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Exports and industrialization in an orthodox model: Chile, 1973-1978

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Many developing countries have been applying export promotion policies during the last fifteen years. Among them, mention may be made of Brazil, Colombia, Hong Kong, Israel, Mexico, Singapore, South Korea, Taiwan and Yugoslavia. The conditions, timing, mechanisms and effects differ from one case to another and cover a broad range of political and economic models. The variety displayed by the various kinds of past experience show above all that export promotion is not exclusively linked to a given model.

This article examines the most outstanding aspects of export promotion in Chile between 1973 and 1978, analyses the influence which various structural and conjunctural aspects of the Chilean economy have had on the composition and level of exports, and examines some repercussions on the development of domestic industry.

Section I sets out the main aspects of the external trade policies applied between 1973 and 1978. The next section studies in detail the evolution of exports by categories of products and market destination; the analysis is extended to cover the period 1965-1978 with the aim of giving a broader perspective for appraising the expansion of the sector. In section III, an examination is made of the economic framework in which the expansion of non-traditional exports has been achieved and the effects which some of these exports have had on the national economy. On the basis of this information, a brief comparison is made with the experiences of other countries. Finally, section IV gives some brief conclusions and outlines an alternative strategy which could satisfy national needs more efficiently.

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I The external trade policy and its most outstanding characteristics

The economic policy which has been in force in Chile since 1973 assigns a predominant role to the expansion of exports. Chilean policy in these years has been extremely orthodox, for it has involved the drastic liberalization of imports, an unrestricted opening-up to foreign investment, and a pronounced anti-State approach expressed in abstention from direct intervention in production activities and in the "neutrality" of indirect economic policies, all within the context of profound faith in the competitive functioning of the market. These two lines have been followed systematically during the five years for which the present model has been applied.¹

Non-traditional exports have increased significantly, leading some observers to speak of a new case of economic expansion after the style of South Korea. The conditions surrounding the two cases are, however, very different, and the prospects seem to be even more dissimilar, especially as regards the industrial sector.

The most noteworthy characteristic of the present external trade policy is its marked movement towards free trade, through which it endeavours to attain a situation in which international prices (of goods tradeable with the exterior) prevail in the whole of the national economy, there is free entry and exit of capital, and the exchange rate is determined by the market. The external trade policy thus coincides with the general tone of the entire economic programme, which seeks to minimize the State's participation in economic activities.

1. *The principal measures*

The central element of the external trade policy has undoubtedly been the drastic

¹The apparent "neutrality" has been applied within a context of inequality in the various fields of national activity, and the predictable result has been a notably greater concentration of power and wealth.

reduction in the high tariff protection which import substitution enjoyed when the new régime took over. The goal of the liberalization process has undergone significant changes during the application of this process, however: thus in mid-1974 the maximum target tariff contemplated by the liberalization policy was 60%,² but towards the end of that year it

was hinted that the maximum tariff accepted in the future would be only 30%,³ and a little afterwards a maximum target tariff of 35% was formally established, which is the tariff that served as a guide for the successive tariff reductions carried out up to 1977, as shown in table 1.

Table 1

TRADE LIBERALIZATION, 1973-1979
(Customs duties on CIF value)

	12/73	6/74	8/75	2/76	8/77	7/79
Maximum rate	≥ 220%	140%	90%	80%	35%	10%
Most frequent rate	90%	60%	40%	35%	20%	10%
Average rate	94%	67%	44%	38%	18%	10%

Source: Central Bank. The dates given in the table correspond to the first and last decrees establishing tariff reductions, with 4 of the 10 intervening decrees. The rates quoted do not include the special exceptions, which mostly refer to the automotive sector.

Apparently, according to repeated official statements, the process of reducing the protection for import substitution should have terminated in August 1977, when the tariffs stood, with only a few exceptions, at between 35% and 10%, but three months later the Ministry of Finance announced another change of policy which consisted in reducing the tariffs even more with the aim of arriving at a uniform rate of 10% by mid-1979. This is an unusually low rate for a developing country, and its total lack of selectivity is exceptional even for the most developed countries of the world.⁴ In reality, tariffs of this type are usually proposed only in the most orthodox texts on international economics.

Exports were promoted in three ways: through an increase in the real effective exchange rate; through the promotional work of a public institution called PROCHILE, and through such incentives as the reimbursement of the value added tax (IVA).⁵

Indirectly, the expansion of exports has been helped by the drastic reduction in total domestic demand brought about by the economic policy: a phenomenon which was particularly intense in 1975, when the rate of open unemployment rose to 20% and manufacturing output went down by 24%.

The exchange rate rose appreciably during 1974 and 1975, and within the context of a depressed domestic economy (a situation

²University of Chile, *Taller de Coyuntura*, N.º 13, September 1974, p. 29.

³S. de la Cuadra, "Estrategias de liberación del comercio exterior chileno" in Banco Central de Chile, *Estudios Monetarios IV*, 1976, section V.

⁴Details on the tariffs in force in South Korea in 1976 and the aims of a tariff reduction process which was in the course of preparation are given in B. Balassa, "Incentives for economic growth in Korea", in *Policy reform in developing countries* (New York, Pergamon Press, 1977), pp. 148-151. Details on non-tariff restrictions and tariff dispersion applied by the United States, Japan and the

European Community to products of interest for Latin America are given in P. Mendive, "Protectionism and development: New obstacles of the centres to international trade", in *CEPAL Review* N.º 6, second half of 1978.

⁵Two other instruments —export credits and reductions in the ex-customs cost of imported components— were of less relative significance. The reimbursement of the value added tax, which is effected by varying the application of this tax according to the destination of the goods, is compatible with the "neutrality" of the economic policy.

which was notably accentuated from the second half of 1974 onwards) this facilitated the disposal abroad of a growing proportion of national production. At the same time, PROCHILE carried out promotional and information work which helped to strengthen an export-oriented mentality among businessmen and to open up new markets abroad; these efforts received decisive support during the entire period that Chile belonged to the Andean Pact, an integration grouping with five other South American countries⁶ which until 1976 constituted the main destination for increased non-traditional exports (see table 8). In addition, incentives were established such as the reimbursement of the value added tax paid on inputs and exemption from payment of this tax on the exports themselves, while more recently generalized tariff exemptions have been introduced in respect of imports of inputs to be used in the manufacture of goods for export.

The exchange policy covers the fixing of the exchange rate and the rules for access to the foreign exchange market. On repeated occasions, various leading personalities in the economic team have stressed the desirability of adopting an exchange rate policy free of State intervention in both aspects. During the last five years, however, an exchange rate administered by the Central Bank has been maintained, and some restrictions on access to the foreign exchange market still remain. Thus, the foreign exchange policy constitutes the main deviation—and perhaps the only important one—of the present economic policy from the traditional recipes given in orthodox economics texts.

