

Armstrong

SECRET

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

No. 31
CP. 5/K/SECRET/10
28 November, 1950
ENGLISH
ORIGINAL: FRENCH

CONTRACTING PARTIES

WORKING PARTY "K" ON CONSULTATIONS UNDER
ARTICLE XII: 4(b)

Statement by the Representative of Chile
at the 11th Meeting of the Working Party
held on Thursday, 23 November, 1950, at 3 p.m.

Mr. Chairman,

I shall first, before I begin my statement, congratulate the International Monetary Fund and their Representatives here for the exhaustive and minute work they have done in relation to examination of the economic and financial situation of Chile. The figures and data included in the background material, and the report of the Fund will enable the members of this Working Party to form a clear view of the situation and will, at least I hope so, avoid questions which, as I am not a financial expert, it might be difficult for me to answer.

1. The crisis of the 1929-1931 period struck Chile in such a way that all our financial, economic, commercial and social structure was violently disrupted. Now, to enable you to appreciate the seriousness of the disruption suffered by Chile and its impact on our economic life it will be enough for me to mention that our visible exports which, in 1929, exceeded 435 million dollars, fell to 58 million dollars in 1932. This situation made it necessary for us to institute control measures and to reserve whatever foreign currencies were available to us for the purchase of essential commodities.
2. The situation of our foreign trade did not improve substantially in the subsequent years. Thus, in 1937, the value of our exports was 81 million dollars and our imports were at the rate of 88 million dollars.

Throughout that period, and during the last World War, Chile could meet only a very low proportion of her import requirements, which the competent authorities estimated at approximately 350,000,000 dollars. Thus, while our reserves were submitted to a strong pressure, the solution of our vital problem had to be deferred and we had to maintain more or less permanent control measures.

As we have previously explained on other occasions, the application of the measures followed the fluctuations of world trade and of our exchange availabilities, increasing in severity as the latter declined, or vice-versa, acting as a cushion to the pressure exerted on our monetary reserves by the unfulfilled demand for goods and by the obligations undertaken by the Government with a view to carrying out fully our national policy directed towards the development of economic and industrial resources, the raising of levels of production, and the maintenance of full employment.

When Chile became a Member of the International Monetary Fund, we accepted the provisions relating to exchange restrictions, and naturally the mechanism instituted to deal with such matters had to be readjusted in conformity with the Bretton Woods provisions.

Under Law 8403, by virtue of which these agreements were accepted, we drew up for 1947 our first foreign exchange budget. Within this budget appropriations were made, in conformity with precise regulations, for the foreign exchange that

could be spent during the year, and the breakdown was made as between imports of goods, the servicing of investments and loans, and well as other needs.

However, this first budget was not accurate enough and towards the end of the year, there developed a deficit which threatened to paralyze all our import trade and compelled the government to frame the 1948 budget in a more minute and detailed manner in which all the articles that we could afford to import within our actual exchange availabilities were specifically mentioned with corresponding ceilings, and the sums available for each item of expenditure were explicitly mentioned in our budget. In the budget for the following years, we followed a similar procedure, corrected and improved on the basis of experience.

3. The magnitude of the disruption experienced by Chile in 1931 could not but affect the account of monetary reserves which, of necessity, had to be used to meet our international obligations, and to balance our payments, while enabling us to meet our imports needs to a minimum extent.

It seemed that the situation could be altered during the war. Indeed, during that period, Chile accumulated foreign currency and gold reserves which rose from \$U.S. 40.8 million to 115.4 million between 1940 and 1945, representing an increase of \$U.S. 74.6 million. These reserves could not be brought to a higher level, because Chile, as a contribution to the War effort of the Democratic Powers, sold her copper at a very low fixed price, whereas she had to pay fairly high prices for her imports. Such a situation prevented us from building up powerful reserves which, for many years, would have enabled us to eliminate any maladjustments in our balance of payments.

The aftermath of war and other factors which had an impact on our foreign trade did not enable us to maintain our reserves at their 1945 level. The deficits suffered in 1946 and 1947 reduced them by 70 million dollars, bringing them down approximately to their pre-war level. Thus, in 1949, the whole amount of the reserves held by the Central Bank and the "Amortization Fund" did not exceed 47 million dollars.

4. If one wishes to appreciate our balance of payments position and its impact on the level of our reserves, one should take account of the fact that our exports are of a quality that makes them completely subject to factors utterly beyond our control. An analysis of our foreign exchange budget clearly indicates that our earnings depend primarily on the sales abroad of certain mineral products which are subject to constant fluctuations that we are not in a position to influence.

