

RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

BOP/R/37
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Committee on Balance-of-Payments Restrictions

REPORT ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH CHILE

1. In accordance with its terms of reference, the Committee has conducted a consultation with Chile under Article XVIII:12(b). The Committee noted that the previous consultation with Chile under the same provisions had been held in October 1967 (cf. BOP/R/14 and Add.1, and BOP/72). In conducting the present consultation the Committee had before it a basic document for the consultation (BOP/95), a decision of the Executive Board of the International Monetary Fund dated 18 April 1969 (see Annex I) and two background documents supplied by the Fund dated 3 April and 8 October 1969 respectively.
2. The Committee generally followed the plan for consultations under Article XVIII:12(b) recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation took place on 11 November 1969. The present report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with Chile. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Chile. The statement was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of April 18, 1969 taken at the conclusion of its most recent Article XV consultation with Chile and particularly to paragraph 7 which reads as follows:

7. The Fund stresses the need to continue a flexible exchange rate policy until inflation is effectively controlled. It commends the authorities for their intention to continue liberalizing Chile's exchange policies and, in particular, their plan to eliminate the remaining delays on import payments. The Fund hopes that this policy will be complemented by a massive removal of trade restrictions, in the interest of mitigating inflationary pressures and promoting

greater industrial efficiency. In the meantime, the Fund does not object to the maintenance on a temporary basis of Chile's multiple currency practices and restrictions on payments for current international transactions as described in SM/69/41.¹ (SM/69/41 (7/4/69) mentioned in this paragraph refers to the background material submitted to the CONTRACTING PARTIES.)

"On April 18, 1969 the Fund approved a stand-by arrangement authorizing Chile to draw up to the equivalent of \$40 million for a period of 12 months beginning April 19, 1969. This stand-by is in support of a program to restrain the rate of price increases, strengthen Chile's foreign exchange position further, and permit continued liberalization of the exchange and trade system.

"At the present time, the general level of restrictions of Chile which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves."

Opening statement by the representative of Chile

4. In his opening statement, the full text of which is reproduced in Annex II to this report, the representative of Chile invited attention to the statement he had made at the opening of a similar consultation in 1967 in which an outline was given of the basic economic policy objectives of his Government as well as the trade policy measures taken for the attainment of those objectives (that statement was reproduced in BOP/R/14/Add.1 and briefly summarized in paragraph 4 of BOP/R/14). Those objectives, namely a high rate of growth, reasonable stability of prices and an equitable distribution of national income, had remained unchanged, as was the Government's determination to remedy the structural maladjustment in the economy. One of the major objectives of Chilean economic policy was to achieve a substantial improvement in the balance of payments through a doubling of the volume of copper exports, the diversification of exports and a sound exchange policy. The fulfilment of this objective and the expected increase of over \$300 million in Chile's annual copper export earnings had been a cause for rejoicing, but the extreme dependence of the country on a single export product subject to violent price fluctuation seemed to justify caution. An ambitious agricultural and livestock development plan had been adopted with a view to reducing reliance on imported foodstuffs and increasing export production. Similar plans were being applied with regard to petro-chemicals, paper, cellulose and copper manufactures. Success in expanding exports of these products, however, would depend to a large extent on the trade policies of the importing countries. If these efforts were not to come to naught, import restrictions and discrimination in those countries would have to be removed and satisfactory conditions of access to world markets must be assured. Chile, for its part, had made great efforts to rationalize its import policy and to reduce its import restrictions, in fulfilment of its obligations as a contracting party to GATT. Chile's balance-of-payments situation, however, pointed to the advisability of maintaining a cautious attitude for the time being and the remaining restrictions were considered fully justified in terms of the criteria of Article XVIII:3 of the General Agreement.

