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ECONOMIC AND LEGAL STATUS OF FOREIGN INVESTMENTS  
IN SELECTED COUNTRIES OF LATIN AMERICA

(Prepared by the Secretariat)

FOREIGN INVESTMENTS IN CHILE

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### I. The nature of foreign investments in Chile

Foreign loans and direct investments have played an important part in the Chilean economy since the early nineteenth century. Up to the end of that century, the foreign capital was European, largely British. Loan capital was made available for the financing of public works and equity capital was invested in railways, mining and manufacturing. United States capital became of increased importance during the first two decades of the twentieth century. The flow of equity capital into mining and public utilities began shortly after the turn of the century, and loans floated in the United States after the first world war supplied funds for public works and other governmental expenditure.

The inflow of foreign capital, principally from the United States, reached a peak during 1925-1929. The flow ceased after the 1929 depression, with disastrous consequences to the Chilean balance of payments and to the country's ability to meet service payments on previously invested capital. The external debt went into default, and exchange control was imposed in 1931. Service of the foreign debt was partially resumed in 1935, and a more complete adjustment was effected in 1948. During the past decade Chile has turned to the United States Export-Import Bank and the International Bank for Reconstruction and Development for loans to help finance investments undertaken at the Government's initiative.

A. External debt

1. Amount outstanding and service requirements

The external long-term debt of the Chilean Government was approximately \$295 million at the end of 1948. The bulk of this, some \$275 million, consisted of direct and guaranteed obligations of the national government, while the remaining \$20 million represented non-guaranteed bond issued of public corporations. Excluded from these figures are \$62 million of loans authorized by the International Bank for Reconstruction and Development and by the United States Export-Import Bank which had not yet been drawn upon. Outstanding dollar obligations amounted to \$175 million; \$95 million of the total was denominated in sterling and \$25 million in Swiss francs. Only \$71 million of the \$126 million of dollar bonds were reported to be held in the United States at the end of 1948<sup>1/</sup>

Service payments on Chile's outstanding external debt are estimated to have been about \$21 million in 1949 and are due to remain at about that level until 1951. This equals 10 per cent of the foreign exchange proceeds of exports in 1948, excluding sums retained abroad by foreign-owned mining companies. If no additional debt were incurred, annual service charges would gradually decline from \$18.1 million in 1952 to \$15.5 million in 1955. These estimates are based on the assumption that bondholders will assent to the 1948 debt adjustment plan and that retirement of obligations through sinking fund operations will be

<sup>1/</sup> See Table 1.

Table I.

External Debt of Chile, 31 December 1948

(in millions of United States dollars)

	<u>Outstanding</u>	<u>Undisbursed</u>
National government bonds <sup>a/</sup>		
Dollar bonds	125.7 <sup>b/</sup>	-
Sterling bonds (£22.7)	91.5	-
Swiss franc bonds (Swiss francs 106.7)	<u>24.8</u>	-
Export-Import Bank loans <sup>c/</sup>	242.0	46.2
	32.6	
International Bank loans <sup>d/</sup>	-	16.0
Corporate bonds, non-guaranteed		
Chilean Nitrate and Iodine Sales Corporation-dollar bonds	14.9	-
Chilean Nitrate and Iodine Sales Corporation-sterling bonds (£842)	3.4	-
Tarapaca and Antofagasta Nitrate Company-dollar bonds	<u>2.0</u>	
	20.3 <sup>e/</sup>	
TOTAL	<u>294.9</u>	<u>62.2</u>

a/ According to Debt Adjustment Plan approved by Law No. 8962 of 22 July 1948.

b/ Dollar bonds owned in the United States were reported to be \$71.4 million at the end of 1948. See United States Department of Commerce, The Balance of Payments of the United States, 1946-1948, (1950) page 268.

c/ For the most part extended to government corporations and guaranteed by the national government.

d/ Extended to government corporations and guaranteed by the national government.

e/ As of 31 December 1947.

carried on in the open market at prices substantially below par<sup>1/</sup>. Of the \$21.3 million of debt service required in 1949, \$15.8 million are payable in dollars, \$4.4 million in sterling and \$1.1 million in Swiss francs.

