

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Payments Import Restrictions

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## CONSULTATION WITH CHILE

### Statement by the Delegate for Chile

The documents submitted by the Monetary Fund and circulated to the contracting parties show analytically and minutely the present position of Chile, and the imperative reasons which led it to maintain in force the quantitative restrictions, which it applies consistent with the provisions of the General Agreement. This will enable me to confine my statement to stressing the most salient aspects of our position and to indicating some of the difficulties confronting us.

The chief concern of the Chilean Government in the field of foreign trade has been and continues to be to adjust import demands to the available amounts in foreign currency, to direct our investments towards meeting essential requirements and to the execution of our programme of economic and industrial development. To that end, we have to resist the pressure exerted by excessive demand for imports of non-essential consumer goods, and the inflationary tendency from which our country has suffered for several years.

When circumstances have permitted, we have endeavoured to proceed to a relaxation of restrictions. Thus, the methods applied in the import system and which had been established in 1947 were replaced in 1951 by a system providing for elimination of a substantial proportion of the restrictions in force. To that effect, imports had been subdivided into four groups, two of which (groups A-1 and A-2) were not subject to restrictions. In the budget for 1952, the total figure for imports reached 378.9 million dollars, and the liberalized portion reached 181 million, or over 47 per cent.

Unfortunately, in April 1952, the trade outlook became uncertain, and sales of copper and production of nitrate showed signs of dropping. Faced by that situation, it was impossible to maintain the resolution of the Council of Foreign Trade, and on 24 April, imports of groups A-1 and A-2 were suspended or transferred to other groups and subjected to the system of import licences.

It would not seem quite accurate to call this a reinforcement of restrictions. In reality, we tried to modify our import system by establishing a liberalized area. Circumstances were against us, and we were compelled to go backwards and to revert to the former system.

#### Corrigendum

Page 2: first paragraph, third line:

Delete: "sold" and substitute by "was able to sell".

Page 3: fifth paragraph, eleventh line:

Delete: "254.45 per cent" and substitute by "254.54 per cent".

Page 5: third paragraph, fourth line:

Delete: "discount" and replace by "the rediscount".

Through the control measures taken, and the fact that the Government took in hand the direct sale of the entire production of copper through the Central Bank, and sold it at a higher price than the figure previously fixed, imports substantially increased, the balance of payments was in equilibrium, payment of services on loans - both public and private - was carried out regularly, and the monetary reserves were somewhat improved.

But it became speedily clear that that situation could not last. The Korean War, which was the cause of the demand for copper, was drawing to a close, and although the path to be covered by those in favour of peace was difficult, there could scarcely be any doubts as to the outcome. This had a depressing influence on the copper market, sales of which began to meet difficulties. When the armistice was signed, demand dropped, and soon stocks began to accumulate, amounting today to about 100,000 tons.

Negotiations with the United States to find a way out of that position are being conducted, according to unofficial reports, on the basis of 29 cents per pound - a price which is lower by 6.5 cents than the price of 35½ cents which had served as a basis to establish the budget of foreign trade for 1953, under which receipts were estimated at about 400 million dollars. Under that chapter alone, and provided prices do not drop below 29 cents, and the volume of sales is maintained at the former level - there will be a reduction in receipts of about 45 million dollars. For the current year, that figure will be reduced in proportion to the quantities of copper sold during the first four months at 35 cents, but the drop will be most acutely felt in the budget of 1954.

I feel it may be useful to point out, incidentally, some of the consequences of such a situation. The loss in dollars will bring about a reduction in imports, and this in turn will cause a drop in the profits on foreign exchange, which for this year alone was assessed at about 2,500 million pesos. To this should be added the reduction in collection of customs duties as a result of the drop in imports. These consequences will become rather serious if, as certain experts have calculated, the price of copper for 1954 were lower than 29 cents a pound.

The serious nature of the above situation is accentuated by the fact that almost our entire dollar receipts come from copper exports. If an analysis is made of the budget for foreign trade of 1952 - figures for which are given in Table 25 of the document of the Monetary Fund - it will be seen that the total for actual receipts was 285 millions. Out of that sum, as shown on Table 26, 221.5 million (or 77.71 per cent) came from copper exports. In the budget for 1953, those receipts amounted to 59.9 per cent (Table 26) of the total receipts in all currencies.

As these figures will show, two-fifths of the receipts in currency are calculated in currencies other than dollars. Almost the whole amount of that sum is composed of non-convertible currencies. Neither nitrate - receipts for which financed all our imports until recently - nor our agricultural exports,

nor our industrial products, are generally paid in hard currencies. This reduces considerably our trading capacity, and often compels us to remain within the confines of bilateral trade, and sometimes to depart from the principle of importing essentials which is the basis of our import policy.

In the case of these products, difficulties have increased during recent months, and an estimate of receipts from their sale had to be reduced by 31.6 million. Since, furthermore, it was realized there would be a deficit in receipts of at least 30.9 million dollars under the item "copper", we shall in 1953 have to meet a deficit in receipts of about 61.2 million dollars, despite a slight improvement in invisible receipts.

The Monetary Fund, having considered these factors, summarizes as follows the position of our foreign trade budget: "It was contemplated in the 1953 exchange budget that imports would amount to \$399.1 million in 1953, and total payments to \$470.6 million. According to recent information received from Chile, the volume of licenses granted up to the end of May amounted to \$250.2 million, which leaves an amount of \$220.4 million available for the period June-December, 1953. Considering that receipts will be \$61.2 million less than formerly estimated and that there was already a "deficit" in the budget of \$71.8 million, it appears that the volume of exchange licenses to be granted during the last seven months of 1953 would have to be reduced from a level of \$220.4 to a level of \$87.4 million, or by an amount of \$133.0 million if the budget were to be kept in balance. If a normal carry-over is allowed for, of say not more than \$50 million, the amount of licenses to be granted could be raised to roughly \$137 million without causing balance-of-payments difficulties.