Balance-of-payments position and prospects

5. Members of the Committee expressed sympathy for the long-standing economic difficulties faced by the country and appreciation for the persistent efforts made by the Government in achieving the multiple objectives of price stability and economic growth. Against this background it was gratifying to see that the major long-term structural changes initiated by the Government in recent years had borne fruit and had resulted, among other things, in a marked improvement in the overall balance of payments; apart from 1967, when there had been a small decline in foreign exchange reserves, the balance had been favourable, in spite of growing charges for debt servicing. The rising value of copper exports, reflecting upward moving prices and expansion in production, coupled with a favourable outlook for capital inflow, would seem to hold forth strong hopes for a continued improvement in the balance of payments. Members of the Committee expressed the hope that the continued improvement in the balance of payments would be accompanied by further and intensified action in liberalizing imports which could also have the effect of containing inflationary pressures.

6. The representative of Chile stated in reply that his Government was fully aware of the desirability of pursuing liberal commercial policies and had continued to advance in that direction. He referred in this context to the various measures which, as indicated in the basic document before the Committee, had recently been taken by his Government, notably the general reduction in the prior deposit rates, the simplification of the deposit rates schedule, the substantially reduced use of the 10,000 per cent rate and the inclusion of additional items in the permitted imports list.

7. Members of the Committee commented favourably on the generally good balance-of-payments results which the Chilean Government had obtained from following a flexible exchange rate policy. In discussing the rôle this policy might play in the future, in conjunction with fiscal and monetary measures, in helping to promote export diversification, the representative of Chile affirmed his Government's intention to continue to pursue such a policy which had proved its worth in bringing about and in maintaining an improvement in the balance of payments. In spite of the favourable outlook for copper prices the Chilean authorities had not lost sight of the vital need for export diversification. Various positive measures had been adopted to facilitate exports or to assist exporters, e.g. the undertaking of market studies by the trade promotion services of the Central Bank and the provision of funds for export financing. The flexible exchange rate policy had proved invaluable in maintaining the external competitive position in the present circumstances of continuous inflation and consequently in helping trade expansion. By inference it had played at least an indirect rôle in facilitating export diversification.

8. Members of the Committee observed that whereas the most important and abdu-
rate problem faced by Chile was undoubtedly inflation, this would appear to be
only a symptom of the inherent weaknesses of Chilean industrialisation within a
relatively small and isolated market. The Chilean Government was therefore right

in seeking new outlets for its exports and in diversifying its exports. They urged that the policy of liberalizing exchange controls being pursued be extended to the import trade. Such trade liberalization would not only have the effect of reducing pressures on domestic prices but also of fostering industrial efficiency and increasing competitive strength.

9. Referring to paragraph 6 of the IMF Executive Board decision, a member of the Committee stressed the importance for Chile to avoid the recurrence of an excessive debt service problem and wished to know how the Chilean authorities viewed the prospects of adequately meeting its debt servicing obligations and avoiding further increases in the level of outstanding debts. The Chilean representative informed the Committee that although external borrowing had been resorted to in 1968 and 1969, the increase in indebtedness in 1964-69, taken as a whole, had been significantly lower than in the preceding six years. The funds raised in recent years had been devoted to industrial investment, particularly in the expansion of copper production. To the extent that the investments were productive there need be no concern about the burden of servicing the related debt especially if the amortization and interest payments were so timed that they more or less coincided with the availability of the new export proceeds resulting from the investment. Even in the case of re-equipment of industry or transport where no tangible, direct increase in export earning could be expected, resort to external financing for investment would be justified if they contributed to economic strength or provided infra-structure indispensable to industrial expansion, as was the case with the transport system in Chile. A new development in 1964-68 had been the lengthening of the average duration of the loans negotiated, there being a significant reduction in the proportion of loans of short duration in favour of longer-term borrowing that matured in eight or more years.

