade.

The Chilean Government's policy assumed a specific orientation as soon as the present President of the Republic took office at the end of 1958. As I pointed out at the fourteenth session of the CONTRACTING PARTIES, it was decided in February 1959 - in agreement with the International Monetary Fund - to unify the two exchange areas which had until then been operating, and replace them by a single exchange rate valid for all kinds of transactions. The list of prohibited goods was abolished and replaced by a list of authorized goods, in which all goods likely to be imported were to be included and which could be extended at any moment by the addition of new products. The amount of the bank deposits which, in some cases, constituted impassable barriers, was gradually reduced, and, subsequently, the deposits were replaced, little by little, by customs surcharges, applied in conformity with the derogation approved by the CONTRACTING PARTIES on 27 May 1959.

This new policy departure formed part of a body of provisions that made it possible to reorganize public administration, change the currency unit, adjust the fiscal régime, create new taxes, modify wage adjustments, refashion the national budget, fix methods for maintaining free competition in industry and trade, introduce far-reaching reforms in the bank credit system and improve the methods adopted for financing the budget by abolishing resort to Central Bank issues.

In spite of the difficult circumstances prevailing at the time and the severe sacrifices which the new policy imposed on the country, the Chilean Government applied it strictly and with a success which - as I reported to the CONTRACTING PARTIES on 11 November 1960 - was described as extraordinary

by foreign observers. The value of the dollar has remained unchanged since January 1959; the cost of living index has been virtually stabilized since September of that year. The fall in currency reserves has been arrested and we have managed to allow foreign trade a measure of freedom which it had not enjoyed for years past. The list of authorized imports was expanded until it included practically all the country's normal imports. Preliminary deposits continued to be replaced by the surcharges authorized by the CONTRACTING PARTIES. The maximum ceiling of deposits, which applied only to two fifths of the goods imported, was reduced from 5,000 per cent to 1,500 per cent. The remaining imports, i.e., three fifths, were made subject to additional charges. 90 per cent of these charges represented duties of only 5, 10 or 20 per cent. As a result of the various measures adopted, a general improvement was recorded in imports, which, during the first half of 1960, rose by 43 per cent as compared with the same period the previous year.

This progress was achieved against a background of major difficulties which could not always be overcome. Yet, the future did not seem to offer insuperable obstacles until on 21 May there occurred the terrible catastrophe which destroyed ten provinces in the south of the country, a catastrophe whose consequences are still burdening, and will, for a long time to come, burden Chile's economy and finances. I do not propose to dwell at length on the appalling character of the catastrophe, as it is a well-known fact, but I would like, nevertheless, to point out that it affected an area of 140,000 square kilometres, with a population of 2,386,000, whose annual income amounted to \$970 million, or 24 per cent of the country's total revenue. I should also mention that the cost of the aid and reconstruction operations has been estimated at \$550 million.

Naturally, all Government activities were affected by this disaster, and in spite of the efforts made, in spite of higher taxation which, in the aggregate, represents in 1962 an increase of 50 per cent over the 1957 level, in spite of the foreign aid generously extended to us, the consequences of the catastrophe still make themselves felt in the financial and fiscal situation of the country, and press very heavily on our balance of payments. Nevertheless, the Government has decided to continue its anti-inflationist and trade-liberalization policies, and, as I pointed out in my statement of 6 December last, the bank deposits which were still being applied to certain imports have been abolished, apart from a few minor exceptions.

Meanwhile, the situation was growing more and more difficult. Steps had to be taken to increase credit margins in the private sector and to resort temporarily to using Central Bank advances to finance part of the development and reconstruction plan. The budgetary situation, which was already delicate, was aggravated by a serious increase in the debit balance. The fiscal deficit which, according to the figures of the International Monetary Fund, amounted in 1960 to \$143 million, rose further in 1961. According to computations made in the third quarter of the year, and to which I referred in my December statement, it was likely by the end of the year to be nearly \$200 million.

The balance of payments, which in 1960 showed a deficit of \$48 million, revealed a larger debit balance of \$86 million for the first half of 1961 and, according to latest calculations, will likely exceed \$147 million for the whole year.

