

GENERAL AGREEMENT ON
TARIFFS AND TRADE

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Working Party on Structural Adjustment
and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS
RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Chile
(Spec(82)6)

1. The representative of Chile said that his authorities now found that the Chilean submission, which had been among the first to be presented, did not contain all the information useful in connection with Chile's experience in regard to structural adjustment. Consequently, his delegation had made available informally to members of the Working Party a paper entitled "The Economic Policy of Open Trade in Chile", prepared by two Chilean economists, Jorge Cauas and Sergio de la Caudra, for a conference held in the Federal Republic of Germany in 1981. This paper should be considered as supplementary to the original Chilean submission.
2. Outlining the historical evolution of economic policy in Chile which he considered important for understanding present policy, he said that just before and during the Second World War the Chilean government had initiated a process of industrialisation on the basis of import substitution and a higher level of State intervention. Increasing use of tariff and non-tariff measures of protection in the years that followed had led to an over-valued exchange rate, which, among other effects, had resulted in deep depression in the agricultural sector, notably that part which had been previously export-oriented. A consequence of this was the emergence of pockets of extreme poverty in Chile, affecting about 20 per cent of the Chilean population in 1973.
3. In the light of this situation the Chilean government had decided in 1974 and 1975 to adopt a new economic policy enabling the private sector to operate with a minimum of controls and limiting the rôle of the State to the promotion of social welfare and the performance of those economic functions not readily undertaken by the private sector. It was the Chilean government's view that the initial experience with, and results of, this new policy had been distinctly positive.
4. In the field of foreign trade, the new policy had entailed first the elimination of all non-tariff barriers, including the liberalization of the previously extensive lists of prohibited imports and the termination of the highly restrictive prior deposit scheme that had been in force, and then the progressive reduction of import tariffs. Tariffs had been reduced from an average of over 80 per cent to a uniform tariff rate of 10 per cent applying to all imports other than those in the automobile sector. It was hoped that by 1986 tariffs in the automobile sector would be the same as those in other sectors, i.e. 10 per cent.

5. These trade policy changes had had major effects on Chile's external trade. Exports had risen from US\$ 976 million in 1971 to US\$ 4,670 million in 1980. In 1981 exports had fallen just below US\$4 billion and in 1982 the figure was expected to be somewhat lower. These reductions had been mainly due to lower prices and demand for Chile's raw material exports. Imports had increased even more than exports over the past decade. The resulting large trade deficit had been offset by a very considerable increase in capital inflows.

6. Concluding his introductory comments, the representative of Chile emphasized that throughout the process of adjustment to external competition over the last decade and the consequent major structural changes that had taken place in the Chilean economy, trade policy had played a fundamental and very possibly the main rôle.

7. Turning to a number of questions addressed to his delegation, the representative of Chile initially responded to a query about the rôle of the State in the adjustment process in Chile. He said that his government believed that its rôle in the adjustment process should be secondary and limited to those functions that the private sector could not readily perform. The main responsibility for adjustment lay with the private sector reacting to market forces in conditions of free and open competition. However, the State had a number of vital tasks - for example, provision of information to the private sector to encourage proper functioning of markets, and the correction of market distortions such as monopolies or those resulting from subsidies granted by other governments. The State had, of course, a range of other important functions which could indirectly influence the adjustment process, for example in the field of education and training.

8. Responding to another question, he said that a major effect of the 10 per cent tariff and other liberalization policies had been a sharp increase in Chile's imports. Imports had increased from US\$1.7 billion in 1975 to US\$6.4 billion in 1981. Linked with this had been a tendency towards an increased trade deficit, although at times a surplus had been recorded. In 1981, the trade deficit had amounted to US\$2.5 billion. Another consequence of trade liberalization had been the diversification of the export sector. In 1970/71 the Chilean economy had been mainly dependant on copper, with copper and other traditional mineral exports accounting for over 80 per cent of export earnings. Despite an increase in the volume of copper exported, the share of copper had fallen to about 48-49 per cent by 1981/82. The share of agricultural and fishery products had risen over this period from about 2 per cent (in 1972/73) to 9-10 per cent. The share of manufactures in exports had increased from about 12 per cent in 1971 to slightly over 30 per cent now. The structure of imports had also changed, with the increased possibility for consumption preferences to be reflected in that structure as a result of trade liberalization. Changes in import structure had also resulted from the growth in industrial activity and efforts to provide for increased employment through the import of capital goods. The share of consumption goods in imports had risen from 18 per cent in 1970 to almost 30 per cent in 1980 (excluding oil imports). Over the same period the share of intermediate goods had fallen from 51 per cent to 44 per cent while that of capital goods had remained relatively stable in the range 26-30 per cent.