10. In discussing the financial implication of the policy of "Chileanization" of the copper mines, a number of the Committee asked what policy would be followed concerning repayment of investment capital; whether capital inflow would diminish as a result of that policy; what would be the estimated receipts which the Chilean State expected to derive from its 51 per cent participation in the enterprises; and whether this policy would be a burden on the balance of payments in the short and medium term. The Chilean representative stated that the policy, which had been initiated by the present administration, had begun to show results and that considerable increases in copper production were expected in the coming years; the rise in 1970 would be of the order of 45,000 tons and in 1972 the increase would be equivalent to 30 per cent of the entire output of 1964 or 100 per cent of the average output in 1960-64. The agreements which the Government had negotiated with the major mining companies generally provided favourable terms for the State. For example, the total revenue, including fiscal revenue, which the Government at present derived from its participation in El Teniente Mining Company exceeded 72 per cent of the gross earnings of the company. The preferential dividends and fiscal levies at present paid by the Anaconda Company to the Government represented a substantial proportion of the

total proceeds of the company. The amortization of the capital investment, payable in foreign exchange as from 1970, had also been set at a reasonable level commensurate with the estimated foreign exchange benefits during the period in question. In addition an amortization fund had been set up out of current receipts from the mining companies for the progressive acquisition of the remaining 49 per cent of the capital shares of the Anaconda Company. When this process begins in 1973 the amortization obligations would be considerable, amounting to about \$100 million in that year. The current agreements with these copper companies also included technical assistance and training during the period of mixed ownership with a view to assuring orderly transition when the time came for the new management to take over. The Chilean representative stated that the fair and equitable terms that had been negotiated for the transfer of the ownership of the mining companies must have impressed upon foreign investors the good faith on the part of the Chilean Government in regard to foreign investment in the country and consequently there should be no reason to expect that the "Chileanization" policy would have any inhibitive effects on future capital inflow.

11. A member of the Committee observed that Chile's fiscal and foreign exchange policies seemed all geared to providing the maximum possible stimulus to economic development, and that in order to avoid inflation, which such policies were likely to entail, stringent monetary policies, which would normally be regarded as having a restrictive effect on economic expansion, had been resorted to. It was particularly remarkable that Chile should be able to achieve and maintain a comfortable surplus in its balance of payments, even though this might largely be attributed to the increased inflow of foreign capital. While Chile's attitude of caution was understandable in view of the prospects of the rising debt service burden, it was to be hoped that the present payments surplus, if sustained, would lead to further relaxation and elimination of import restrictions. This should become increasingly possible as and when local industries gained competitive strength.

Alternative measures to restore equilibrium

12. Commenting on the fact that while stringent monetary policies were maintained causing to some extent delays in import payments, deficit spending had persisted in the public sector, a member of the Committee asked whether there was any possibility of achieving a balanced budget so that resort to the money market could be avoided. The Chilean representative, in reply, referred to the historical circumstances and social problems of the country which were at the base of the long-standing inflationary tendency of the economy. The fight against inflation had been the principal preoccupation of successive governments, and the authorities were fully aware of the desirability of reducing and avoiding deficit financing. Yet most charges to the budget were of an irreducible nature. Expenditures on education, for example, were not only indispensable and desirable from the point of view of social justice, but should be regarded as a matter of national investment of the utmost importance. The same considerations applied, to a varying degree, to a number of other headings in the national budget which made budgetary retrenchment such a difficult objective especially in a developing country.

13. A member of the Committee pointed out that while the IMF Executive Board decision of 18 April 1969 stated that the Chilean Government had succeeded in refraining from Central Bank borrowing in 1968 and that adherence to the monetary programme for 1969 was greatly dependent on avoiding Government recourse to the Central Bank, the IMF background paper referred to "a £60 million Central Bank loan to be channelled through the Treasury to the Agricultural Marketing Agency". Invited to comment on the apparent relapse on the part of the Chilean authorities and to clarify the Government's legal authority regarding borrowing from the Central Bank, the Chilean representative explained that the Government's policy was to avoid to the fullest extent possible recourse to the issuing agency, but there were occasions on which the financing of a particular scheme through that means was considered justifiable. The loan referred to in the Fund papers related to a specific scheme aimed at ensuring orderly marketing and distribution of certain primary products and was of a temporary nature; it had in fact been fully reimbursed. Under the Chilean legislation the Government was free to request loans from the Central Bank, but the decision to grant a loan naturally rested with the Bank. Inasmuch as co-ordinated policies were pursued by the Treasury and the Bank, decisions of this nature were in reality a matter for joint consultation and negotiation between the two agencies.

