

GENERAL AGREEMENT ON TARIFFS AND TRADE

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CHILEAN IMPORT RESTRICTIONS

Statement by Mr. F. Garcia Oldini, representative of Chile,
to the CONTRACTING PARTIES on 16 November 1956

Paragraph 20 of the Seventh Annual Report on the Discriminatory Application of Import Restrictions states that, during the past year, fundamental changes have been made in the import control and exchange allocation systems of certain countries, and Chile is mentioned as one of these. It is also stated that these changes have been made recently and that some of them seem to be still in a stage of development, etc.

I have noted that several contracting parties would like to have further information concerning the changes which have been made in the Chilean system, and therefore I should like to give some details on that subject.

The reforms made in Chile's exchange system do not constitute single individual measures; they form part of a programme covering various sectors of the country's economic activity; their purpose is to control and eliminate the inflationary pressures which have long been affecting the Chilean economy.

The specific aim of this programme is to restrict the expansion of credit and the volume of money in circulation, to eliminate budgetary deficits, to grant more favourable terms to export undertakings in order to develop production, as well as to effect substantial reforms in the exchange system and to liberalize it, so that international trade may be conducted at realistic exchange rates and prices.

With the co-operation of the technicians of the Klein Sachs Company of Washington D.C., the Government concluded that the inflationary pressures which were causing serious damage to the country's economy and hindering its development could only be checked by joint simultaneous action in the various sectors I have mentioned. In order to restrict monetary and credit expansion, the Central Bank has strengthened its quantitative and qualitative control over bank credit. To this end, issues of the Treasury and the fiscal institutions have been limited and rediscount facilities between the Central Bank and commercial banks have been reduced. The Central Bank's strict policy during the current year has already yielded satisfactory results.

One of the most noteworthy steps to ensure monetary stability has been the abolition of compulsory periodic adjustments of salaries and wages. A single increase was decreed for the year 1956, amounting to 50 per cent of the increase in the cost of living in 1955 and early January 1956.

In its explanatory letter to the Executive Director of the International Monetary Fund regarding this measure, the Central Bank stated:

"If one considers that the salary and wage increases authorized under Law 12,006 may not exceed the limits of credit expansion, it can be foreseen that the burden of such increases can fully be passed on to prices through monetary expansion as was the case in previous years. Thus an important step towards stabilization would have been made."

The deficit characteristics of our external trade have directly contributed to accentuate the inflationary process. These facts emphasize the importance of the measures which have been taken in order to strengthen our basic exports. In the course of the year laws have therefore been enacted to establish exchange rates and taxes that are more favourable for the large copper and nitrate producing companies. These laws should also stimulate capital investment in these industries and thus help to increase their production.

The change in the exchange system is only one of the basic aspects of the stabilization programme. It has been recognized that the structure of the exchange system which had been in existence in our country in recent years was one of the inflationary factors.

The basic objectives of the new system were stated in the request on this subject submitted by Chile to the International Monetary Fund.

In a decision adopted on 2 March, the Fund approved Chile's request in the following terms:

"For several years, Chile has been suffering from inflation. Balance-of-payments prospects have improved, particularly as a result of the increase in the prices of certain Chilean export products. Plans have been made to increase production, particularly in the copper mines. Stabilization measures have been taken in order to overcome inflationist pressures and to strengthen the external position. Such measures include a reduction of the budgetary deficit, credit restrictions and the elimination of the close relationship which previously existed between the cost of living and wages. The success of the stabilization programme will depend largely on Chile's efforts to reduce this deficit still further and to pursue a stringent credit policy.

"The Fund approves the real efforts which Chile has made to improve her trading system. The measures proposed include a simplification of the fiscal structure, a reduction in the use of quantitative restrictions and the use of a free exchange market for most current transactions. The Fund notes that Chile is considering the establishment of a stabilization fund in order to assist the operations of the free exchange market. The success of this system will depend on the strict implementation of the stabilization programme.

"The proposed trading system will provide a firm basis for the progressive reduction of all discriminatory measures and for a lesser use of bilateral agreements."¹

In order to put this system into practice, the National Council for Foreign Trade, under a decision of 4 April last, has laid down new regulations applicable to import and export transactions. Further, the list of goods which may be imported was approved by decree of the Minister for Economy, together with the foreign currency budget. A further list of goods authorized to be imported was approved by decree of the Minister for Economy dated 9 August. This list includes products not mentioned in the earlier decree.

The new exchange and trade regulations show that my country is making great efforts to liberalize trade; this means that we are moving closer and closer to the objectives of the General Agreement on Tariffs and Trade.

It should be emphasized that the new system presents the following advantages:

(a) Abolition of preferential exchange rates

At the present time, all import and export transactions take place at a single exchange rate which varies depending on current market conditions, so that there is one specific parity in respect of each of the currency areas with which Chile has trade relations.

(b) Free imports of goods included in the authorized list regardless of the area of origin

The list of goods which may be freely imported under the new legal provisions is quite extensive and, in any case, the number of products which may today be freely imported is greater than that previously allowed. It

¹ This is a translation from the French text given by the Chilean representative.

should be added that, under the present system, any product on the authorized list may be imported by any person, from any source, and without quantitative restriction.

Under previous regulations, on the contrary, imports were subject to a resolution of the National Council for Foreign Trade which, depending on current exchange availabilities, could authorize importation in limited quantities, with specific reference to the goods which, in its opinion, might be included in the general framework of the currency budget.

Although the new system is based on our desire to liberalize trade, it has been necessary to maintain certain currency regulations and some import prohibitions, solely in order to safeguard Chile's balance-of-payments position.

The fact that our currency reserves and facilities for payments abroad are limited has obliged the Government to proceed with caution in its liberalization policy. On the other hand, the establishment of a new and realistic rate of exchange for exports is a stimulant which will cause an increased flow of foreign currency into the country only in the long term, because of the lack of elasticity in the supply of exportable Chilean products.

(c) Abolition of the import permit and quota system

The import licence has been eliminated from Chile's foreign trade system. Within the limits of the list of authorized imports, any person may effect unlimited imports and, as I have already said, may freely choose the country of supply. These new provisions have simplified the exchange pattern and have facilitated import and export transactions.

The reforms in the exchange system were first effected by administrative measures to adapt the Government's intentions to the current legal structure. The experience gained during the first months of operation of the new system made it possible to introduce legislation which may prove to be the basis for the final organization of Chile's foreign trade.

Law No. 12,064, published in the Official Gazette of 18 August, contains provisions governing this matter. The National Council for Foreign Trade has been replaced by a Foreign Exchange Committee. The basic provision governing the simpler and more liberal nature of the exchange system applied in Chile reads as follows:

"that, on the proposal of the 'Directorate' of the Foreign Exchange Committee, the Minister for Finance shall by supreme decree establish the list of authorized imports. Goods not included in this list may not be imported. The list may be extended at any time by supreme decree, on the proposal of the 'Directorate' of the Foreign Exchange Committee. Any person or legal entity may import freely and without quantitative limitation the goods included, or which may be included, in the list of authorized imports."

Thus, it is clear that the changes made in our exchange and import systems tend to provide more flexibility and to eliminate restrictive practices. Any such practices still in effect are not intended to afford protection, but are motivated by the need to safeguard our balance-of-payments position. As and when Chile's economic and foreign trade position makes available greater payments facilities abroad, the Government proposes to extend the list of permitted imports.

We are only at the beginning of the process and it must not be forgotten that action such as that which my Government has undertaken is bound to come up against complex and serious difficulties.

