STATEMENT BY PERUVIAN REPRESENTATIVE

I should like to thank you for your words of welcome to my delegation and to say that for me personally it is a pleasure to attend a meeting of this Committee for the first time, albeit to present my country's difficult economic situation. In accordance with the provisions of the General Agreement, I shall outline to this Committee the background and nature of the balance-of-payments difficulties which Peru is encountering, and the corrective measures that have been taken.

First of all, a brief reference to past trends in our export trade. Over the period 1960-1966 the value of Peru's exports rose at an annual rate of 9.9 per cent. Up until 1962 this increase in the value of exports was due to better prices and increased demand, but from 1962 to 1966 it was the result solely of price increases, while export volumes remained practically unchanged. In our opinion, the virtual stagnation in the volume of exports attributable was to the inelastic nature of demand for primary products and also to the lack of new investments in the export sector of our economy and also to pressure of costs. In 1966 the growth rate of Peru's exports reached the highest level recorded since 1950, but at the end of 1966 it began to decline, particularly with respect to fish meal and copper.

On the import side, it seems to us that the decisive factor in our trade and payments disequilibrium has been as follows:

Over the period from 1960 to 1962 the value of imports increased at an annual average rate of 13.5 per cent. Over the same period, gross national product increased at an annual average rate of 6.6 per cent, and though this is appreciable it represents less than half the import growth rate. From 1963 to 1967 the volume of Peru's imports increased by the spectacular amount of 60.1 per cent. This upswing in imports can be attributed inter alia to the following three factors: first, the national economic growth rate already indicated, which is one of the highest in the Western hemisphere. Secondly, the growth in income (by approximately 7 per cent per annum) resulting from the high rate of development recorded for the country. The income increase was reflected in import expansion as a result of greater potential demand for items that, in relative terms, had become much more accessible than they were before. It should be noted, however, that the import increase was not entirely attributable to the rise in gross national product and
national income, but also to the fact that under our liberalized trade régime, luxury articles and non-essential products which were of no significance for the country's economic development were admitted in large quantities. Thirdly, the virtual stagnation of our agriculture, which is in fact a fairly general feature in the Latin American economies. Our agriculture has been characterized as is well-known, by inelasticity of supply, and is largely a subsistence activity. It was unable to meet the country's food requirements, so that in 1966, for example, foodstuffs had to be imported to a value of $121 million, representing 7.1 per cent of total imports in that year.

Having outlined the background for what has been happening in Peru's trade and balance of payments, I shall now refer more specifically to the past two years and to aspects that have a direct bearing on the problem of Peru's balance of payments. As I have already mentioned, gross national product increased by 6 per cent in 1966, but in the ensuing year - 1967 - it rose by only 4.2 per cent. This slowing down can be attributed to devaluation of the national currency and the resulting financial uncertainty. Agricultural production declined still further and there was a slowing down in the building industry. It should be noted, however, that in 1966 the building industry had developed at the rate of 21 per cent, and at the rate of 4 per cent in 1967. Although there was no slowing down in respect of fish meal production, in general one may consider that the Peruvian economy's production has entered into a stage of deceleration.

So far as prices and wages are concerned, there was a 30 per cent price increase in the closing months of 1967, as a result of devaluation. From August to December the cost of living rose by 14 per cent and there was a further 3.5 per cent increase in the first three months of 1968. The currency devaluation was by 30.7 per cent; on the other hand the increase in wages has not exceeded 12 per cent. So far as the national budget is concerned, in the 1967 fiscal year there was a deficit of $/ 5,600 million as a result of the fact that fiscal revenue did not increase as much as had been hoped, and also to the fact that it was not possible to introduce taxes which the Government had been proposing for some time past.

The balance of payments continued to deteriorate in 1967. The 1966 deficit was $61 million, and in 1967 it reached $91 million. In the first three months of 1968 the deficit was in the amount of $19 million. A long-term forecast by the National Planning Institute indicates that by 1970 Peru's imports will have passed the $1,000 million mark and that the balance-of-payments deficit might be at the level of $180 million. I have referred to this forecast only in order to give you an idea of the magnitude and complexities of the problem with which we are faced.