Up to mid-1976 the exchange rate was adjusted two or three times a month. From July of that year, however, the changes were made daily and were announced monthly in advance. This system was maintained up to February 1978, when a table of daily changes

⁶An examination of the main characteristics and implications of the Andean Pact (Cartagena Agreement) was made in R. Ffrench-Davis, "El Pacto Andino: un modelo original de integración", in E. Tironi, ed., *Pacto Andino: carácter y perspectivas*, Instituto de Estudios Peruanos, Lima, 1978.

was published for the rest of that year. The size and direction of the changes have varied over the last five years. In a first stage the size of the mini-devaluations was such that it enabled the real exchange rate to go up considerably, as may be seen from column 2 of table 2. From the beginning of 1976, however, this tendency was reversed, and in June 1976 and March 1977 there were even two devaluations which led to sharp reductions in the real exchange rate amounting in total to a deterioration of the order of 25% in this period.⁷ After a few months, however, an opposite policy was adopted which involved two successive devaluations leading to a partial recovery of the real level reached in 1976. Consequently, the evolution of the real price of the dollar in Chile has been unstable and has caused fluctuations in the relative profitability of exports.

In the foreign exchange field it should also be noted that there has been a progressive

Table 2
REAL EXCHANGE RATE
(Pesos per US dollar)

Date	Nominal exchange rate (1)	Real exchange rates (2)	Real percentage variation between dates indicated (3)
1974	0.83	21.71	
1/76	9.19	27.18	25.2
6/76	13.54	23.31	-14.2
7/77	20.96	20.66	-11.4
10/77	24.70	22.25	7.7
2/78	29.12	25.11	12.9

Note: The nominal exchange rate (in pesos per dollar) was deflated by a simple average of the consumer price index and the domestic component of the wholesale price index, and inflated by an index of external prices, the base of both indexes being 100 for the 1977 average. The methodology for estimating the index of external prices is described in R. Ffrench-Davis, *Políticas económicas en Chile, 1952-1970* (Santiago, Chile, Editorial Nueva Universidad, 1973), appendix 1. The dates correspond to changes in exchange policy.

⁷The results are extremely sensitive to the index of domestic prices used as a deflator, especially during 1974. Here, the combined index described in the note to table 2 was used.

liberalization of access to the purchase of foreign exchange. This is reflected, for example, in the increase in the foreign exchange allowance available to Chilean tourists and the reduction of controls on obtaining foreign exchange to pay for imports. Certain controls still remain, however, on the contracting of debts abroad and the purchase and sale of foreign currency.

2. Trade expansion and the balance of payments

As already noted, trade with the exterior has been affected by a number of economic policy measures. Let us now see what effects these have had on the volume of trade.

Practically all trade operations with the exterior have expanded during the last five years, particularly in the fields of imports and non-traditional exports. The most notable exception is the low real level of imports of machinery and equipment.

In the field of imports, the behaviour of the different categories of goods is very heterogeneous.

Imports of machinery and equipment show a decline of over 15% between 1970 and 1978. These imports not only went down compared with other purchases abroad (their share in total imports dropped from 20% to 12%), but also fell in absolute terms (measured in dollars of constant purchasing power). This deterioration reflects the scanty investment which has accompanied the present economic policy, since domestic production of capital goods also went down during this time.

In contrast, imports of non-food consumer goods—a category which includes most, if not all, imports of luxury goods—rose by 112% and accounted for 15% of total imports in 1978, i.e., more than total imports of machinery and equipment.

To sum up, then, Chile is now importing on a large scale many kinds of goods which domestic industry had been supplying to an increasing extent for decades past, and a large proportion of these “non-traditional imports” have taken the place of domestic products which, in normal conditions (“reasonable” levels of protection and a level of total demand

which is not depressed), could be manufactured efficiently. This topic, however, like those of imports of luxury goods and the most efficient way of replacing those types of production which really were inefficient, will not be tackled here so that we may return without delay to the consideration of the topic of exports.

Non-traditional exports underwent a marked expansion, which was particularly noteworthy in 1975 and part of 1976, in spite of the recession on international markets. With the notable exception of some agricultural products and one mining product, however, most of the non-traditional exports have shown some slackening of their growth rate from the second half of 1976 onwards (see table 4). This is explained by four factors: the recent reactivation of domestic demand, the withdrawal from the Andean Pact, the exchange rate revaluations, and the extremely low rate of domestic investment. All these factors have joined together to operate simultaneously as a brake on the sustained expansion of non-traditional exports. We shall return to this topic in the next section.

Table 3

BALANCE OF PAYMENTS, 1977-1978 (In millions of dollars at current prices)

	1977	1978
Exports FOB	2 177	2 480
Imports CIF	2 244	3 002
Trade balance	-67	-522
Interest and profits	-362	-463
Others (freight charges, tourism, etc.)	30	170
Balance on current account	-399	-815
Non-compensatory capital (Direct investment)	392 (19)	1 432 (162)
Balance-of-payments position	-7	617

Source: Central Bank of Chile. The figures correspond to an estimate based on figures given in the *Boletín Mensual*, June 1979, and data on external trade indicators of the same date. The nominal price of copper in 1977 and 1978 was 59.3 and 61.9 US cents per pound, respectively.

The balance of payments showed deficits on the trade and current accounts in both 1977 and 1978, and both these deficits show a tendency to increase. Obviously, however, their future size will depend on the evolution of the price of copper and the way in which the economic policies which most directly influence the behaviour of the external sector are applied: the design of policies relating to total demand, level of investments, industrial development strategy, exchange rate, tariffs, etc., will have a decisive influence here.

In spite of these deficits, the Central Bank accumulated a high level of gross international reserves in 1977 and large gross and net reserves in 1978. This was due to an extraordinary inflow of financial funds (above all from banks) which came to more than double

the amortization payments on the external debt scheduled for 1978. Part of the surplus was tapped by the Central Bank, which thus increased its international reserves, while the remainder of this greater gross indebtedness on the part of Chile was used to cover the growing expenditure on imports and the consequent balance-of-payments current account deficit.

Direct foreign investment has recorded minimal levels during the five-year period, in spite of the adoption of increasingly favourable rules for foreign capital. Even in 1978, when the total amount was more significant, the net investment still represented only one-fifth of the external saving received by Chile, and most of that corresponded to the purchase by Exxon of a Chilean copper mining company.

II

Composition and level of exports

In this section the behaviour of Chilean exports between 1965 and 1978 will be examined from three angles. Firstly, their evolution will be analysed according to whether the exports are traditional or new; secondly, the contribution of the industrial sector to exports will be examined, and lastly, the available information will be broken down according to markets of destination. Since world inflation was significant during the period studied, all the monetary values will be expressed in terms of constant purchasing power.⁸

The breakdown by categories of products and by markets of destination, together with the correction for the devaluation of the dollar,

make it possible to evaluate more accurately the actual evolution of exports and to identify the variety of tendencies shown by their various components.

1. *Non-traditional exports*

The exports of developing countries are frequently classified as "traditional" and "new", or "major" and "minor". The classification is naturally an arbitrary one. In the case of Chile, up to 1973 the traditional exports comprised copper, molybdenum, iron ore, nitrates and iodine, all of which are products of mining origin. Public agencies now also include in this category fish meal, paper, wood pulp and paperboard, which are products whose export was developed intensively during the previous decade. Non-traditional exports cover all other products.⁹

⁹These other products include such items as lentils and wool, which have been exported for many years past, but on a much smaller scale than the exports classified as traditional.