14. Members of the Committee expressed concern over the apparent recent intensification of inflation in Chile and welcomed the announcement by the Chilean Government in May 1969, that it proposed to take further internal fiscal and monetary measures to redress the situation. They requested information on the concrete measures adopted, the effects achieved and any further measures contemplated. The representative of Chile briefly described the recent trends of domestic prices, which showed a rise of about equal magnitudes in 1968 and 1969, of about 28 per cent. One of the factors behind the recent tendency was the increase in effective demand resulting from the rise in wages. Increased production based on unutilized industrial capacity had been helpful in alleviating shortages in 1965/66. Import liberalization, by way of providing greater competition for domestic industries, also had effect of lowering prices.

15. A member of the Committee referred to the practice introduced recently in Chile of providing support and encouragement of wheat production by offering domestic producers incentive prices substantially above world prices, and requested clarification of this policy in the context of Chile's search for solutions to its balance-of-payments problems. The representative of Chile explained that reduction in reliance on external supplies for essential foodstuffs was one of the policy objectives of the country's development programme but that autarky and complete sufficiency was by no means contemplated. In fact, as had been pointed out by the member of the Committee raising the question, the arable land in the country which could be ploughed to wheat would not be sufficient to permit the attainment of any such objective. The Government was aware of the dangers of expanding uneconomical lines of production and the wheat acreage was at any rate expected progressively to diminish in future, with the land converted to other uses such as rice production and cattle farming. Chile would continue to be a regular and possibly a greater importer of wheat.

System and method of the restrictions

16. The Committee noted favourably that the Government of Chile had taken certain initial steps towards trade liberalization as the balance-of-payments situation improved. The list of permitted imports had been expanded; the exercise of discretionary authority to reject imports valued above a certain limit had been avoided; the advance deposits for certain goods had been reduced or removed; and the coverage of 10,000 per cent deposit rate had been curtailed. In the course of discussion reference was made to a speech made by the then Minister of Economy in July 1969, in which he announced an extensive anti-inflation programme which included the proposition that Chile's stronger international reserve position allowed further liberalization of imports as a major weapon against high domestic prices. The hope was expressed that further liberalization measures would be taken in the near future, that the programme would be carried forth as soon as possible and that as a result increased imports of consumer goods would be permitted. In the view of one member of the Committee it would be desirable if any such liberalization would not be unduly offset by increases in tariff rates on certain affected items, even though the Chilean authorities would undoubtedly observe fully the GATT provisions regarding the adjustment of duty rates.

17. One member of the Committee remarked on the unique character of Chile's import restriction technique which classified imports into only two categories, namely, permitted imports, which could be imported freely, and all other goods, the import of which was prohibited. The representative of Chile explained that this practice was designed to avoid the administrative shortcomings of a system based on quotas. His Government had no intention of returning to a quota system.

18. Members of the Committee noted with satisfaction Chile's decision to eliminate the prior deposit system as well as the changes that had already been introduced in lessening the incidence of the deposit requirements. They noted that the low deposit rates of 5 and 15 per cent had been eliminated, while rates of 50, 100 and 200 per cent had been reduced to 30, 60 and 90 per cent respectively. The prohibitive 10,000 per cent deposit rate had been removed on some fifty items but continued to apply to about a dozen tariff items.

19. In discussing the exemption of imports from LIFTA countries from the prior deposit requirement, some members of the Committee pointed out that import restrictions applied on balance-of-payments grounds should be applied on a non-discriminatory basis, and asked what steps were planned by Chile to remove the discrimination against third countries. The representative of Chile was of the opinion that the exemption of LIFTA imports from prior deposits devolved from obligations under the LIFTA agreement which in the view of the countries concerned was in full conformity with Article XXIV of the General Agreement. He added, that in any case, the exemption had little practical impact as the bulk of Chile's imports from non-LIFTA countries was not subject to substantial deposit requirements and that the system had brought no change to the traditional pattern of Chilean imports. In addition, following a revision of the schedules of products negotiated in LIFTA, there had been a reduction of many customs duties which had represented for LIFTA member countries a preferential margin greater than provided for in the Treaty. Furthermore many prior deposits not applicable to

products negotiated in LAFTA had been eliminated in respect of third countries. He confirmed that the 10,000 per cent import deposit rate had been eliminated for a number of products and was now applied only to wheat and certain agricultural products. It was the Chilean authorities' intention to eliminate or reduce the list of products to which the 10,000 per cent rate still applied.