9. In reply to a question on the progress made towards diversification of the industrial base, the representative of Chile said that his country did not have a particular industrial policy, but rather a policy applicable to all sectors of the economy aimed at providing equal incentives across the board and promoting harmonious development. Industrial restructuring had taken place steadily on the basis of market forces and comparative advantage, and had led to an improved allocation of resources. One feature had been the growth of industries based on domestically produced raw materials, in particular the development of an important agro-industrial sector.

10. Taking up a question about Chile's future intentions regarding its tariff, the representative of Chile said that his authorities had repeatedly reaffirmed their intention to maintain a low and even tariff rate. It was his government's policy to ensure that all sectors received the same protection and that exports were not handicapped.

11. Providing, in response to a question, further information on the observed changes in the structure of the Chilean economy, the representative of Chile said that in the 1970s the share of the primary sector in the Chilean economy had fallen slightly, that of the manufacturing sector had remained approximately unchanged at about 22 per cent and that of the services sector had increased from 34 per cent to 40 per cent. Economic growth over the decade had averaged about 7.3 per cent per annum. The secondary rôle played by the State in economic activities had made it possible for the greater part of its budget - about 60 per cent - to be devoted to social programmes.

12. Responding to a question about how pressures for structural change are dealt with in Chile, possible relief mechanisms and the rôle of trade policy techniques in this connection, the representative of Chile recalled the points that he had made earlier about the rôle of the State and market forces in the adjustment process in Chile. While there were no assistance mechanisms as such to ease the process of structural change, the liberalized trade policy had been implemented gradually in such a way as to give the private sector time to adapt to the increased competition resulting.

13. In reply to a question about sectoral policy in Chile and the use of trade measures, the representative of Chile said that such policies were confined to the automotive and forestry sectors. As he had earlier indicated, it was intended to phase out the higher-than-standard tariffs protecting the automotive sector by 1986. As regards forestry, the State provided a premium to cover management costs, but this would be terminated once a full forestry cycle had been completed.

14. Dealing with certain other questions, the representative of Chile said that all non-tariff barriers in force before 1973, including prior deposits, import prohibitions and visa requirements had been abolished, and no such measures were now in force. Clarifying the table on page 4 of Spec(82)6, he said that the reason why the average tariff in the second half of 1979 and in 1980 was higher than the maximum tariff was that the figure for the average included the motor vehicle sector whereas that for the maximum did not.

15. A member, commenting on the Chilean experience in regard to structural adjustment, expressed the view that rapid policy changes of the sort implemented by Chile could have costs as well as benefits. Nevertheless, he felt that the substantial reduction of tariffs and the elimination of quantitative controls was a major and unusual achievement in a developing country and one that he welcomed. The Working Party should take careful note of it, although further time might be needed to fully assess its results. He had noted what had been achieved in regard to the increase in imports and the diversification of exports, and in this connection recalled the increased importance of the group of countries that he represented as markets for Chile's exports, including those of agricultural products.

16. A member said that he felt that a number of the points emerging from the Chilean submission and presentation would be useful in any synthesis that the Working Party might undertake. In particular, the experience of Chile in using trade policy as an instrument for forcing structural change would be important in examining the rôle of trade policy and of the GATT with respect to structural adjustment.

17. Responding to comments made and a number of additional questions asked, the representative of Chile said that difficulties currently faced by the Chilean economy included a large balance-of-payments deficit and deep domestic recession. This situation was largely due to the recession in the world economy, particularly the drop in Chilean export prices, and was beyond the control of the Chilean government. Despite this situation, Chile had retained its liberal trade and economic policy. Replying to two members, he confirmed that the increase and diversification of Chilean exports had been hindered by problems of access in certain markets, especially where exportable supplies of a product had tended to increase markedly. He expressed particular concern about markets that remained totally closed to certain Chilean exports, for example fruit, as a result of the application of health and sanitary regulations and other non-tariff measures. Nevertheless, he was confident that the multilateral trading system would continue to be applied by contracting parties so that some degree of market access would be assured. The existence of structural rigidities in third markets that caused problems of access would only lead Chile to lean more heavily on the multilateral system of trade rules.