⁸It should be noted that we are speaking of *real values* and not the *volume* of exports. The index of external prices used in this study shows that the prices in the industrialized countries doubled between 1970 and 1977 and increased by a factor of 2.59 between 1965 and 1978. This index was constructed on the basis of the export unit prices of the countries which are most representative in trade with Chile. A comparison of the results given by different indexes appears in "Índice de precios externos y valor real del comercio internacional de Chile", CIEPLAN, Santiago, *Notas Técnicas*, N.º 15, April 1979.

Table 4
 EVOLUTION OF EXPORTS
 (Millions of dollars at 1977 prices)

	Years							Half-years				
	1965	1970	1974	1975	1976	1977	1978	1976 (II)	1977 (I)	1977 (II)	1978 (I)	1978 (II)
I. <i>Traditional exports</i> ^a	1 367.6	1 897.0	2 257.1	1 129.9	1 545.7	1 377.1	1 233.6	807.8	724.3	652.8	603.4	630.2
Copper	(1 075.3)	(1 672.9)	(2 070.2)	(920.5)	(1 342.5)	(1 178.1)	(1 049.7)	(689.9)	(626.7)	(551.4)	(518.3)	(531.4)
II. <i>Semi-traditional exports</i> ^b	41.2	93.2	174.5	129.4	210.7	215.0	226.7	112.9	105.0	110.0	107.3	119.4
III. <i>Non-traditional exports</i>	142.2	225.9	293.7	440.5	510.3	588.5	644.9	240.9	299.9	288.6	348.0	296.9
Fresh fruit	20.0	23.5	22.3	42.8	58.0	64.1	90.6	14.7	45.6	18.5	71.8	18.8
Monterey pine	3.8	7.4	11.6	21.4	21.4	54.5	65.1	12.5	27.4	27.1	35.8	29.3
Semi-manufactured copper	21.1	28.1	36.8	25.7	49.0	45.3	40.1	31.6	22.8	22.5	18.4	21.7
Molybdenum oxide	6.1	9.5	24.7	31.0	23.2	30.9	62.4	12.5	14.0	16.9	28.6	33.8
Sugar	—	—	—	42.5	—	12.4	9.9	—	—	12.4	4.8	5.1
Others	91.2	157.4	198.3	277.1	358.7	381.3	376.8	169.6	190.1	191.2	188.6	188.2
IV. <i>Total exports</i>	1 551.0	2 216.1	2 725.3	1 699.8	2 266.7	2 180.6	2 105.2	1 161.6	1 129.2	1 051.4	1 058.7	1 046.5

Source: "Estructura y destino de las exportaciones chilenas: 1965-78" (mimeo), (Santiago, Chile, CIEPLAN, March 1979). The figures for non-traditional exports up to the first half of 1976 are from the Department of Customs and the balance-of-payments reports of the Central Bank, while from the second half of 1976 they are from the Central Bank's records of shipments.

^aComprise copper, molybdenum, other copper by-products, iron ore, nitrates and iodine.

^bComprise fish meal, paper, paperboard and wood pulp.

In this study we will use three categories: (i) traditional exports, corresponding to the definition used in the 1960s, plus various by-products of copper production (such as selenium, gold and silver); (ii) semi-traditional exports, which comprise the most dynamic products of the 1960s (paper, paperboard, wood pulp and fish meal), and (iii) non-traditional exports, covering the rest of the products exported.

Total exports have undergone pronounced ups and downs from one year to another, closely linked to the variations in the price of copper, which has been the main Chilean export throughout the period.¹⁰

Leaving aside the fluctuations recorded, Chilean exports have shown a marked increase in the non-traditional categories, as may be seen from table 4, and their share in the gross domestic product (GDP) rose by 3 points between 1970 and 1977.¹¹ As a result, total exports came to 18% of the GDP in 1977.

In recent years, it has been common practice to measure the expansion of non-traditional exports with respect to 1973. This gives an erroneous view of the matter, however, since in the years 1972 and 1973 sales abroad were at abnormally low levels which underestimate the country's export capacity. This capacity is more adequately illustrated by the real exports recorded in 1970 or 1971. In order to give a broader view, table 4 also includes figures for 1965, so as to reveal whether non-traditional exports showed some dynamism before the present experience. Within this category, the four items which were most

important at the end of the period being studied have been separated out: fresh fruit, Monterey pine, semi-manufactured copper and molybdenum oxide. Separate figures are also given for exports of sugar, which involve the refining of imported raw material and were begun in 1975 but subsequently underwent large fluctuations.¹² Finally, the "Others" heading, which covers the rest of non-traditional exports, comprises many hundreds of articles as diverse as lentils and boilers. Table 5 shows the annual rates of variation of the items dealt with in the previous table.

The information set forth in these two tables shows that significant growth rates had already been recorded before 1974. Thus, although the total amount was only small, non-traditional exports grew at the rate of 10% per year between 1965 and 1970, while the "Others" group grew at the rate of 12%. The expansion of exports of manufactures was even greater, as we shall see later. Consequently, the export sector was already showing some dynamism before the application of the present model.

In 1971 many export lines continued their expansive tendency but non-traditional exports as a whole recorded a level similar to that of the year before. The prolonged freezing of the nominal exchange rate and a persistent increase in total demand helped to explain the generalized contraction in non-copper exports in the following two years. This tendency was drastically reversed when the present economic model began to be put into effect. Between the end of 1973 and 1976, the expansion in sales abroad was very pronounced: many new lines of exports appeared during this period, and there was a generalized increase in the various non-traditional lines. The overall growth continued in subsequent years, although at a more moderate and diminishing rate.

Finally, trends differ between different products. Table 4 shows that the rapid expansion of exports continued until 1978 in the case of three items, namely fresh fruit (mainly grapes and apples), Monterey pine (round-

¹⁰The figures expressed in constant purchasing power are corrected for the devaluation of the dollar, but this does not eliminate the effects of *real* fluctuations in the prices of the various export items. The real price of copper was quite high in 1968-1970, after which it was below normal levels until mid-1973; during the first year of the present régime it reached unprecedented maximum levels, but during the last four years it has fluctuated around levels which may be estimated at between 15 and 25% below the normal.

¹¹The GDP was estimated at US\$ 14,500 million and the total value of exports was recalculated, replacing the actual value of copper exports by the *normalized* value, for which purpose a price of 80 US cents per pound of electrolytic copper was used, this being considered a normal value for 1977. This calculation gives a level of exports US\$ 400 million higher than the value actually recorded in that year.

¹²The figures for exports include the gross FOB value of sales of sugar, which is classified as a manufacture.

Table 5
ANNUAL GROWTH RATES OF MAIN EXPORTS
(Real variation, per cent)

	1970- 1965 ^a	1974- 1973 ^b	1975- 1974	1976- 1975	1977- 1976	1978- 1977	1978(I) 1977(I)	1978(II) 1977(II)
I. Traditional Exports	6.8	19.0	-49.9	36.8	-10.9	-10.4	-16.7	-3.5
Copper	(9.2)	(23.7)	(-55.5)	(45.8)	(-12.2)	(-10.9)	(-17.3)	(-3.6)
II. Semi-traditional exports	17.7	55.4 87.2*	-25.8	62.8	2.0	5.4	2.2	8.5
III. Non-traditional exports (excluding sugar)	9.7	16.3 30.0*	35.5	28.2	12.9	10.2	14.4	5.6
Fresh fruit	3.3	-5.1	91.9	35.5	10.5	41.3	57.5	1.6
Monterey pine	14.3	56.8	84.5	0.0	154.7	19.4	30.7	8.1
Semi-manufactured copper	5.9	31.0	-30.2	90.7	-7.6	-11.5	-19.3	-3.6
Molybdenum oxide	9.3	42.8	25.5	-25.2	33.2	101.9	104.3	100.0
Others	11.5	12.5 26.0*	39.7	29.4	6.3	-1.2	-0.8	-1.6
IV. Total	7.4	20.5 23.0*	-37.6	33.4	-3.8	-3.5	-6.2	-0.5

Source: Table 4.