## 2. Historical development

### (a) Governmental debt

Foreign borrowing by the Chilean Government began with the flotation of a loan of £1 million in the London market in 1822. Up to the first world war, the equivalent of about \$300 million was floated in the London market. These credits were used to finance the construction of railways, port facilities, highways and other public works<sup>2/</sup>. Debt service was maintained with the exception of a five-year period in the early 1880's following the war of the Pacific between Chile and Perú and Bolivia, when amortization was temporarily suspended after arrangement with the bondholders. From the end of the first world war until the default of 1931, external financing was affected chiefly through the issuance of more than \$300 million of dollar bonds in the New York market. National government issues accounted for more than \$185 million, municipal issues for more than \$21 million, and government-guaranteed corporate issues for more than \$90 million. The loans to the national government and municipalities were used principally to finance public works, including the construction of roads, sanitary facilities, water supply systems, port

<sup>1/</sup> Illustrative quotations for certain issues with a par of 100 were 26 7/8 in New York, 33 1/2 in London, and 27 1/2 in Zurich at the end of September 1949.

<sup>2/</sup> Aldunate Carvallo, Guillermo, Posibilidades de la Economía Chilena para los Capitales Extranjeros, Santiago, (1949), page 75.  
/installations

installations, railways and irrigation facilities.

The heaviest borrowing during the twentieth century was compressed within the few years between 1925 and 1930. Total public debt, internal and external, including debts of municipalities and provinces guaranteed by the government, increased from \$323 million at the end of 1926 to \$456 million by the end of 1929. Direct external debt increased from \$194 million to \$279 million; and guaranteed external debt from \$102 million to \$130 million during that period. A further increase in the external dollar obligations of the national government and the municipalities of about \$27 million occurred in 1930, in which year there was also an additional issue of Swiss franc bonds.

The heavy borrowing by Chile in the late 1920's was facilitated by its record of punctuality in meeting debt service. A considerable amount of foreign borrowing was undertaken to meet budgetary deficits which were not incurred to finance productive investments. This occurred at a time when 30 to 40 per cent of the national income depended upon exports and two products, nitrates and copper, constituted about three-fourths of these exports.<sup>1/</sup>

Chile's capacity to service its foreign obligations was drastically affected by the depression of the 1930's and the consequent severe decline in its exports, which were a primary determinant not only of foreign exchange receipts but also of the

<sup>1/</sup> P. T. Ellsworth, Chile: An Economy in Transition (New York, 1945) page 3.

level of national income and of the government's fiscal position.

Chile's foreign trade suffered a sharper decline from 1929 to 1932 than did that of any other country in the world.<sup>1/</sup> The gold value of exports in 1932 was only 12 per cent on that in 1929.<sup>2/</sup> Sharply reduced activity in mining and agriculture, following the decline of exports, soon affected other areas of the economy. Government revenues declined rapidly, and fell short of curtailed expenditures by more than 20 per cent in 1931 and 1932.

Chile therefore found itself unable to meet either the local currency or foreign exchange requirements of its external debt. Even before the collapse of its export markets, which began in 1930, the government had found it necessary to raise large loans abroad in order to meet the heavy service of outstanding debt. The virtual cessation of lending activity by the creditor nations after 1930 therefore aggravated the Chilean balance of payments problem, and exchange control was introduced in July 1931.

At the same time a moratorium on all foreign debt payments was declared. Partial payments were made in 1931 and 1932, but no payments were made in 1933 and 1934. Partial payments were not resumed until the Debt Adjustment Plan of 1935, under which certain governmental receipts were earmarked for service on the external debt, including the profits of the Chilean Nitrate and

<sup>1/</sup> League of Nations, World Economic Survey, 1932-1933, (1933) page 214

<sup>2/</sup> Chile's Foreign Commerce, 1929-1932  
(in millions of "gold pesos")

	1929	1930	1931	1932
Exports	2,293	1,326	824	282
Imports	1,617	1,400	706	214
Trade balance	676	-74	118	68

Iodine Sales Corporation, income taxes on copper companies, and duties on petroleum imported for the nitrate and copper industries. Fifty per cent of the receipts were to be used for interest and the balance for retirement of outstanding bonds quoted below par in the open market or by drawing at par if bonds were quoted at par or above. Debt service was limited to the amount of earmarked receipts.