20. In reply to questions on whether the Chilean Government had any plans for further action in reducing the prior deposit requirements and whether the scheme could be expected to disappear by a specific date, the representative of Chile said the facts indicated a clear trend towards liberalization, although the Government had no fixed target date for the complete elimination of the scheme. It preferred to adopt liberalization measures according to the possibilities of current economic situation.

21. Disappointment was expressed at Chile's continued reliance on bilateral agreements in its trade with certain countries and preferential arrangements within the LAFTA and Andean market's regional groups. Discrimination against third countries would seem to be involved also in the recently signed special agreement with an important wheat exporter, in "complementation" arrangements with certain countries for the exchange of automotive vehicle parts, and in the treatment of petro-chemicals in trade within Andes regional market. It was asked whether Chile intended to move towards less reliance on bilateralism in the future and what was the present status of Chile's bilateral agreements. The representative of Chile replied that the recent agreement between Chile and Australia had been entered into purely for the purpose of increasing the level of their mutual trade, which had been hampered by the lack of sufficient transportation. It was with a view to creating sufficient cargo to make regular cargo plying profitable that the arrangement had been made for the regular supply of cellulose, paper, wine and wood for Australia and the return cargo from Australia was to be wheat. This wheat was purchased at normal world prices, so that the agreement could not be described as contrary to GATT. Complementation agreements, whether in automotive vehicle parts or in petro-chemicals, were measures taken in the context of the implementation of trade liberalization within the LAFTA. The Association was not limited to a reduction of tariffs but called for the rationalization of production in certain sectors within LAFTA, with a view to achieving a measure of rational division of production and economies of scale. He added that such measures were within the provisions of Article XXIV of GATT.

22. A member of the Committee drew attention to the difficulties encountered by some exporters on account of the complexity of the Chilean import documentation requirements. The complexity of the requirements often made it impossible to avoid the administrative penalty which was also provided for in the regulations. In addition, exporters had at times experienced difficulties in regard to what they considered to be complicated, time-consuming and onerous ECA (Emprissa Comercio Agricola) regulations, especially regarding food exports to Chile, in particular potatoes. The representative of Chile said that in the absence of more specific information he would refer the general question to his authorities for examination.

23. A member of the Committee referred to the question of delays incurred in the transfer of payments. Although the Chilean Government had taken measures to expedite remittances from Chilean importers to foreign suppliers there had been recent complaints of delays up to four months or more for payments on sight and time drafts. Outstanding arrears due to delayed payments had amounted to an estimated \$80 million to \$90 million at the end of 1968. It appeared that such delays arose from the Central Bank's administrative practices relating to the enforcement of the Bank's import and exchange rules. In this connexion, it was asked whether the Central Bank, in view of the expected substantial increase in Chile's foreign exchange reserves during 1969, intended to eliminate these delays in the transfer of payments to foreign suppliers and whether corrective measures were envisaged. It was also asked whether the Central Bank intended to introduce procedures to expedite the transfer of payments due to foreign suppliers which were held up because importers had failed to comply with the Bank's exchange regulations. The representative of Chile replied that importers were obliged to enter into an exchange contract not later than fifty days after shipment of goods. They could even obtain an exchange contract before shipment. Alternatively, the delays in payment might have been caused by the importers' lack of funds; these were outside the scope of the Government's authority. The waiting period for foreign exchange in respect of future exchange contracts had now been reduced to seventy-four days. In addition it should be pointed out that under the Chilean regulations there was no limitation of any kind on imports against a letter of credit, in which transactions the exporter abroad was paid in cash at the time of embarkation.