Going back to our balance of payments, in 1967 in the products account the drop in prices for fish meal and copper caused a 5 per cent decline in foreign trade receipts. In the capital account there was a substantial reduction in reserves held by the commercial banks. Long-term capital inflow declined
somewhat and there were massive outgoings of short-term capital which contributed to bring about the currency devaluation to which I have already referred.

What has Peru done to cope with this situation? It has adopted, or perhaps I should say it is adopting long-term measures, and it has also hastened to take certain short-term measures. Over the long term the official policy of Peru has been based on two objectives which are difficult to attain in a rapidly developing economy: first, the maintenance of a high level of economic growth, and second, monetary stability. I do not think I can be accused of patriotic bias in stating that in the main these two objectives have been attained by the Peruvian economy over the last eight or ten years and that it is only in the last twelve months that it has begun to meet with obstacles and complications which are tending to upset this highly desirable and greatly desired economic equilibrium.

To achieve these objectives, the Peruvian Government has made intermittent use of a variety of instruments such as regulation of the bank reserve, regulation of primary credits, and regulation of the level of imports through tariff measures, while at all times endeavouring to respect freedom of trade as fully as possible. In June 1967, as GATT is aware, my Government was obliged to increase the duties on certain items representing import products, all of them regarded as non-essential to the progress of the national economy.

At the same time the Government has been following a definite policy of austerity; it has made severe cuts in the budget, together with effort after effort to balance the budget. As will be appreciated, it has not been easy, and it is still not easy, to reconcile these imperatives of fiscal policy with the expenditure which the State is obliged to face. There was a crying need for investment in the economic and social infrastructure of the country - in schools, housing, highways and sources of electric energy.

Consequently, in September of last year the Reserve Bank, faced with a sudden, large-scale drop in currency availabilities, withdrew from the market to allow the sol to find a new parity with the dollar. As I have already said, this involved a devaluation of 30.7 per cent, in other words the value of the Peruvian currency fell from 26.70 to approximately 40 soles per dollar. The causes of this whole trend can be listed as follows: first of all, recurring budgetary deficits; second, instability and decline in the prices of some of Peru's main export products; third, a phenomenal increase in imports; fourth, stagnation in the agricultural sector; and fifth, structural factors such as, in a general way, the dualism of the national economy.

Peru has remained faithful to the principle of free trade and free exchange, and with the exception of the increase in duties on certain import items already referred to, it has taken no preventative steps to correct a situation which could be foreseen. The Government acted ex post facto and introduced the restrictive measures only when monetary devaluation and the social and economic consequences immediately following it had taken place. As GATT has already been informed, the Peruvian Government felt obliged to take these restrictive measures, and considers that its action is clearly and unequivocally justified by Article XVIII, Section B, paragraph 12(a), of the General Agreement.
By Supreme Decree 05368 HC of 29 February 1968, the Peruvian Government placed restrictions on imports of certain articles not essential to the national economy, for a period of ninety days. The list of the products, and the text of the Decree, can be found in GATT document BOP/81 of 7 May 1968. Specifically, in taking these measures the Peruvian Government based its action in paragraphs 8 and 9 of Section B of this same Article XVIII of the General Agreement.

Allow me, Mr. Chairman, to recall what is stated in these two paragraphs. Paragraph 8 recognizes "that contracting parties ... tend, when they are in rapid process of development, to experience balance-of-payments difficulties arising mainly from efforts to expand their internal markets as well as from the instability in their terms of trade". This is precisely the case of Peru. Paragraph 9 states that "In order to safeguard its external financial position and to ensure a level of reserves adequate for the implementation of its programme of economic development, a contracting party ... may ... control the general level of its imports by restricting the quantity or value of merchandise permitted to be imported". This is precisely what the Peruvian Government has just done.