18. Regarding increases in oil prices, he said that their initial impact on the Chilean economy had been dramatic, especially in 1974/75 when they had coincided with international economic recession and the new Chilean economic policy. However, the Chilean economy had been able gradually to adjust to higher energy costs. The level of self-sufficiency in oil had been substantially increased and alternative energy resources, such as coal, had been developed. On the question of policy to reduce inflation, he said that the rate of price increase had fallen from over 500 per cent in 1973 to about 9 per cent by the end of 1981. In 1982, the rate had increased to about 20 per cent as a result of expansionary monetary policies to fight against recession. The dramatic fall in the inflation rate in the 1970s had been due to a combination of a responsible fiscal policy (balanced budgets), a restrictive monetary policy, and increased competition arising from the open trade policy. The restrictive monetary policy had led to a temporary increase in unemployment to a peak of about 25 per cent, but this subsequently fell to about 11 per cent at the end of 1981. However, as a

result of the world recession this figure had increased substantially to over 20 per cent. The Government was taking measures to deal with this problem and hoped to overcome it in as efficient a manner as possible.

19. Asked whether the increase in and diversification of Chilean exports had meant an increase in Chile's share of world export trade, he indicated that from the figures given in Annex 1 it would be seen that Chilean exports had increased considerably as a proportion of world exports, by slightly less than 30 per cent, between 1975 and 1980. This situation had been largely due to the process whereby the Chilean economy had been thrown open to foreign trade. In contrast, the decline in that proportion from 1980 to 1981 - amounting to some 18 per cent - had been due largely to the adverse effect produced by the international recession both on the prices and on the quantities of the principal exportable products of Chile. In 1982 the share of Chilean exports in world exports had been about 6 per cent higher than the 1981 figure. This suggested that the international recession had affected world exports more severely than Chilean exports. Thus world exports had declined by about 7 per cent in 1982, whereas Chilean exports had declined by slightly less than 2 per cent.

20. Asked what proportion of Chile's gross national product was represented by foreign trade, he provided the figures showing foreign trade as a proportion of gross national product shown in Annex 2. He said that it would be seen that the share of foreign trade in the gross national product had increased by slightly more than 100 per cent between 1971 and 1982. This sizeable increase had been the outcome of the foreign trade policies pursued from late 1973 onwards.

21. In response to a request for information on various basic indicators relating to agriculture in Chile, he provided the information shown in Annex 3. He said that the question concerning the "capital-labour ratio" had had to be left unanswered for lack of data from which to calculate it. He noted that employment in agriculture had been dropping gradually, from 22.6 per cent of total employment in 1976 to 16.2 per cent in 1982. In the same period, agricultural output per capita had increased from US\$207 to US\$777 after reaching US\$1,070 in 1981. Agricultural exports increased five-fold between 1974 and 1982, the share in Chile's total exports rising from 2.8 per cent to 6.1 per cent. Agricultural, forestry and fisheries were probably the sectors expanding most rapidly in Chile. He considered that these figures bore out Chile's view that there had been a significant increase in Chile's exports, especially its agricultural exports, attributable mainly to the opening up of the Chilean economy to foreign trade over the last ten years.

ANNEX 1

Chilean Exports as a Proportion of World Exports

	World exports ¹ in billions of US\$	Chilean exports ¹	Chilean exports as a percentage of world exports
1975	876.7	1.661	0.189
1976	993.1	2.083	0.210
1977	1,129.5	2.190	0.194
1978	1,303.6	2.408	0.185
1979	1,647.9	3.766	0.229
1980	2,009.5	4.818	0.240
1981	1,969.0	3.889	0.197
1982	1,840.0 ²	3.822 ³	0.208

Source: ¹Handbook of International Trade and Development Statistics,
United Nations, 1981.
²IMF, International Financial Statistics.
³Central Bank of Chile.