^a Annual cumulative rate.

^b Total rate of variation with respect to an estimate of the "national export capacity" existing in 1973. This capacity was calculated on the basis of the actual exports recorded in 1970 and 1971, selecting the values considered to be most "normal" in each year. When the "export capacity" coincides with the real actual value for 1970, only one rate is given for each item, but when the values do not coincide, the total rate of variation between 1970 and 1974 is also shown, and is marked with an asterisk. The "export capacity" was estimated in a very conservative manner, so it tends to over-estimate the growth rate of exports during the period considered.

wood and simply worked wood) and molybdenum oxide. In contrast, the growth rate of the rest of the non-traditional exports ("Others") fell off considerably after 1976 and was practically stagnant during the last 1 1/2 years of the period.¹³ If the information is broken down by half-yearly periods, as in tables 4 and 5, the stagnation recorded in the last three half-year periods can be seen very clearly.

To sum up, then, some export items of primary sector origin continue to grow rapidly, while the remainder seem to have grown at a

definitely slower rate after 1976. It should be noted that while in the "Others" group there are many items which continue to expand, there are also many which went down in the course of the last four half-year periods covered by this study. In this context, it is the continued increase of three items based on natural resources (fruit, wood and molybdenum oxide) which explain why non-traditional exports as a whole still show appreciable growth rates up to the present, although these rates show a marked slackening compared with 1974-1976.

2. Industrial exports

In the foregoing classification, mining and agricultural exports are mixed with exports of

¹³The rate of change depends on the definition adopted for the "Others" group. If molybdenum oxide is included, the 1978 growth rate rises to 6.6%, while if semi-manufactured copper is included instead the rate drops to -2.3%.

manufactures.¹⁴ Table 6, however, concentrates on exports of industrial origin, classified in accordance with the ISIC definition. Separate figures are given for the six main items, all of them strongly based on natural resources which are abundant in Chile. Two of them, however—paper and wood pulp—involve significant manufacturing processes, although most of the production capacity existing in 1978 for these items was constructed or begun in the previous decade. As regards another two important items—fish meal and semi-manufactured copper—it will be noted that the value of exports of these items fluctuates very considerably. In the case of fish meal, the fluctuations are due to the unforeseeable changes which take place in the availability of raw material (mainly anchoveta) and the pronounced variations in world prices. The latter factor also affects semi-manufactured copper and most of the exports based on natural resources. As far as molybdenum oxide is concerned, there have been more recent increases in production capacity. It should be borne in mind, however, that the value added to molybdenum concentrate, a by-product of copper obtained by CODELCO, is normally less than 10% of the gross value.¹⁵ Moreover, the price of both these products increased by more than 50% in real terms between 1974 and mid-1978 and the upward trend on the world market was further accentuated in 1978, thus largely explaining the higher value of exports of both concentrates and oxide.

Finally, exports of unworked wood have increased rapidly, especially in the last year, and the prospects seem to indicate that this tendency will continue.

¹⁴The "Others" group in table 4 contain mining and agricultural exports which, together, represent about one-quarter of this group.

¹⁵This means that when 20 million dollars of concentrate are converted into molybdenum oxide in Chile and exported in this form, exports of the "traditional" product molybdenum go down by 20 million dollars and those of the "non-traditional" product molybdenum oxide go up by between 21 and 22 million dollars, so that the net balance, in the case of the example given, would not come to more than 2 million dollars of value added. The value added at international prices depends on the situation of the external markets: sometimes the gap between the prices for the two products increases considerably, especially in the case of sales of marginal volumes.

Table 6 also shows the evolution of the "Rest" category of exports of manufactures, which includes a great many items, some of them with high levels of processing. Their evolution could be an indication of the future behaviour of industrial exports proper. The annual growth rates of this group of exports were as follows: 16% per year in 1965-1970; 15% in 1974;¹⁶ 40% in 1975; 48% in 1976, and 3% in 1977 and 1978.

The decline in the growth rate of non-traditional exports and exports in the "Rest" category of industrial products is to be explained by the behaviour of a certain market of destination: the same one which grew fastest between 1974 and 1976.

3. Markets of destination

During the period under consideration, there was an expansion in exports to all regions of the world. Marked diversification thus occurred, with the appearance of many new markets of destination.

It was the sales to the Andean Pact market (Bolivia, Colombia, Ecuador, Peru and Venezuela) which recorded the biggest expansion, particularly in the two-year period 1975-1976. During these two years, the Andean market absorbed 37% of the increase in all non-traditional exports, as shown in tables 7 and 8. In the case of the "Others" category of non-traditional exports, the share of this market in the expansion rose to 42%. Thus, the contribution of the Andean Pact market to the expansion of new exports was very significant, especially as regards manufactures, for in 1976 over half the total metal products and machinery exports went to the Andean Pact countries. The rapid expansion of these exports came to an abrupt halt, however, with Chile's withdrawal from the Andean Pact in October 1976.¹⁷ Indeed, in the following years Chile's (real) non-traditional exports to this market went down by 2%

¹⁶The total growth rate with respect to 1970 was assigned to 1974.

¹⁷An analysis of the reasons for Chile's withdrawal and the economic costs which this had for the country is given in R. Ffrench-Davis, "Pacto Andino y librecambismo", in *Mensaje*, Santiago, October 1976, and *Estudios Internacionales*, Buenos Aires, April-June 1977.

Table 6
INDUSTRIAL EXPORTS
(Millions of dollars at 1977 prices)

	1965	1970	1974	1975	1976	1977	1978
<i>Total industrial exports</i>	130.6	248.8	371.8	428.0	561.4	625.8	681.9
Paper	16.6	19.1	30.4	30.6	35.6	33.6	24.6
Wood pulp	5.7	32.7	94.1	65.4	94.9	85.2	101.1
Fish meal	19.0	30.9	42.5	27.4	65.7	86.4	92.3
Wood ^a	7.9	17.3	15.2	26.4	28.4	60.3	72.2
Semi-manufactured copper	21.1	28.1	36.8	25.7	49.0	45.3	40.1
Molybdenum oxide	6.1	9.5	24.7	31.0	23.2	30.9	62.4
Rest of industry	54.1	111.2	128.1	179.0 ^b	264.6	271.7 ^b	279.3 ^b

Source: Central Bank, *Balanza de Pagos*, up to 1975; *Boletín Mensual and Embarques*, 1976-1978.

^aComprises Monterey pine and other woods, unsawn or simply worked.

^bExcludes re-exports of sugar, which amounted to US\$ 42.5 million in 1975, US\$ 12.4 million in 1977, and US\$ 9.9 million in 1978.