From the beginning of the Adjustment plan in January 1935 until February 1949, total receipts earmarked for servicing amounted to about \$105 million, of which \$50 million was paid in interest, averaging about 1.5 per cent of par values annually. About \$25 million was used to retire bonds of an estimated original principal amount of \$168.7 million. This was achieved by open market purchases at prices well below par. Amortization was interrupted in 1939, when amortization funds were allocated temporarily to finance the reconstruction of a zone devastated by earthquake. In March 1946 payments were resumed according to the contractual arrangements and restitution was begun of fund diverted from debt amortization.

Objections of bondholders' organizations to the execution of the 1935 plan centres around the policy of retirement of bonds at prices far below par, the relatively large proportion of earmarked receipts devoted to retirement, the diversion of earmarked funds from amortization to other purposes, and failure by the Chilean government to devote to debt service funds derived from taxes on

/copper imposed



copper imposed after the 1935 adjustment.<sup>1/</sup>

In December 1948, the government offered a new plan of debt settlement. This proposed to convert the direct and indirect obligations of the government into new obligations for which the National government would assume sole responsibility. Unlike the arrangement in 1935, the payment of interest and amortization is not limited by the amount of governmental income from the copper and nitrate industries.

Outstanding securities, mostly 6 per cent issues, are to be exchanged for an equal nominal amount of new bonds. Interest had been paid in 1948 on the old bonds at the rate of 1.03 per cent on coupons that had been due in 1943-1944. Holders of the new bonds will forego interest on unpaid coupons, and interest rates on the new bonds, which extend present maturity dates uniformly to January 1994, will rise from 1 1/2 per cent in 1948 to 3 per cent in 1954 and subsequent years. From January 1954 debt service will amount to 4 per cent annually of the principal outstanding at the end of 1953. Chile reserves the right to apply additional sums for amortization or retirement. Agreement has been reached with committees representing foreign bondholders for settlement

<sup>1/</sup> The funds earmarked for debt service under Law No. 5580 which were derived from the copper industry included receipts from certain taxes in effect at the time the law was enacted. No provision was included for earmarking of receipts from any future taxes that might be imposed.

/according to

according to the above plan.<sup>1/</sup>

At the end of 1948, the market value of Chilean dollar bonds owned in the United States was 34 per cent of par as compared with 40 per cent for all Latin American dollar bonds. At the end of January 1949 a Chilean issue of dollar bonds due in 1993 was quoted in New York at 28.8 per cent of par representing a current yield of 7.0 per cent as compared with a nominal rate of interest of 2 per cent under the adjustment plan of 1948.<sup>2/</sup>

(b) Export-Import Bank loans

After the collapse of the international capital market in the early 1930's Chile did not receive additional foreign loans until the latter part of the decade. Total credits to Chile of \$97.9 million were authorized by the United States Export-Import Bank between 1939 and the end of 1948. The status of these credits as of 31 December 1948 was as follows:

(millions of United States dollars)

Total authorized	97.9
Cancelled and expired	.3
Net available for use	97.6
Not disbursed	46.2
Disbursed	51.4
Repaid	18.8
Outstanding	32.6

<sup>1/</sup> According to the Fourth Annual Report of the International Bank for Reconstruction and Development, (page 20), the International Bank, during its early consideration of an application by Chile for a loan, drew the attention of the government to the existence of certain conditions which, in the Bank's view, were likely to impair the efficacy of a loan and to deter the resumption of international investment in Chile. The Bank's report states that the Chilean Government moved promptly to rectify these conditions and cites in this connexion the settlement reached with foreign bondholders.

<sup>2/</sup> International Monetary Fund, International Financial Statistics, February 1950, page 30.

From 1934 to 1939 the Export-Import Bank extended a total of \$6.7 million of short-term and intermediate credits to United States exporters to facilitate the export of goods to Chile. These credits have been totally repaid.