ANNEX 2Foreign Trade as a Proportion of Gross National Product

<u>Year</u>	<u>Foreign trade</u> ** (Exports + imports) (Thousands of pesos of each year)	<u>Gross national product</u> (Thousands of pesos of each year)	<u>Percentage</u>
1960	1,303	4,186	31.13
1961	1,361	4,710	28.90
1962	1,433	5,547	25.83
1963	2,445	8,487	28.81
1964	3,489	12,880	27.09
1965	4,974	17,992	27.65
1966	7,610	25,549	29.79
1967	9,581	33,057	28.98
1968	13,160	45,887	28.68
1969	21,556	66,507	32.41
1970	28,954	96,093	30.13
1971	30,077	125,518	23.96
1972	55,367	233,130	23.75
1973	341,954	1,134,479	30.14
1974	3,692,159	9,054,856	40.78
1975	18,751,613	34,058,235	55.06
1976	59,072,804	124,471,762	47.46
1977	123,861,555	280,157,081	44.21
1978	217,005,702	474,163,418	45.77
1979	381,346,663	747,490,745	51.02
1980*	532,964,395	1,035,334,307	51.48
1981*	594,227,000	1,281,733,000	46.36
1982*	555,809,900	1,123,112,995	49.49

* Figures for these years are provisional.

** Comprises imports and exports of goods and services.

Source: Central Bank of Chile.

ANNEX 3

(I) Employment in the agricultural sector in relation to total employment

<u>Year</u>	<u>Total employment</u>	<u>Agricultural employment</u>	<u>Agricultural employment as a percentage of total employment</u>
1970	2,766,100	-	-
1976	2,779,200	628,099	22.6
1977	2,820,600	507,708	18.0
1978	2,981,500	527,725	17.7
1979	3,003,300	504,100	16.8
1980	3,169,500	500,781	15.8
1981	3,271,000	507,005	15.7
1982	2,824,500	457,569	16.2

Source: National Planning Office.

(II) Gross fixed capital formation in agriculture

(Arable farming, animal husbandry and silviculture)

Index of growth of gross fixed capital formation originating in agriculture

Fixed capital formation in agriculture as a proportion of fixed capital formation for the country as a whole

<u>Year</u>	<u>Index</u>	<u>Z</u>
1974	100.0	5.4
1975	89.7	6.2
1976	78.8	6.4
1977	86.9	6.1
1978	109.7	6.6
1979	98.3	5.1
1980	102.5	4.3
1981*	88.8	3.3
1982*	69.5	4.1

Note: All in constant prices of 1977

* Provisional figures

Source: National Accounts Department of the Central Bank of Chile.

ANNEX 3 (cont'd)(III) Agricultural output per capita

<u>Year</u>	<u>Gross agricultural geographical product</u> (Thousands of \$ of each year) (1)	<u>Agricultural population</u> (2)	<u>Mean value of the \$ of each year</u> (3)	<u>Agricultural output per capita in US\$ of each year</u> $(4) = \frac{(1)}{(2)} / (3)$
1970	6,711	2,277,000	0.01156	255.0
1975	485,039	2,190,000	1.0705	206.9
1979	52,245,243	2,120,966	37.25	661.3
1980	72,307,416	2,097,845	39.0	883.8
1981	87,629,000	2,100,000	39.0	1,070.0
1982	84,737,243	2,142,528	50.96	776.9

Source: National Planning Office.

(IV) Development of agricultural exports

<u>Year</u>	<u>Millions of \$ of 1977</u>	<u>Index</u>
1974	1,172.9	100
1975	1,727.4	147.3
1976	2,369.0	201.9
1977	3,066.1	261.4
1978	3,901.2	332.6
1979	4,821.0	411.0
1980	4,844.5	413.0
1981*	4,975.5	424.2
1982*	5,953.4	507.6

Note: All in constant prices of 1977.

*Provisional figures

ANNEX 3 (cont'd)

(V) Agricultural exports as a proportion of total exportables

<u>Year</u>	<u>%</u>
1974	2.8
1975	4.0
1976	4.5
1977	5.2
1978	5.9
1979	6.4
1980	5.6
1981	6.1
1982	6.1

Source: National Accounts Department of the Central Bank of Chile.