Of all those products the most important one in volume and value is copper. Indeed, on the one hand, more than 50% of our imports have to be paid for in dollars and on the other, 55% of our dollar earnings are accounted for by our exports of copper.

The price this mineral fetches on the international market is variable, which makes it extremely difficult to compute our earnings. In 1948-1949 the price fluctuations of this mineral were as follows:

1948: first six months	21.37 ¢ per pound
July 1948	21.49 " "
September 1948 and March 1949	23.37 " "

April 1949	21.66 ¢ per pound
May 1949	17.92 " "
July 1949	16.48 " "
November and December 1949	18.37 " "

Production fluctuations make it still more difficult to compute our earnings. The following figures will give an idea of the evolution of copper production in Chile, on the basis of 1937 = 100

1948	= 107
1948 (December)	= 112
1949 (April)	= 102
1949 (September)	= 70
1949 (November & December)	= 81

The above-mentioned data clearly illustrate the situation Chile had to face throughout the year 1949.

5. In March 1949, the price of copper fell to 23.37 ¢, then to 16.48 ¢ in July of the same year. In December, copper still sold for only 18.37 ¢ a pound. At the same time, the demand declined and, in consequence, the most important copper mining enterprises announced a reduction in their output. Thus, the production index which, in December 1948, was 112, fell to 70 in September 1949.

The whole of our exports of minerals followed the downward trend, and towards the end of the year had declined by 156 million gold pesos as compared with 1948.

On the other hand, the export of "minor products" (agricultural products and products of the small mining industries) was affected by a contraction of the demand and an increase in domestic costs. These exports were estimated at 84.1 million U.S. dollars; viz. 33.7 million dollars proper and 50.4 million dollars in other currencies. Exports of such products to the dollar area fell to 11.7 million dollars, that is to 65.6%, whereas exports in other currencies fell to only 48.3 million dollars corresponding to a decline of 4.1%.

For the whole year our exports of minor products fell from 84.1 to 60 million U.S. dollars, representing a decline of 28.5%.

6. Besides a strong import demand which developed at the end of the war, the foreign trade of Chile, as a consequence of the above-mentioned factors, showed a steady trend towards a substantial increase in imports and a decline in exports. In 1949, exports were not only below the 1948 level but tended to be diverted from their immediate post-war channels, a fact which resulted also in a decrease of our dollar earnings and, consequently, in a decline of our capacity to import essential goods.

On that account, imports from the United States increased and our exports

to this country went down. The trade deficit of Chile with the United States, Canada and Latin America, which has to be met in dollars, rose from 4.5 million dollars in 1948 to 55.5 million dollars in 1949. The trade surplus of Chile with the rest of the world fell from 65.2 million dollars in 1948 to 59.3 million dollars in 1949 and the percentage of inconvertible currencies therein exceeded the corresponding figure for the previous year.

7. With lesser resources in convertible currencies available, Chile had to reduce her foreign purchases by a corresponding amount and to use in a more selective manner her limited currency availabilities. It would not be correct to say that Chile has intensified her import restrictions. The basic needs of the population, the plan for the development of the economic and industrial resources of the country which, while directed towards raising the standard of living and maintaining internal demand, must, ultimately, result in securing for us the elimination of our balance of payments difficulties, in freeing us from our dependency status with respect to two or three primary commodities, give rise to various demands which exceed our present dollar earnings, and compel us to earmark all such earnings for imports purposes. Therefore, there is not a situation in which restrictions are being maintained or intensified strictly speaking. In fact, we only select the purchases that we are in a position to pay for and we endeavour to use our currency resources in such a way as to meet our basic needs. That is what we did in order to solve the supply problem which arose out of our export crisis in 1949. To that end, we keep in close contact with the International Monetary Fund because, at no time, have we ever forgotten that ours was the situation of a country which, in conformity with Article XV of the GATT, uses exchange control measures in accordance with the Articles of Agreement of the International Monetary Fund, and uses import restrictions "the sole effect of which, additional to the effects permitted under Articles XI, XII, XIII and XIV, is to make effective such exchange controls or exchange restrictions".

8. When, towards the middle of 1949, it became obvious that, as a consequence of the above-mentioned factors, our actual earnings fell far short of the estimated figure, it became necessary to effect a 20% reduction in our expenditures, on the basis of the estimation then made of the shortfall in our dollar earnings. At the same time, the necessary technical and administrative measures were taken.

