STATEMENT BY REPRESENTATIVE OF CHILE
ON BALANCE-OF-PAYMENTS SITUATION

The serious situation of Chile’s balance of payments and monetary reserves has led us, on various occasions, to seek from the CONTRACTING PARTIES an extension of the waiver which allows Chile to apply temporary import surcharges.

Practically all developing countries face a similar situation, and I think the underlying causes are well known to the CONTRACTING PARTIES and I do not need to repeat them here.

As the representative of Chile said at the meeting which took place one year ago, already in 1956 our Government simplified our exchange system and eliminated a considerable amount of restrictions which unfortunately were reimposed in 1957 and 1958 in view of the drastic reduction in the price of copper in the world market. In 1959, a new administration, with the backing of the International Monetary Fund, decided to follow a new exchange and foreign trade policy, based on the establishment of a single exchange market with a realistic rate of exchange. Import prohibitions were eliminated and other trade restrictions reduced. In view of the balance-of-payments problems which the new policy could have created, it was proposed to substitute the existing restrictions for surcharges not exceeding an amount of 200 per cent of the c.i.f. value of the commodities. The CONTRACTING PARTIES granted the necessary waiver in 1959 for a reasonable length of time in order to allow Chile to enact a new customs tariff.

The exchange liberalization policy, started in 1959, and pursued in 1960 and 1961, led, at the end of the latter year, to an exchange crisis which was partly the consequence of the internal monetary expansion to finance heavy expenditure for the reconstruction of the parts of the country devastated by the earthquakes of May 1960, and a national development plan which was put into effect to give Chile a more rapid rate of economic growth.

The Government was compelled, in view of the foreign payments situation, to eliminate many of the liberalization measures previously adopted; two exchange markets were established in October 1962 and import surcharges were temporarily increased. These decisions, and the devaluation of the escudo in the exchange market used for exports and imports, produced some results; at the end of 1963 the Government thought that within a reasonable length of time it could obtain legislative approval of the new tariff and could start new negotiations with the CONTRACTING PARTIES in order to put an end to the system of import surcharges.
However, reality has been different due to powerful commercial and political factors. The new tariff has not been enacted and it was impossible for the Government to push it forward in a period of intense political activity prior to a Presidential election. Not having a homogeneous and solid majority in Parliament, it would have been impossible to start the discussion of the new tariff item by item. Furthermore, even with a considerable improvement, Chile's balance of payments continue to show the same basic weaknesses as in previous years. I will give you some information in order to support this statement.

In 1961 Chile had the largest balance-of-payments deficit in its whole history reaching the figure of $130 million. This deficit was reduced in 1962 to about half that amount, but at the same time import payments arrears developed making the deficit of 1962 practically equal to that of the previous year. With the exchange measures I referred to above, the deficit was reduced to $30 million in 1963 and practically to nil in 1964. For the present year, the Central Bank of Chile has projected a small deficit the amount of which will depend on the results of the agreement reached recently in Paris between Chile and its foreign creditors on foreign debt refunding. But this equilibrium in the balance-of-payments is rather weak because it is based, on the one hand, on heavy import restrictions, and on the other hand it has been sustained by an increased amount of foreign loans for reconstruction and development purposes. The net inflow of official foreign capital into Chile increased from $105 million in 1962 to $156 million in 1963, and to an estimated $166 million in the year 1964. For the present year it is estimated that there will be a net inflow of $155 million. Actual new loan utilization has increased from $113 million in 1962 to an estimated $195 million in the present year.

Chile's balance-of-payments problem has been aggravated by the increased burden of the foreign debt. This amounted, at the end of 1962, to $737 million, including Government guaranteed private debt. During the year 1963, this debt increased by an amount of $171 million, and in the past year by an estimated amount of $139 million. If, to the proper external debt, we add some internal debt denominated in foreign exchange, the total service, i.e. amortization plus interest, in 1965 would have amounted to roughly 40 per cent of Chile's total foreign exchange receipts. For this reason the Government of Chile entered into multilateral negotiations with its foreign creditors who were willing to refund the services of the years 1965 and 1966, to be repaid over eight years, with a three years' period of grace.

In relation to future prospects and policies, I will mention a few ideas developed by the Chilean Minister of Finance in a statement made before the Joint Committee on the Budget on 24 November 1964.

It is the programme of the new administration to give an impetus to the economic development of the country and at the same time to achieve a more even distribution of the national product. In this endeavour a set of measures will be put into practice and one of the main objectives of them is to achieve a gradual reduction in the rate of inflation which is one of the main causes of
Chile's payment problems. The Government does not believe that stability can be attained overnight and, looking at the structure of sectoral prices, is planning a price increase not higher than 25 per cent during the present year and expects to reduce and finally eliminate inflation over a period of three to four years. In the first place, wages and salaries have been adjusted by the full extent of the loss in their purchasing power in 1964. Industrial prices will be adjusted by an amount of about 20 per cent and agricultural prices by more than the average increase in the year in order to improve the terms of trade for the agricultural sector.

Monetary and fiscal policies have been designed for an increase in the supply of money not greater than 25 per cent during the year and for the time being the Government will keep a strict control on basic prices.

On the external side the Government policy calls for a flexible exchange rate policy and stimulus to exports by means of tax rebates, simplification of administrative procedures, special credit schemes and direction of public investments towards industries producing for exports. The main ingredient of the Government's export promotion policy is the agreement reached with foreign copper companies to increase by nearly 100 per cent their production in Chile and to increase by about 70 per cent the country's capacity of refining. These and the other measures already mentioned will increase Chile's exports by nearly 80 per cent from 1965 to 1970.

In order to carry out this task, the results of which might be decisive in America's political life, we need, before anything else, to help ourselves, but we also need the assistance of our friends and in this particular case a necessity of the programme is to obtain from the CONTRACTING PARTIES an extension of two years of the waiver granted in 1959. The continuation of the import surcharges will not only keep our foreign payments situation in balance, but will also help to finance our Budget. If we request a two-year extension, it is because this term is adequate and necessary to put into effect the different parts of the Government development and stabilization programme.

This concession should be a relatively easy one for the CONTRACTING PARTIES to give us now, since the Group which prepared the new Chapter of GATT on Trade and Development recommended for approval the proposals of Australia and the United States which would authorize developing countries to use surcharges in place of, or in addition to, other sources for the safeguarding of their balance of payments and their monetary reserves.

We do not doubt that the CONTRACTING PARTIES will understand our situation. We are quite sure of this, and that they will accord the waiver in the spirit which has inspired all their recent action.