Table 7
MARKETS OF DESTINATION OF NON-TRADITIONAL EXPORTS
(Millions of dollars at 1977 prices)

Country or grouping	Value of exports					Annual growth rates (%)				
	1970	1974	1976	1977	1978	74/70	76/74	76/70	77/76	78/77
<i>Andean Group</i> (Other non-traditional exports)	40.8 (14.3)	45.7 (24.4)	125.8 (91.4)	123.3 (88.2)	108.7 (75.1)	2.9 (14.3)	65.9 (93.5)	20.6 (36.2)	-2.0 (-3.5)	-11.8 (-14.9)
European Economic Community	41.8	64.8	86.0	104.0	129.4	11.6	15.2	12.8	20.9	24.4
Brazil	16.9	34.9	41.2	61.7	53.8	19.9	8.7	16.0	49.8	-12.8
Argentina	37.7	55.8	77.2	61.5	70.8	10.3	17.6	12.7	-20.3	15.1
Japan	15.4	15.7	18.5	30.3	31.8	0.5	8.6	3.1	63.8	5.0
United States	30.7	30.6	72.7	51.1	98.6	-0.1	54.1	15.5	25.3	8.2
Rest	42.6	46.2	88.9	116.6	151.8	2.0	38.7	13.0	31.2	30.2
<i>Total non-traditional exports</i> (Other non-traditional exports)	225.9 (157.4)	293.7 (198.3)	510.3 (358.7)	588.5 (381.3)	644.9 (376.8)	6.8 (5.9)	31.8 (34.5)	14.5 (14.7)	15.3 (6.3)	9.6 (-1.2)

Source: CIEPLAN, "Estructura y destino de las exportaciones chilenas: 1965-78", *op. cit.*

and 12%, respectively (see table 7). The significance of the Andean market for Chile is even greater if exports based on the intensive use of natural resources are excluded, as the advantages given by the preferential access to this market have less incidence in this case.

The diversification of markets is reflected in the expansion of the "Rest" group, which included some 70 countries in 1977. Despite the increase in this number of countries and Chile's withdrawal from the Cartagena Agreement, however, the Andean Group countries

Table 8
 SHARE OF EACH MARKET IN THE GROWTH OF NON-TRADITIONAL EXPORTS
 (Millions of dollars at 1977 prices)

Country or grouping	Amount of increase				Percentage share in growth			
	1974- 1970	1976- 1974	1977- 1976	1978- 1977	1974- 1970	1976- 1974	1977- 1976	1978- 1977
<i>Andean Group</i> (Other non-traditional exports)	4.9 (10.1)	80.1 (67.0)	-2.5 (-3.2)	-14.6 (-13.1)	7.2 (24.7)	37.0 (41.8)	-3.2 (-14.2)	-25.9 (-291.1)
European Economic Community	23.0	21.2	18.0	25.4	33.9	9.8	23.0	45.0
Brazil	18.0	6.3	20.5	-7.9	26.6	3.0	26.2	-14.0
Argentina	18.1	21.4	-15.7	9.3	26.7	9.9	-20.0	16.5
Japan	0.3	2.8	11.8	1.5	0.4	1.3	15.1	2.7
United States	-0.1	42.1	18.4	7.5	-0.1	19.4	23.5	13.3
Rest	3.6	42.7	27.7	35.2	5.3	19.7	35.4	62.4
<i>Total</i> (Other non-traditional exports)	67.8 (40.9)	216.6 (160.4)	78.2 (22.6)	56.4 (-4.5)	100.0 (60.3)	100.0 (74.1)	100.0 (28.9)	100.0 (-8.0)

Source: Table 7.

still had more weight than the "Rest" in 1977, although the difference between the two groups of countries, which was extremely marked between 1974 and 1976, was drastically reduced after Chile withdrew from this integration scheme, and the proportion was reversed in 1978.

To sum up, the loss of the formal and informal preferential treatment which Chile

had enjoyed in the most dynamic of its markets of destination had negative repercussions on the exports involving the highest degree of processing (or value added on the natural resource component), which are those forming the majority of the "Others" group of non-traditional exports and the "Rest" group in exports of manufactures.

III Effects of exports and future prospects

The external and internal economic framework within which the export process has been carried out has influenced the behaviour of this variable, and the explicit consideration of this framework makes it possible to appraise both the effects which exports could have had on national development and the future prospects which they may offer.

1. *The economic framework*

The external situation faced by exports undoubtedly influences their evolution. Since

1975, conditions on international markets have become more unfavourable for the expansion of the exports of non-oil-exporting developing countries, and this has naturally also affected Chile in various export lines.

The domestic context, for its part, shows a number of outstanding changes. Although most of these had a negative effect on the national economy and the development of the country, some of them, such as the depression of domestic demand and the deterioration of wages, did facilitate the expansion of exports. Among the features which have negatively

influenced exports, apart from the withdrawal from the Andean Pact, are the absence of economic growth in these five years and the low level of domestic investment.¹⁸

The Chilean economy has suffered a serious depression in effective demand, caused mainly by the way economic policy has been run.¹⁹ After some degree of "normalization" of economic activity during the first year of application of the current model, a sharp drop in demand led to a 13% fall in the per capita gross domestic product in 1975.²⁰

In the following three years, the official figures show a significant reactivation, but it must be repeated that the per capita GDP has still not recovered the level of 1974. In other words, the effective production of the country has not grown during the five years of application of the present economic model, so that the increase in exports has been achieved either through a change in the composition of the GDP, or at the expense of domestic consumption, or thanks to the under-utilization of the installed capacity for the domestic market caused by the economic policy. These three factors are present, although in different proportions, in many of the new exports; two significant cases will be examined later.

In the labour field, on the one hand trade union activity has been drastically restricted, while on the other open unemployment rose from historical levels of the order of 6% to around 20% of the labour force in 1975. Subsequently, the employment situation improved a little, and since the end of 1976 the unemployment has been around 13%, but even so this is over double the unemployment rate of

the previous five-year period.²¹ Finally, wages underwent a marked drop in real terms in 1974, and although by 1978 they had gradually recovered according to the official index of wages and salaries, their levels was still only close to that of 1970. Over the last five years, the ratio of the exchange rate to wages was favourable to the former, thus raising the profitability of exports. From a purely economic point of view, and in the short run, these three aspects—repression of trade union activity, unemployment and low wages—facilitated the expansion of the export sector.

Lastly, investment was at a depressed level throughout the period. In 1978—once again according to the official figures of ODEPLAN—gross fixed domestic investment amounted to less than 12% of the GDP. This percentage is markedly below historical levels, and is barely enough to compensate for the attrition of the stock of capital. In reality, after five years neither foreign direct investment nor domestic private investment have come up to the expectations of the supporters of the economic model. Regardless of the political and economic system followed by Chile, there can be no doubt that an increase in investment is essential if the rapid expansion of exports as a whole is to be supported and the effective growth of production is to be reinitiated.

2. Origin of exports

As already noted, an increase in exports may be due to greater utilization of production capacity, an increase in such capacity, or a reduction in domestic consumption.²²

Although the depression in the domestic market had negative economic and social con-

¹⁸The fact that there was some investment in the production of exportable goods does not signify a contradiction with this statement, as will be shown later.

¹⁹See J. Ramos, "El costo social: hechos e interpretaciones" in *Estudios de Economía*, University of Chile, Santiago, second half of 1975, and A. Foxley, "Inflación con recesión: las experiencias de Brasil y Chile" in *Colección Estudios CIEPLAN*, N.º 1, Santiago, 1979.