Almost all of the recent Export-Import Bank credits have been granted to the Chilean Development Corporation, a governmental agency, and to the Chilean State Railways and are guaranteed by the Chilean government. The State railways have been authorized to draw on a total of \$14 million for various types of equipment. Loans to the Development Corporation have been made in connexion with its industrial development programme, the most important being a credit of \$48 million for the construction of a steel plant planned to have an annual capacity of close to 200,000 tons upon inception of operations in 1950. The company formed to operate the plant, Compañia de Aceros del Pacífico, S.A., is a mixed governmental-private enterprise, the private capital having been subscribed by investors in Chile, including banks, insurance and mining companies as well as private individuals, and the governmental capital by the Development Corporation and the Autonomous Amortization Fund.<sup>1/</sup> Other activities financed by Export-Import Bank credits have been the establishment of plants for the production of electric power, cement, copper-wire and automobile tires and for the importation of agricultural

<sup>1/</sup> Guillermo Aldunate Carvallo, op. cit., page 110.

machinery.<sup>2/</sup>

The repayment of these loans is generally not scheduled to begin until a number of years (in most cases five to ten) after the line of credit is established. Maturities after repayment begins in most cases have been five years or less, with the exception of the loan for the steel plant, which will be repaid over a period of nineteen and a half years. Interest rates range from 3 1/2 to 4 1/2 per cent.

During 1949 substantial additional credits were authorized. In August 1949 a credit of \$1.2 million was established in favour of the Chilean Development Corporation for machinery and equipment for a rayon plant. In October 1949, the Corporation was granted a credit of \$2.75 million for the acquisition of railway and construction equipment for the development of a new deposit of iron ore. In October 1949 the government also granted a credit of \$25 million to finance essential imports from the United States needed for "productive investments" during the remainder of the year.

(c) International Bank loans

Two loans totalling \$16 million were authorized by the International Bank for Reconstruction and Development in March 1948,

1/ Desiderio Garcia, "Prevailing Practices, Methods and Problems Involved in Obtaining Domestic Financial Assistance for Economic Development in Chile", United Nations Economic and Social Council Document E/1562, Methods of Increasing Domestic Savings. (15 December 1949) page 126.

/subject

subject to the guarantee of the Chilean Government, which was granted in March 1949. One loan, for \$13.5 million, is for hydro-electric development. Amortization which begins in the sixth year, will extend over twenty years, with an annual interest rate of 3 1/2 per cent in addition to the normal 1 per cent commission.<sup>1/</sup> The loan will provide foreign exchange for the construction of additional hydro-electric plants and related transmission lines, for the installation of additional generating units in existing plants and for the installation of pumping equipment for irrigation. A second loan of \$2.5 million was made to the Development Corporation for the purchase of agricultural machinery. Special attention is being given in connexion with this programme to the technical training of personnel in order that full advantage may be taken of the equipment to be made available.<sup>2/</sup>

Amortization begins in the third year, and will be carried out over six and one-half years with an annual interest rate of 2 3/4 per cent plus 1 per cent commission.

(d) Short-term external obligations.

During 1947 Chile purchased 8.8 million United States dollars from the International Monetary Fund, an amount roughly equivalent to the portion of its Fund quota previously paid in gold.

<sup>1/</sup> A minimum commission of 1 per cent is mandatory during the first ten years of the Bank's operations, but may be reduced subsequently, if the reserves accumulated by the Bank are considered sufficient to justify this.

<sup>2/</sup> International Bank for Reconstruction and Development, Third Annual Report, 1947-1948, page 22.

/The pesos sold

The pesos sold to acquire this sum had not been repurchased from the Fund as of November 1949.<sup>1/</sup>

Chile has drawn on a credit established by Argentina equivalent to \$17.2 million in 1947 and \$4.8 million in 1948 to finance purchases of wheat and oilseeds from that country. This credit has not been included in the long-term external debt of Chile summarized in Table I since it may be regarded as a short-term transaction. It is understood that an agreement signed in February 1949, provided for settlement of this obligation by July 1950.

B. Direct investments

1. Estimates of the total

No official estimates of the value of total direct foreign investments in Chile are available. It has been estimated unofficially that such investments amounted to about \$775 million in 1938.<sup>2/</sup> More than half consisted of United States investments; British and United States investments together constituted about 90 per cent. The estimate also includes French, German, Italian and Spanish holdings valued at \$60 million of which German and Italian, liquidated during the war, were estimated at \$32 million.