24. Referring to the "deferred coverage system" administered by the Central Bank, one member of the Committee said that this seemed to be the principal vehicle for controlling the import of capital goods. Under this system, credit terms of one to eight years or more were legally permissible for deferred coverage imports. In practice, however, no imports were approved under this system for payment terms of less than five years. Most deferred coverage imports that had been approved had terms of six to eight years. In view of the substantial build-up of foreign exchange reserves, it was asked whether Chile was planning to liberalize this system so as to allow higher imports of capital equipment. The representative of Chile explained that this practice was the result of the 1965 Paris negotiations on the re-scheduling of Chile's external debts, at which creditor countries had urged that Chile avoided incurring further short-term foreign indebtedness. Only the Central Bank could approve imports on the permitted list involving the use of external credit and imports of products on that list could be made without restriction if paid for in cash. As a consequence of the agreement referred to above the Bank did not proceed in the past with some short-term operations precisely in order to improve the structure of its foreign debts; moreover, such a policy has repeatedly been recommended by various international organizations.

25. In reply to a question as to what steps the Chilean Government might be planning to take to eliminate specific and compound duty rates, the representative of Chile explained that many of these specific duties had been removed in recent Article XXVIII negotiations, but that some of them would have to be maintained for technical reasons.

Effects of the restrictions

26. Some members of the Committee suggested that in addition to a sustained drive for import liberalization, a strong effort by the Government of Chile to simplify its restrictive system and procedures would pay large dividends in manpower saved both to Chilean importers and to its foreign trading partners. It should be borne in mind that the delays in payments and the onerous procedures inevitably constituted a burden which was ultimately borne by the consumers. Members stressed that import liberalization would be useful as a long-term means of improving the industrial structure of Chile, as well as for shorter-term aims such as controlling inflation. In reply to a question as to what measures had been taken in the context of trade liberalization to increase particularly imports of goods which were competitive with high-cost domestic production, the representative of Chile said that in this context, some tariffs had been lowered and additional goods, previously prohibited, had been placed on the list of permitted imports. This was the case of certain textiles. He added that the Chilean industry needed a certain level of protection and that in view of the country's industrial and cost structure a reasonably high level in tariff protection was generally called for. He stressed the need to proceed gradually with import liberalization in order to avoid brutal disruption.

Conclusions

27. Members of the Committee expressed appreciation for the steps which had been taken by the Government of Chile in the past two years towards trade liberalization. The surplus position attained in the balance of payments, if sustained, should enable the realization of the avowed intention of the Chilean Government to continue liberalization of its imports payments and removal of restrictions, which would be in the interest of mitigating inflationary pressures and of augmenting industrial efficiency.

28. The Committee thanked the representatives of Chile for the full information which they had provided. The Chilean representatives assured the Committee that the views expressed in the Committee would be brought to the attention of the Chilean Government.

ANNEX IInternational Monetary Fund Executive Board Decision
taken at the Conclusion of the Fund's Consultation
with Chile on 18 April 1969

1. This decision is taken by the Executive Directors in concluding the 1968 consultation with Chile pursuant to Article XIV, Section 4, of the Articles of Agreement.
2. Under the impact of a severe drought, Chile's rate of economic growth slowed down in 1968. Despite a major tightening of fiscal and credit policies, the rate of inflation accelerated in response to excessive increases in costs. However, the balance of payments showed a major improvement in response to higher copper receipts, restrained domestic financial policies and a more satisfactory exchange rate policy.
3. The wage increases granted at the start of this year leave little hope for a reduction of inflation in 1969, but the pursuit of cautious fiscal and monetary policies should make possible a further strengthening of the country's international reserve position.
4. Mainly as a result of a renewed tax effort, the Government succeeded in refraining from Central Bank borrowing last year. Meanwhile, the rest of the public sector managed to produce a substantial cash surplus. The Government plans through the pursuit of careful expenditure policies to refrain from domestic bank borrowing in 1969. Inasmuch as revenue is expected to rise only moderately, the restraint of expenditures is essential if Chile is to effectively contain inflation and to provide an adequate basis for sound economic growth. Appropriate fiscal and investment policies also call for an improved rate of public savings which, in turn, requires a reduction of the operating deficits of some of the major decentralized state agencies.
5. The Central Bank applied a policy of credit restraint which was a major factor in keeping price inflation from getting out of hand and in producing an improvement in the foreign reserve position. Adherence to the monetary program for 1969 is greatly dependent on avoiding government recourse to the Central Bank so that the bulk of the credit resources will be available to the private sector, on a careful control of the credit operations of the Banco del Estado, and on a strict application of the recently strengthened credit guidelines. To effectively foster savings and to assure a better allocation of credit resources, there should also be continued improvement in the interest rate structure.