"This reduction of about \$83 million would be very difficult to carry out at this late stage in the execution of the exchange budget, particularly since recently the need for supplementary exchange allocations of some \$10 million has been under consideration. It is, therefore, possible that, barring the adoption of drastic measures (such as the suspension of the validity of the exchange licenses already issued but for which orders have not been placed) 1953 will close with a rather large deficit."

The copper problem, and forced sales on markets which pay for our production in non-convertible currencies, and the deficit in our balance of payments, are paramount factors in determining our foreign purchasing policy, but it should be noted that for the time being, it is inflation of currency which is in the forefront of our preoccupations. To gauge its proportions and calculate its effects, a few figures will suffice: whereas the index of industrial production increased from 159 in 1946 to 212.8 in 1952 (an increase of 33.81 per cent) and that of agricultural production, from 95 in 1947 to 105 in 1951 (an increase of 10.52 per cent), the index of the cost of living increased during the period 1946-1952 from 63 to 204 (an increase of 213.63 per cent), and that of wages and salaries from 66 to 234 (an increase of 254.45 per cent). At the same time, the national income increased from 49,695 million to 192,012 million (an increase of 286.38 per cent) and the budget of State expenditure from 9,039 million to 43,656 million (an increase of 382.97 per cent). Budgetary deficits reached 3,500 million in 1950, 2,300 million in 1951 and 10,300 million in 1952.

In addition to the effects of the inflationary process on the fiscal situation and on the economy of the country, and its repercussions of a political and social order, it has exerted constant pressure on our imports and has threatened our possibilities for making indispensable purchases.

The Chilean Government realized that to combat inflation successfully, complete and systematic measures have to be taken, embodying all aspects of the problem. For this purpose, the Government prepared a plan, the starting point of which was the replacement of the system of multiple exchange rates by a single exchange rate, fixed at 110 pesos per dollar, in accordance with the new par value approved by the Monetary Fund. That rate of exchange is already applied for import trade. As regards exportation, unification of exchange rates will be put into operation as soon as Parliament has approved the bills which will empower the Government to introduce the requisite dues to compensate for the elimination of receipts which it at present collects as a result of variation of exchange rates, and to subsidize certain marginal exports which benefit by subsidies represented by preferential exchange rates.

To meet the increases in prices which would inevitably occur in the case of certain imports of general consumer goods, a maximum price has been fixed for them, and their sale is subject to control. Simultaneously, the Government enacted the necessary measures to increase wages and salaries by 15 per cent, which, according to the calculations of the experts, ought amply to cover the increase in the cost of living, computed at about 10 per cent for the first period of the scheme for establishing currency on a sound basis. Subsequently, salaries, wages and prices were frozen.

The above is part of an immediate plan of action of the Government, and to it should be added a long-term programme, details of which, set out in the basic documents of the Monetary Fund, will indicate the determination of the Government to succeed in overcoming and eliminating inflation thoroughly and as speedily as possible.

Both on the plane of immediate measures and on that of long-term policy, measures of a fiscal and monetary character play a paramount rôle.

The Government realized that fiscal policy was one of the decisive elements in the rise of prices, and it has taken the measures required to eliminate that inflationary factor.

The first step in that direction was the reform of the taxation system, with a view to: a) widening its field of application, by a better system of inspection, b) confer greater flexibility on the system for collecting taxes, so that they are better adapted to the economic development of the country, and c) create a means of stimulating the building up of private capital.

The second step was limitation of public expenditure by eliminating the subsidies granted indiscriminately by means of preferential exchange rates, and government contributions to the expenses of public undertakings.

These measures will enable the budget of 1954 to be balanced at a level which will not lay too heavy a burden on the available resources of the country, and will obviate resort by the Government to the Central Bank to finance the budgetary deficit.

The monetary policy of the Government has two aspects: the first relates to global control of the amount of currency in circulation, and of the volume of banking investments; the second relates to the selective channeling of credit.

Global control of currency in circulation will be possible through the new powers of the Central Bank which have already enabled the maximum expansion of investments existing at 30 June 1953 to be fixed at  $1\frac{1}{2}$  per cent per month, and to reduce to a minimum discount by commercial banks, in order to bring down the rate of increase of currency in circulation.

The selective channeling of credit was carried out through instructions from the Central Bank to the commercial banks for the purpose of eliminating speculative or non-essential credits, such as those intended for luxury building, the purchase of luxury articles, etc.

Furthermore, the State Bank, amalgamating all the financial institutions of the Government, will enable long and medium-term credit to be granted, will channel private and public savings and direct them towards the most productive investments from the national standpoint.

These are the broad lines of our problems in the field concerning the GATT; the consequences of the drop in the price of copper, the obstacles met in disposing of our products other than copper, the disequilibrium of our balance of payments, and the complications involved as a result of the inflation which developed within recent years. I have also stressed the efforts made to surmount difficulties and to place economy on a sound basis. The data on this vast scheme may be found in the detailed and very complete document submitted by the Monetary Fund after consultations with the Chilean Government.

The conclusion to be drawn from these studies is that to be re-established, our position requires a large-scale effort in the budgetary and financial fields and also in the domain of credit and ceaseless caution, painful sacrifice and substantial time limits.

While this effort is being pursued, we shall have to continue, in the words of the International Monetary Fund, "to limit our expenses payable in foreign currency to our receipts in those currencies."