Since 1938 there appears to have been a considerable reduction in the value of United States and British direct

<sup>1/</sup> International Monetary Fund, International Financial Statistics, December 1949, pages 10-11.

<sup>2/</sup> Cleona Lewis, The United States and Foreign Investment Problems, (The Brookings Institution, 1948) page 330.

investments in Chile. Official United States estimates show a decline from \$484 million in 1936 to \$414 million in 1940 and to \$329 million in 1943. By the end of 1948, United States investments probably had risen again to more than \$345 million, judging from estimates of net capital movements and the reinvestment of earnings by subsidiaries in post-war years. British investments declined from \$300 million in 1938 to \$171 million in 1948,<sup>1/</sup> some of the decline in dollar equivalent reflecting the depreciation of the pound during that period. The reduction in British holdings, computed in terms of sterling, exceeded 25 per cent.

On the basis of these figures foreign direct investments in 1948 may be estimated at \$500-525 million, of which more than \$345 million represent United States investments, somewhat less than \$170 million British investments, and perhaps about \$20 million investments originating in other countries.

## 2. Historical development

As in the case of external borrowing, almost all direct investments until shortly before the first world war were derived from Europe, principally the United Kingdom. During the later years of the nineteenth century British capital was invested

<sup>1/</sup> South American Journal, (London) "British Investments in Chile", 12 February 1949, page 79. Conversion was made at the rate of \$4.89 per £ for 1938 and \$4.03 per £ for 1948. These estimates relate to securities traded on the London Stock Exchange, and may include some non-British holdings. They are not directly comparable with the United States estimates since they include some portfolio holdings and their values are nominal or par values; "book values" are the basis of valuation in the United States estimates.

/especially in the

especially in the north, where it contributed to the development of the nitrate industry and auxiliary facilities, including railways and electric power plants. British capital was also invested in the cattle industry in the southern part of the country. French capital was invested in mining and German capital in electric power and transport facilities in Santiago and in manufacturing, trade and finance. German and Italian investments were to a considerable degree accompanied by immigration and settlements.

The inflow of United States capital for direct investments became important after the first world war. It has been estimated that United States direct investments in Chile, amounting to only about \$2 million at the end of 1897 had increased by 1914 to some \$180 million, of which \$170 million were in copper and iron mining.<sup>1/</sup>

United States direct investments increased steadily after the first world war, reaching \$423 million in 1929. In particular, there was an increase of United States investments in the copper industry, in nitrate holdings acquired from British interests and in public utilities. There was also some investment in manufacturing encouraged by the tariff protection after the first world war and by quantitative restrictions on imports after 1929.

<sup>1/</sup> J. Fred Rippy, "Investments of Citizens of the United States in Latin America", The Journal of Business of the University of Chicago, (January, 1949), pages 17-29.



The changes in United States direct investments in Chile since 1929 are shown in Table II. Investments in mining and smelting, public utilities and transportation accounted for about 85 per cent of the total in 1943, as against 95 per cent in the earlier years. The corresponding figures for mining are 65 and 80 per cent respectively.<sup>1/</sup> Investments in manufacturing increased considerably to about 8 per cent of the total in 1943.

The industrial distribution of the \$9 million net outflow from the United States for direct investments during 1945-1947 inclusive reveals some increases in manufacturing and public utilities and a further slight decrease in mining. In 1948 there was a net capital inflow of \$3 million into the United States from Chile on account of direct investments. These figures of capital movements include the re-investment of earnings by branch plants but not by subsidiaries. According to estimates by the Department of Commerce, \$3 million were re-invested by subsidiaries in 1945 and less than \$50,000 in 1946.

<sup>1/</sup> The rise in the figures for mining from \$332 million in 1929 to \$383 million in 1936 does not represent an actual increase in investments since a considerable part of it is due to an omission of one large item from the 1929 total. The substantial decline from \$383 million in 1936 to \$268 million in 1940 has been explained by the United States Department of Commerce as comprising a "large capital distribution, decreases in holdings of long-term obligations, and an exchange depreciation of 20 per cent". The value of investments in public utilities expressed in dollars increased by 50 per cent between 1936 and 1940 despite exchange depreciation.