²⁰These are official ODEPLAN estimates, reproduced in issues of the *Boletín Mensual* of the Central Bank. The figures refer to the concept of GDP expenditure: that is to say, the loss of income recorded in 1975 due to the deterioration in the terms of trade caused by the drop in the price of copper and the rise in the price of oil has been deducted from them.

²¹These figures are taken from the data published quarterly by the Department of Economics of the University of Chile, which refer to the city of Santiago, where approximately 40% of the economically active population live. Unemployment in the rest of the urban centres of the country is even greater, according to surveys by the same institution and by the National Statistical Institute (INE) covering the years 1977 and 1978.

²²An expansion in exports can also derive from an increase in sale prices greater than the increase in the index of external prices used to deflate all the monetary values, or from a change in the structure of consumption.

sequences, it facilitated the increase in exports. From another angle, the expansion in exports provided an outlet for production surpluses which would otherwise not have found a market, because the excessive restriction of domestic demand, particularly during the period from mid-1974 to 1976, left a significant proportion of Chile's economic activities with under-utilized production capacity. The simultaneous existence of a rising real exchange rate and the access to the Andean market during this period made it possible to provide an outlet for part of these production surpluses.

Broadly speaking, then, it can be said that in these circumstances the expansion of non-traditional exports made it possible to increase the efficiency of assignment of resources, mainly through increasing their rate of utilization. During a period of shortage of foreign exchange, as was the case in 1975, the new exports also helped to reduce the severity of the bottleneck brought about by the balance-of-payments situation that year, and subsequently the expansion of exports tended to make it easier to obtain external credit.

Naturally, the subsequent reactivation of domestic demand tends to bring about the opposite effect as regards the exportable surplus, since it helps to reduce the volume of exports. The symmetry in this case is only partial, however, since Chile's export potential was insufficiently utilized at the beginning of the period. It is therefore likely that a considerable proportion of the exports facilitated by the 1974-1976 depression will continue to be available afterwards, although their growth rate will not be as high as in those years.

The production capacity of the national economy as a whole has stagnated during the last six years, although its composition has tended to change in favour of certain export activities. This process has been slow and limited because of the scanty dynamism of the national economy, since the restructuring of production capacity is easier in an economy which is growing rapidly and has a high rate of investment. Neither of these two conditions was present during the period under consideration. The export incentives did, however, encourage some investment in this activity and the production capacity of some sectors was

increased.²³ Among the new investments, reference may be made to one substantial investment project, completed in 1978, which was carried out by the State-owned steel company (CAP) and was designed to produce pellets from domestic iron ore.

Another two areas in which investment was significant during recent years are plantations of timber trees and orchards and vineyards. Approximately half of the planting of timber trees was carried out directly by the State, while 75% of the cost of the investment made by the private sector in this field were covered by subsidies. Both ways of promoting investment constitute exceptional situations in view of the economic model, and indeed it was announced that direct public sector investment in forestry activities would be terminated as of 1979.

Between 1968 and 1972 quite large plantations of orchards and vineyards were carried out under the encouragement of the fruit-growing development plan then in force, and thanks to selective credits, the construction of fruit packing centres, and investments in areas affected by the process of agrarian reform, there was an increase of 60% in the area planted with fruit trees and vineyards between 1965 and 1974.²⁴ Since 1976 this type of investment has regained importance and is increasing. Recent plantations have been carried out and financed mainly by the private sector and are located in many medium-sized units in various regions of the country. It goes without saying that the expansion recorded up to 1978 in exports was not due to these more recent investments, because of the period needed for these plantations to come into production. Moreover, in the case of plantations of timber trees, the period is much longer: Monterey pine, for example, takes between 18 and 25 years to reach its optimum point for exploitation as timber. Conse-

²³As the net domestic investment has been insignificant in macro-economic terms, part of the depreciation of other production sectors has been reinvested in export activities. There has also been some conversion prompted by the big changes in relative profitability generated by the economic policy.

²⁴Figures quoted in J. Franco Mesa, "El desarrollo agrícola en el período de reformas", *Mensaje*, N.º 274, November 1978.

quently, the expansion of exports in recent years has been due to investment made before 1973, although the substantial investments made in both fields in the following five years will make possible future exports.

In order to identify more accurately the sources of the expansion of exports, it would be necessary to have information on the production (and/or domestic consumption) and investment recorded in the various export fields. This information is unfortunately very scanty and often deficient in quality, but some data are available on certain sectors. The information below refers to two items: wood pulp and timber.

The production of wood pulp acquired importance during the past decade, when there was a considerable increase in the value of exports of this item. Its expansion was more marked between 1974 and 1977, however, when wood pulp alone accounted for one-seventh of all industrial exports. This expansion was due to the initiation of production at two wood pulp plants promoted by the public sector in the 1960s and scheduled to begin activities in 1972 and 1973, respectively, although in actual fact they began commercial production in 1974 and 1976. The exports by these two plants, which came to US\$ 54 million in 1977, account for practically all the real expansion in this item since 1974.

Exports of timber comprise two main components: sawn wood and roundwood (trunks). Information on the production of sawn wood is much scantier because of the large number of sawmills where it is cut. At all events, the available figures indicate that the installed capacity is much greater than the actual production, so that, within certain margins of sale prices, the production depends to a decisive extent on demand.

Domestic demand for wood is very sensitive to the level of activity in the construction of dwellings and the manufacture of furniture. Both sectors have been in markedly depressed conditions, both with respect to 1974 (a year of intense activity in construction) and in comparison with immediately preceding years. Thus, consumption of sawn wood in Chile in 1977 is estimated to have been 35% below the average for the period 1970-1974. The volume

of exports, in contrast, increased about five-fold.²⁵ This expansion made it possible to compensate for the drop in domestic demand and provide an additional market for an increase in production of around 30%. The increased exports are therefore due, in relatively similar proportions, to a reduction in domestic demand and an increase in production.

Sawn wood represents about 10% of non-traditional exports, an sawn wood and wood pulp together amount to a quarter of total exports of manufactures.²⁶ Consequently, in view of their significant weight in exports, the information on these two items gives a picture of the behaviour of an important segment of the increased national exports, their production and their domestic consumption.

Moreover, what happened in the forestry sector suggests the direction of the predominant trend which will be followed by exports under the current model. The production of wood pulp —i.e., a processed forest product— increased because of the existence of establishments whose construction was decided upon and begun in the 1960s. This means that any further expansion of the installed capacity is subject to new investments, which are not under way and which, even when made, would require a long lead time. The item with the highest growth rate in 1977 was sawn wood, which has a very low level of processing. Moreover, the most dynamic item in 1978 was roundwood, which does not require any processing at all.²⁷ In short, a tendency is visible towards an increasing preponderance of exports which make intensive use of natural resources with a generally decreasing level of processing.²⁸ This hypothesis is backed up by the notably slower growth displayed in 1977 and 1978 by exports in the "Rest" section of industrial goods (table 6).

²⁵The increase in value in real terms was 250%.

²⁶The ISIC classification lists simply worked wood as an industrial product, in spite of its minimal degree of processing.