The seriousness of the situation and the determination with which the Government tackled it can be fully appreciated if one bears in mind that we did not hesitate to reduce our imports of machinery and equipment, the purpose of which was to maintain the development and industrialisation of our economic resources. Thus, the "machinery, tools, and equipment" item for which nearly 58 million dollars had been appropriated in 1949 was cut to 29 million dollars. The equally vital "machinery and transport equipment" item was also reduced from 18 to 9 million dollars.

These measures, together with the utilisation of 1.5 million dollars from the Eximbank loan and of 600,000 dollars of reserves, enabled us to balance our 1949 foreign exchange budget.

Our budget for 1950 was computed on the basis of earnings and expenditure estimated at 232.20 million dollars, representing a decrease of 75 million dollars as compared with 1949, based on the indications resulting from the trends of our trade in the latter months of 1949. This decline was the consequence of a shortfall of 57 million dollars on account of copper earnings and of 16.20 million dollars on account of other items. Import expenditures were reduced by

28.20 million dollars for machinery, 6.20 million dollars for metallurgical products, 8.80 million dollars for transport equipment, 14.30 million dollars for various goods, 10.20 million dollars for animal products. Other minor reductions were also applied to other items.

Furthermore, the balance of the Eximbank loan, representing roughly 20 million dollars, was incorporated in our estimated earnings with a view to avoiding any further deficit.

In February, a number of emergency measures were taken in order to ensure that expenditure would not exceed the budget estimates, particularly as regards payments to be effected in dollars or in Swiss francs; preference was given to the purchase of articles of primary necessity such as antibiotics, insulin, medicinal and pharmaceutical products, spare parts for machinery, sugar, oil, diesel fuel oil, gasoline and kerozene.

As soon as we could safely expect an increase in our foreign currency earnings on account of copper exports, the new budget was readjusted by a further 22 million dollars appropriation.

9. Like many countries at present, Chile has to face very serious problems of a monetary character for the study of which we requested the co-operation of the committee of **experts** of the United Nations and the advice of the International Monetary Fund.

The measures taken in this domain cover two different fields:

- a) the international par value of the peso;
- b) the internal domestic purchasing power of our national currency.

As regards the question of the par value, we deem it necessary to secure gradually a more sound and stable position for our currency. We have eliminated barter transactions with the exception of those relating to wines and spirits, and we have established a basic exchange rate of 60 pesos to the dollar which is applied for most of our imports. The balance of imports is effected on the basis of two different exchange rates (43 and 31 pesos to the dollar) applicable for the import of essential goods.

In the internal domain, resolutions with a view to preventing the utilisation of our exchange availabilities for speculative purposes have been taken. Furthermore, the Government submitted to Parliament a bill including provisions aimed at stabilizing wages and prices with a view to keeping down any excessive demand for consumer goods and any increase in their prices.

Thus, it is hoped that conditions will be created which will enable us to restore our monetary situation on a much sounder basis and to ensure that its consequences will no longer be damaging to our balance of payments and the cost of living.

10. Our present situation can be summed up as follows:

- a) The present level of our monetary reserves remains inadequate, and if they have not declined dangerously in recent months this is only due to the fact that, as a general rule, we have been in a position to avoid using them for the purpose of eliminating our balance of payments difficulties. To that end we have included on the credit side of our trade balance the proceeds of foreign

loans which, together with the foreign exchange investments effected by great mining enterprises, have enabled us to finance approximately 20% of our imports since 1946.

b) Our imports requirements to meet the commercial, economic and industrial needs of the country are substantially higher than our **currency** earnings derived from our exports and result in a strong pressure being exerted on our balance of payments. This situation has compelled Chile to accept the provisions of the Articles of Agreement of the International Monetary Fund in matters relating to exchange restrictions and to apply the provisions of the GATT which permit a contracting party to make effective such control measures.

c) The decline in our foreign currency earnings in 1949 intensified the pressure exerted on our balance of payments and compelled us, in order to forestall a disequilibrium that might have proved fatal, to **modify and intensify** our control and safeguard measures.

The background material compiled by the International Monetary Fund includes the data and figures that are needed to appreciate fully the scope of the situation of Chile. These figures, which fully coincide with ours, lead to the determination reached by the Fund, which is also ours: "the level of reserves and the degree of domestic stability which can be achieved by Chile in a short time do not as yet make feasible a further general relaxation of restrictions".