6. External public debt authorizations increased in 1968 and early 1969 to a level that cannot be reconciled with the Government's objective of avoiding the recurrence of an excessive debt service problem. The Fund would emphasize the critical importance of pursuing prudent debt management policies in order not to impair Chile's balance of payments in the longer run.

7. The Fund stresses the need to continue a flexible exchange rate policy until inflation is effectively controlled. It commends the authorities for their intention to continue liberalizing Chile's exchange policies and, in particular, their plan to eliminate the remaining delays on import payments. The Fund hopes that this policy will be complemented by a more aggressive removal of trade restrictions in the interest of mitigating inflationary pressures and promoting greater industrial efficiency. In the meantime, the Fund does not object to the maintenance on a temporary basis of Chile's multiple currency practices and restrictions on payments for current international transactions as described in SM/69/41.

APPENDIX II

Opening Statement by the Representative of Chile

First of all I should like to express my appreciation to the secretariat for its valuable co-operation in the preparation of the basic documents for this consultation with Chile pursuant to Article XVIII:B, and to the representative of the International Monetary Fund (IMF) for the account that he has just given us of my country's economic and financial situation and for preparing the very detailed document on this subject which is before the members of this Committee.

The statement made by the IMF representative and the contents of the documents that I have mentioned make it unnecessary for me to take up the time of the members of this Committee to repeat figures and background information with which they are already familiar. Nor, on this occasion, do I wish to describe the way in which my Government has set about organizing the Chilean economic process within the context of a development policy, for this would oblige me to repeat point by point the information which I gave two years ago at the opening of the preceding consultation with Chile, and which is still fully valid. Therefore, I would suggest to the members of this Committee that they read document BOP/R/14/Add.1 which contains the detailed account which I gave, on that occasion, of the economic policy of my Government and, in particular, the objectives of that policy with respect to foreign trade. Those objectives have not changed, nor have my Government's endeavours to correct the structural inadequacies, which are the root cause of the chronic weakness of our balance of payments, in any way diminished.

Accordingly, on this occasion I feel that it would be more useful if I were to refer, in broad outline, to what has happened over the past two years, that is to say since the last consultation.

As representatives here will remember, one of the basic objectives of the policy to which I have just referred, was to double the volume of our copper exports, this being the only way to achieve a substantial improvement in our trade balance in the short term. The copper production development programme, which involves prodigious investment, is now moving into its final phase and the results will begin to become apparent in the course of next year. I cannot conceal my profound satisfaction at announcing this, for what appeared to be an unrealistic target to some people has now practically become reality, namely, to double copper production and exports (from 600,000 tons per annum to 1,200,000 tons, in round figures). In terms of dollars, this means an increase in annual earnings of over US\$300,000,000 (estimated on the basis of a cautious price), an amount representing about one quarter of the total current value of Chilean exports and which is, furthermore, in excess of the average deficit in our balance of payments. Taking things from this aspect the immediate future of the balance of payments could be viewed with optimism.

However, we cannot yet consider our foreign trade problems as being entirely overcome. As is mentioned in the extremely interesting IMF document, to which I referred at the beginning of this statement, in 1968, copper accounted for 74 per cent of Chile's exports, and that percentage is bound to increase, if the current price level holds, when the expansion plan which I mentioned has been carried out in full.