The import restrictions covered by the Decree in question comprise products to the value of approximately $150 million, in terms of our 1967 trade, and consist for the most part of items not essential for the country's economic well-being and development. Subject to any further explanation at a later stage, Mr. Chairman, I should like to site a number of products - they are perhaps rather extreme examples - which have been prohibited by this recent Decree of the Peruvian Government. For example, under the heading of animals and animal products, imports of horses for polo playing and horses for racing have been prohibited, imports of live animals which can be reared in the country, and animal products such as coral, bones, ivory, horsehair, etc.

Under the heading of vegetable products imports of certain edible vegetables, food products, coffee, tea, maté, cereal groats and meal, and grains (excepting wheat grains) are prohibited. All the items involved are products which can be grown or are at present being grown in the country and are in the process of expansion.

With regard to products of the food industries we have prohibited canned fish, tunny fish, and sardines. I hardly think I need say that it would be carrying coals to Newcastle, as the phrase goes, and there would be no economic justification for allowing these products in. Under perfumery, toilet preparations and cosmetics, I notice a not insignificant item - dog shampoos; and other headings affected are articles of apparel and footwear, headgear and accessories.

Finally, to give a comprehensive picture of the prohibited items, under the heading of pearls, precious stones, articles of jewellery and watches and clocks I should point out that there is no prohibition on the cheaper type of utility or industrial watches and clocks. The only articles prohibited are expensive watches and clocks, luxury articles which can be regarded as items of jewellery.
Mr. Chairman, I think that if we bear in mind the extremely liberal trade policy which Peru has pursued, both inside and outside GATT, it will help us to understand more readily the need for the measures which my Government has just taken. Allow me to recall that Peru has a long and extremely liberal list of products negotiated with GATT, perhaps the longest and most generous list of any developing country.

Among the specific measures adopted by Peru to cope with the present situation, and complementing the import restrictions, mention may be made of the restoration of the currency certificate by virtue of a Decree of 5 October 1967. Under this system there are two types of market with two different exchange rates. We have an exchange market for currency certificates applicable to commercial transactions and certain non-specific transactions, and then we have an exchange market for other types of transaction. The currency certificates are issued for importing goods, paying freight charges, servicing debts and transfers effected by foreign companies, servicing debts in the private sector, and meeting costs of all kinds in the public sector. The exchange rate for currency certificates has been kept at 38.70 per dollar, and the rate for ordinary payments has fluctuated between 41 and 42 soles per dollar. The difference between the two exchange rates as laid down by the International Monetary Fund cannot be taken to mean that there is a multiple system of exchange in Peru; the very slight difference between the two exchange rates in question makes it clear that there is in effect only one exchange rate for foreign currency.

Side by side with these measures, Mr. Chairman, and with a view to correcting the imbalance which has led me to come here and make this brief statement, my Government has taken a series of complementary measures to implement the Decree restoring the currency certificates; it has also approved a Supreme Decree and two Laws. The Supreme Decree of 1 March 1968 sets up an Export Promotion Board in the Industrial Bank. Next, Law 19900 provides for a revamping of the tax system to ensure maximum efficiency in the collection of the national revenue, with a view to increasing the State's resources so that it can balance its budget. Finally, Law 16900 suspends for the fiscal year 1968 the capital depreciation services on the Government's commitments vis-à-vis the Central Bank.

In conclusion, Mr. Chairman, I would like to mention a projection made out by the Central Reserve Bank of Peru with respect to the balance of payments for 1968. It is calculated that the trade balance should show a surplus of $70.6 million; it is assumed that the balance on current account will show a deficit of $77.3 million and that the total balance of capital will amount to $99.7 million. If this calculation is correct, the net payments for 1968 would show a favourable balance of $22.4 million, which might mean that the present situation of the Peruvian economy had been successfully coped with.

Mr. Chairman, gentlemen, my delegation feels that with the present statement it has honoured its undertaking to inform GATT in regard to the restrictive measures which the Peruvian Government has been obliged to adopt in the face of the serious difficulties in its balance of payments.

Thank you, Mr. Chairman and members of the Committee, for your attention to this brief statement.