²⁷Exports of roundwood began in 1976 after the prohibition which had previously prevented them had been lifted. This item, too, is included under industrial exports.

²⁸There are items involving a higher grade of processing in which investments are in progress, such as paper: this is why we are speaking of *tendencies* and averages.

3. Some comparisons with the experience of other countries

A comparative analysis with the experience of other countries involves very great difficulties because of the large number of variables affecting the behaviour of exports and the solidity of national development.²⁹ However, comparison of some basic data does serve to demonstrate that export promotion can be incorporated in models which are very different from each other and that the promotional effort does not of itself ensure sustained development.

In the case of two countries —Brazil and South Korea— which were successful in expanding their exports over a long period, this expansion took place in conjunction with a significant increase in the national product and in the investment rate (table 9).³⁰ Regardless of the nature of the causal relationship between these variables, there can be no doubt that the three phenomena mutually support each other. The increased exports were concentrated in manufactures, especially in South Korea (a country which does not possess abundant natural resources), and the expansion in exports was accompanied by vigorous development of industrial production. In both countries, export promotion included numerous incentives, and it did not involve any indiscriminate liberalization of imports.

The expansion of South Korean exports, which began from insignificant levels, is concentrated on labour-intensive manufactures.

²⁹An additional problem arises from the considerable differences between different sources of information and the marked influence exerted by the period selected for study in each case.

³⁰Recent analyses on South Korea are given in Ch. Frank and others, "Foreign Trade Régimes and Economic Development: South Korea", New York, National Bureau of Economic Research, 1975, and in Balassa, *op. cit.*, chapters 8 and 9. With regard to Brazil, see E. Bacha, "Issues and evidence on recent Brazilian economic growth", and P. Malan and R. Bonelli, "The Brazilian economy in the seventies: old and new developments", in *World Development*, January-February 1977; H. García, "La política de promoción de exportaciones de manufacturas en Brasil"; CEPAL (ed.) *Políticas de promoción de exportaciones*, Santiago, Chile, 1978, Vol. V; and A. Fishlow, "Foreign trade régimes and economic development: Brazil" (mimeo), 1976.

The growth in these exports has been extraordinarily rapid: between 1963 and 1973 real total exports grew at a cumulative rate of almost 40% per year, and manufactures amounted to 88% of total exports in 1973.³¹ The main market for the new exports was the United States, followed by Japan. At the same time that exports were expanding, the gross domestic product also grew rapidly at rates of the order of 10% per year during a whole decade.

As regards import policy, it should be noted that export incentives were used which meant that the effective exchange rate tended to be relatively equivalent to that corresponding to imports in the same line. That is to say, the protection for exports and for import substitutes was, *on average*, relatively similar. This took place, however, within the context of *differentiated* protective tariffs whose levels ranged from 0 to 15%, a substantial proportion of the items being located between 30 and 60%.³² Although a certain proportion of these tariffs were redundant, the fact remains that export promotion in South Korea is not carried out in a traditional context of free trade.³³

In the case of Brazil, which also achieved noteworthy expansion of its production and exports, its real total exports grew at the rate of 9% per year between 1963 and 1973, while exports of manufactures grew by 23% per year. The most important market for the new exports, especially for machinery and transport equipment, was the Latin American Free Trade Association (LAFTA). In contrast, the markets of the developed countries are of greater relative importance for exports of industries making intensive use of raw materials (foodstuffs, footwear, wood, textiles). The expansion of exports took place against the background of a

³¹See Ch. Frank and others, *ibid.*, table 6.1. It should be borne in mind that the use of 1973 as the terminal year tends to overestimate the rate of increase because of the conditions then prevailing in the international market.

³²B. Balassa, *op. cit.*, table 9.4.

³³In the specific field of exports, as well as direct monetary incentives there are other incentives connected with government attitudes and methods. Thus, for example, firms which fulfil the goals of the national export plan "receive more favourable treatment from tax inspectors, which is an important incentive in a country where the effective rates of taxes are fixed through administrative procedures rather than by law". Ch. Frank, *op. cit.*, p. 233. Of course, this is not the best promotion mechanism.

Table 9
 PRODUCTION, INVESTMENT AND EXPORTS IN SOUTH KOREA, BRAZIL AND CHILE

	Investment coefficient	Annual growth rates			
		GNP	Industrial production	Exports	
				Total exports	Exports of manufacturers
(1)	(2)	(3)	(4)	(5)	
<i>South Korea</i>					
1963-1968	17.5	9.5	17.4	39.4	52.9
1968-1973	25.1	11.0	17.5	37.3	41.0
<i>Brazil</i>					
1963-1968	18.0	4.9	5.9	5.6	20.1*
1968-1973	22.4	10.3	12.6	13.3	22.8
1970-1975	24.6	9.3	10.3	9.8	13.6
<i>Chile</i>					
1973-1978 ^a	10.6	1.9	0.6	1.6	34.9
1973-1978 ^b	10.6	1.1	-0.2	-1.4	18.9

Sources: *South Korea:* Ch. Frank and others, *op. cit.*, tables 2.4 to 2.8 and 6.2; B. Balassa, *op. cit.*, p. 132.
Brazil: H. Garcia, *op. cit.*, tables 7 and 8; A. Fishlow, *op. cit.*, Tables A.I and A.III. Column (4) includes manufactures and semimanufactures, and the asterisk indicates that the figures refer to the period 1964-1969. Figures for the period 1970-1975 were added to show the situation after the world trade boom which came to an end in 1974.
Chile: Columns (1) and (2) were calculated on the basis of official ODEPLAN estimates; column (3) comes from the index published by the Sociedad de Fomento Fabril (SFF), and columns (4) and (5) have the same sources as tables 4 and 6. In columns (2) to (5),^a measures the annual rate of variation with respect to the actual value for 1973, while^b estimates the "normal" level for 1973 on the basis of the actual values for 1970-1971.

Note: Column (1) measures the gross domestic fixed capital investment as a proportion of the gross national product (GNP). Columns (2) to (5) indicate the cumulative annual rate of variation for each period.

significant increase in the gross domestic product, which increased at the rate of 8% per year between 1963 and 1973. The import policy, like that referred to in the case of South Korea, also differs from the traditional free trade recipe; although the restrictions on trade were reduced, many manufactures are protected by import tariffs of the order of 80%.

A comparative evaluation of the experience of the three countries in question would require a great deal of additional information in order to answer such questions as that of the role played by the restrictions on political and trade union activities, the differences in personal and regional income distribution, the implications of the special relationship between South Korea and the United States, and the role of foreign direct investment and financial capital. The features described, however,

do exemplify some key aspects which reveal differences between these two cases and that of Chile.

The present economic policy has only been in force in Chile for a few years, so it would be dangerous to try to draw definite conclusions from it. However, probable tendencies can be determined if the first five years of the application of this policy are compared with the first five years of the policies in force in South Korea and Brazil.³⁴

Table 9 shows the basic macro-economic background information for the three countries, in values of constant purchasing power: annual growth rates of the gross national pro-

³⁴For the purpose of this comparison, 1964 was selected as the starting date of both experiences.

duct (GNP, column 1), gross domestic investment as a proportion of GNP for each five-year period (column 2); and annual growth rates of manufacturing production (column 3), total exports (column 4) and industrial exports (column 5). In the case of Brazil and South Korea, figures are also given on the second five-year period of the models in force.