This extreme dependence on a single export product which is very subject to price fluctuations, brings out the vulnerability of Chile's trade balance and the need for my country to devote as much of its foreign exchange earnings as possible to investments designed to correct this situation of dependency. For this reason the process of liberalizing imports will have to be continued with caution.

It is precisely with a view to avoiding unnecessary foreign exchange expenditure in order to be able to devote foreign exchange resources to productive investments, that an ambitious agricultural and livestock development plan has also been set in motion, starting with an agrarian reform, the political and social implications and difficulties of which will be evident to members of this Committee. I do not wish to go into detail on this but I feel that it may be useful to point out that at the present time my country is spending in the region of US\$110,000,000 per annum on importing foodstuffs which could easily be supplied by the Chilean farmer. It is also interesting to note that in the case of Chile there is virtually no room to increase the area currently under cultivation, and for this reason the plan, to which I have just referred, lays special emphasis on more intensive use of land, conservation of its natural fertility, and protection of the soil. It should be added that the aim is not simply to replace imports but also to increase agricultural and livestock exports.

If the objectives of the plan are attained, the current deficit of US\$130 million on the agricultural and livestock trade balance will be reduced to slightly more than US\$120 million in 1980 despite the fact that imports in the sector will continue to increase, reaching some US\$135 million per annum by that date, owing to the increase in domestic demand.

No less ambitious development plans are being applied in the petro-chemical, paper and cellulose sectors, to mention only those which imply the heaviest investment.

However, the effort does not stop here and, as is obvious, my country feels that it has a legitimate right to develop the copper manufacturing sector. For this, it is indispensable that foreign markets be opened to us as the size of the domestic market precludes large-scale production. Similarly, it is necessary for restrictions and discriminations on world trade in agricultural and livestock products to be removed in order that the export targets for this sector can be achieved.

Clearly, then my country is making very serious efforts at home to consolidate the rather satisfactory situation which has developed over the past few years, but the result of this effort depends to a certain extent on the success we have in obtaining fair conditions on the world market. I do not feel that I need to mention the considerable responsibility that lies with the contracting parties to GATT in this respect.

All the efforts to which I have referred have been made in an environment that is subject to all the political tensions inherent in a process of structural reforms and an expansion effort, within a democratic order régime based on the orderly administration of poverty and not, as in the case of developed countries, on the more or less equitable distribution of wealth. And as inevitably happens when development programmes set off from so low a level, except in the case of copper, concrete results can only be expected in the more or less distant future. The figures and background information contained in the documents which we are using in this consultation have to be considered in the light of these tensions and limitations.

These figures and background data bring out the fact that, despite the reserves accumulated, Chile's balance-of-payments situation points to the advisability of maintaining a cautious attitude for some time yet and this fact alone, apart from the reasons which I gave before, justifies the maintenance of the import restrictions which my country is applying under Article XVIII of the General Agreement. Nevertheless, I feel it necessary to underline the great effort that my Government has made to rationalize and reduce these restrictions. In my opinion, this effort can be clearly appreciated in the light of the background information contained in document BOP/95 which was recently distributed by the secretariat together with others adopted subsequently to the preparation of that document. This is a demonstration of Chile's readiness to carry out its obligations towards the contracting parties.

The fact that my Government has sent to this consultation the Director of the Central Bank and a high official of that same institution deserves to be mentioned as reflecting the consideration and respect which my Government feels towards the CONTRACTING PARTIES and as a demonstration of the feeling of responsibility underlying our action within GATT.

Mr. Chairman, please excuse me for having taken so much time for this opening statement. I am sure that the Director of the Central Bank of Chile will be able to proffer far more useful additional information.

We must now move on to examine the specific aspects of the consultation. Mr. Ibanez and Mr. Tassara are better qualified than I to answer the comments which the members of this Committee will surely wish to make.

In conclusion, I should like to express my sincere appreciation to the members of this Committee who, by their presence at this consultation, are demonstrating their interest in my country's problems.