The financing of the foreign trade deficit led to a deterioration of the foreign exchange situation in the Central Bank amounting to \$117.7 million, the result of a decline of \$39.4 million in foreign assets and a rise of \$78.3 million in international commitments.

While the initial reason for this situation has to be sought in the disturbances created by the 1960 earthquakes and the rise in demand due to reconstruction operations, the cost of which was added to the budgetary costs of economic development, it must be admitted that the aggravation of the situation, which would not have been possible if there had not been complete freedom of trade, was due to more definite and immediate factors. In a statement made to the country on 1 February 1962, the Minister of Finance summarized them under the three following heads: (a) excessive imports of luxury articles, more especially through the free ports; (b) tourist expenditure abroad; (c) delays in the receipt of foreign long-term credits for the reconstruction and economic development of the country.

In a detailed analysis of the Minister's declaration, the President of the Central Bank announced the following figures: imports into the rest of the country rose by 12 per cent, but the value of imports through the free ports - based solely on customs figures - rose by 25 per cent. The item showing the travel costs of people residing abroad, of whom there were nearly 148,000 in 1960, rose by more than 100 per cent compared with the estimate made for 1961. Lastly, of the \$80 million of long-term credits expected when the budget was being drawn up, Chile received only \$30 million and \$12 million in gifts or short-term credits, some of which were paid during the year.

The foreign exchange situation which, as can well be realized, was critical, grew worse at the end of December and suddenly assumed a speculative character. On 27 December all foreign exchange operations had to be suspended and this measure remained in force until 13 January 1962.

Faced with the general situation which I have just briefly described, and after considering the possible solutions available to it, the Government decided to adopt a number of measures, the first of which was to set up two foreign exchange areas. The first, known as "free bank market", through which current trading and invisible transactions would pass, will guarantee the continuity of our foreign trade without disruption. The second, known as "brokers' market" operates with a variable rate of exchange and has its own supplies of foreign currency, thus enabling certain imports or expenditure, e.g., on luxury goods or tourist and other expenditures which are not essential, to be effected. These measures should maintain the purchasing power of the currency and safeguard the general interests of the country, more especially those of the wage-earning classes.

Shortly afterwards, permits for importing luxury or non-essential articles which the country can manufacture, or of which there is a considerable stock, were suspended, and for this purpose a list of goods, imports of which are prohibited, has been drawn up; the final text will be notified as soon as possible to the CONTRACTING PARTIES.

Finally, a new statute was enacted for the free zones and free ports; besides stopping the leakage of foreign currencies, the statute facilitates the entry into these zones and ports of goods which are on the list of suspended imports. In this respect the difference as compared with the previous situation lies in the fact that, formerly, the goods in question entered these zones and ports free of duty, whereas now they will have to pay the customs tariff duties. On the other hand, they will be exempt from any additional tax or charge. Thus, the prohibition on certain imports will be substantially relaxed.

The measures which I have just summarized were essential in order to cope with the critical situation produced by a number of factors which we were largely unable to control, and which suddenly assumed an exceptionally serious character. The alternative solution was to devalue the currency. The Government rejected this course because, in view of the volume and importance of the primary commodities which have to be imported, it would have caused a substantial rise in the cost of living, accompanied by increases in salaries and wages and the manifold consequences that ensue when the costs of the country's essential products rises.

In reviewing the various decisions adopted - regarding which our delegation will supply detailed information during the consultations which will have to be held with the CONTRACTING PARTIES - it should be emphasized that they will make it possible to ensure that Chile is supplied with the necessary goods for the country's manufacturing industry and development, as well as for the consumption of its population. With regard to non-essential articles, some of these will, as I have already pointed out, continue to be imported through the free ports and paid for with foreign currency obtained on the brokers' market.

My Government is confident that the difficulties that have arisen will be overcome within a relatively short space of time, and, as the Minister of Finance said in the statement I have referred to, once the adverse factors have been eliminated which, in 1961, severely upset the balance of payments and whose repercussions I have tried to summarize, the restrictions which we have found ourselves obliged to impose temporarily can gradually be abolished.