The most outstanding quantitative differences lie in the positive evolution of investment, industrial production and GNP during the first five years of the Korean and Brazilian experiences, in contrast with the evolution of the same variables in the Chilean case. The behaviour of industrial and non-traditional exports of Chile for the five-year period as a whole was very satisfactory and was comparable with Brazil, but the differences become noticeable when the evolution of exports *during* the five-year period are examined. In Brazil and South Korea the tendency is maintained beyond the first five-year period and shows a rising trend for products with a higher degree of processing, whereas in Chile the last two years show a downward tendency and the reversal of trends is most accentuated for

exports with a higher degree of processing.

Thus, the extrapolation of the prevailing policies and of the present tendency of their effects indicates that Chilean exports will contribute to industrial development on a markedly more modest scale than in the other two cases. This is connected with the scanty investment recorded during the five-year period, the passivity of the public sector in line with the ideology of the official economic team, and the incidence of the rapid liberalization of imports on the demand for domestic manufactures. In these three aspects, the Chilean experience is different from those of South Korea and Brazil.

This comparison with Brazil and South Korea does not seek to present these as cases which should be imitated: from both a political and an economic point of view this is unfeasible and/or undesirable for a country like Chile.³⁵ At all events, however, it is worth repeating that, in the case of the first two countries, efforts were made to adapt economic policies to national realities, and this has not been done in the case of the extremely orthodox model imposed in Chile.

IV

Final considerations

Chile's exports of primary commodities and industrial goods have increased at a rapid rate in recent years, this phenomenon being particularly intense during the period 1973-1976. During these years, the expansion of non-traditional exports helped to reduce the negative effects of the sharp restriction in effective demand which resulted from the extreme monetarist approach used to combat first of all the inflationary process and secondly the balance-of-payments deficit faced by the Chilean economy.

The increase in exports was praiseworthy because it took place in a context of scanty investment and an economy which was in a state of stagnation during the entire five-year period; from this point of view, the promotion

of exports is one of the few positive aspects that the economic policy which has prevailed during the last five years can point to. To sum up, the current policy has been successful in the export sector, but so far it has been a failure as regards the creation of new production capacity and the generation of employment, despite the virtually unlimited powers which its executives have enjoyed.³⁶

³⁵See, for example, Ch. Frank and others, *op. cit.*, especially pages 240-244, for more specific details of the Korean case.

³⁶It should be remembered that we are not analysing here other characteristics of the current model such as the concentration of income recorded during these years, nor are we analysing the achievements registered in the reduction of inflation or the errors committed in this effort.

In studies on import substitution, a great deal has been written about the "easy" stage of the process, and there is likewise an initial "easy" stage in the promotion of the exports of semi-industrialized economies. This not to belittle the merits of either of these processes: on the contrary, these stages involve low costs and high benefits, so that it is clearly desirable to carry them out. The expansion of non-traditional exports in recent years generally falls within this stage, for it has been based on the use of abundant natural resources and under-utilized installed capacity. The under-utilization characteristic of excessively protected import substitution processes was accentuated by the big depression in domestic demand, and this situation enabled exports to be expanded without capital investment or with relatively modest investments in some lines of production.

The factors mentioned —availability of natural resources and under-utilized production capacity— constituted conditions which were necessary, but were not sufficient on their own. In order to achieve greater exports, two additional factors entered into the situation: on the one hand, an exchange policy was applied which, despite contradictory movements in 1976-1977, provided marked support for non-traditional exports,³⁷ and secondly, Chile's membership of the Andean Pact gave an expanded market for nearly 40% of the increase in new exports.

Except in a few cases due exclusively to the depression of domestic demand, most (although not all) of the new exports, generally speaking, tend to coincide more or less with the exports that other models would have developed too.³⁸ In this respect —and this is worth repeating— the promotion of exports is not an exclusive feature of the current Chilean model, and an alternative concept would also have tried to make use of the valuable natural

resources and the under-utilized installed capacity. The substantial differences between the current model and the possible alternative lie in other aspects: in the nature of the action designed to back up future expansion; in the role of exports whose "comparative advantages" lie in variables other than and/or additional to abundant natural resources; and the measures taken to increase the multiplier effect on the national economy and the degree of autonomy with respect to the exterior.

In order to support the expansion of exports it is necessary to increase national investment. The theoretical conception on which the policy of the present Chilean economic team is based holds that resources should be oriented towards "comparative advantages" and that the play of market forces, free of State interference, will secure this objective. This theoretical version, which constitutes an extreme among the various economic approaches existing at present, involves an idealized and simple conception of "comparative advantages". In reality, the problem is that comparative market advantages depend on the level and stability of the exchange rate, the level of activity of the domestic and international economies, the fluctuations in external prices, the imbalances and distortions which are characteristic of developing economies, and many other factors —especially indirect effects and dynamic considerations— which provide theoretical and pragmatic justification for external trade policy seeking to protect domestic production on a selective basis and actively regulate the market.³⁹ This regulation should be aimed at increasing the social efficiency and volume of investment. The current model has shown unsatisfactory results in both respects: the rate of investment has been very low, and a high proportion of such investment as has been made has been in luxury goods and services.

Brief mention may be made here of some requisites which are necessary in order for exports to make a significant contribution to national development.

³⁷The exchange rate is the same for all exports, but the non-traditional exports are much more sensitive to the level and stability of the exchange rate than other products such as copper and iron ore.

³⁸See, for example, S. Bitar, "Hacia la definición de una estrategia industrial", in O. Muñoz, ed., *Proceso a la industrialización chilena*, Santiago, Editorial Nueva Universidad, 1972, pp. 226-229.

³⁹A theoretical analysis which backs up this alternative approach is given in R. French-Davis, *Economía internacional: teorías y políticas para el desarrollo*, Mexico City, Fondo de Cultura Económica, 1979, chapters IV and VII.

Firstly, import substitution and export promotion are not essentially antagonistic objectives. On the contrary, industrial development can benefit from the dynamic complementation of both policies: a promotion strategy of this type requires a selective import substitution policy instead of free trade or arbitrary and excessive protectionism.

Secondly, many industrial exports can be promoted through the preferential access offered by integration process and production agreements with other developing countries: Chile's presence in the Andean Pact clearly illustrated this possibility.

Thirdly, exports do not necessarily absorb more labour than import substitution, since there is a broad range of different characteristics within both categories: in practice, the contribution to productive employment depends on the structure of each one, so that a suitably selective economic policy can make it possible to improve the contribution of the external sector to employment. An active role in this must be given to indirect instruments

(the profile of import tariffs and export incentive and the stability of exchange rate policy) and to the direct action of State bodies on investment and demand.

Fourthly, the organization and leadership capacity of the State can have a decisive influence on the durability of the exports process: whether this process is self-sustaining or not depends on the repercussions it transmits to other sectors of the economy. In order for exports to become one of the driving forces of development, they must be integrated in the national economy: i.e., they must either complement import substitution, or generate surpluses which are invested in productive activities in the country, or create a demand for domestic resources, or promote the expansion of technological know-how. Lastly, the continuation and expansion of external markets requires the State to play an active part in international meetings, in negotiations with the transnational corporations, and in the imaginative search for new forms of interrelations with other developing countries.