Table II

United States Direct Investments

(millions of United States dollars)

Industry	Total outstanding				Net inflow 1945-1947a/
	1929	1936	1940	1943	
Manufacturing	6.9	4.7	6.5	27.5	1
Distribution	13.0	12.1	4.6	6.7	2
Agriculture	-	-	-	8.3	-
Mining and smelting	331.5	382.9	267.8	215.3	-3b/
Petroleum	c/	c/	c/	3.3	2
Public Utilities and transportation	66.7	79.7	121.4	65.9	7
Miscellaneous	4.6	4.4	4.7	2.2d/	e/
	422.6f/	483.7f/	414.0	329.3f/	9

a/ Excludes re-invested earnings of subsidiaries.

b/ Outflow from Chile to the United States.

c/ Included in "Miscellaneous".

d/ Includes 0.7 for "finance".

e/ Less than \$500,000.

f/ See Footnote 1 on previous page. Total does not equal sum of components because of rounding.

Sources: 1929, 1936, 1940: United States Department of Commerce, American Direct Investments in Foreign Countries, 1930, 1938, 1942.

1943: United States Treasury Department, Census of American-Owned Assets in Foreign Countries, 1947.

1945-1947: United States Department of Commerce, Survey of Current Business, November 1949, pages 18-23.

United States enterprises in Chile are carried on largely by branches of parent organizations which constituted 72 per cent of American-owned enterprises in 1943. A small number of enterprises account for the bulk of United States investments. In 1940 all of the investments in mining were owned by eight concerns, which accounted for about 67 per cent of total investments; nine enterprises owned all of the investments in public utilities. The remaining thirty-nine enterprises held only about 4 per cent of all investments.

## II. Foreign investments in the Chilean economy

### A. Industrial distribution

#### 1. Mining

Foreign investments in the Chilean economy are particularly important in mining, which in recent years has accounted for 70 to 80 per cent of total exports. Although mining employed only 5 per cent of the labour force and was the source of only about 10 per cent of the national income in 1943, it is an important determinant of the level of economic activity because of its contribution to exports. Ranked in order of their importance, copper, nitrates and iron are the principal minerals produced.<sup>1/</sup> In addition to the large foreign-owned mining enterprises there are numerous small mines mostly owned by Chilean capital and accounting for about 5 per cent or less of production. Domestic

<sup>1/</sup> The value of foreign sales of minerals by the large mining companies in 1947 was as follows: copper, \$160.8 million; nitrates and iodine \$61.7 million; iron ore, \$4.8 million.

enterprises are also engaged in the extraction of gold, copper, silver and non-metallic minerals including coal. The previously undeveloped petroleum resources of Chile are being worked by the government.

Copper is the leading product of Chilean mining, production being second only to that of the United States. About 95 per cent of the output is produced by three enterprises owned by the United States interests and established early in the present century. Half of the output comes from the Chuquibambilla deposits, worked by a subsidiary of Anaconda Copper Company and believed to be the world's largest deposit of copper. In 1948 this enterprise signed an agreement with the Chilean government providing for the investment ultimately of \$130 million to extract copper sulfide ores because of the approaching exhaustion of the copper oxide ores previously used. A sum of \$60 million is to be invested during 1949-1952, of which \$36 million will represent imported equipment. Second in importance is the Braden Copper Company, a subsidiary of the Kennecott Copper Corporation accounting for about one-third of production. French interests own several smaller mining enterprises. More than 3,000 small mines, owned predominantly by Chilean nationals, account for the balance of production. An official credit institution, "Caja de Crédito Minero", has aided the small operations by extending credit and operating processing plants. The formation of a local industry

for the manufacture of copper products has been sponsored by the government's Development Corporation, and the copper mining companies are required to set aside the copper needed.

More than 90 per cent of Chile's output of nitrates is produced by foreign enterprises, but the operations of the industry are controlled by the government through the Nitrate and Iodine Sales Corporation (Corporación de Ventas de Salitre y Yodo de Chile). About 60 per cent of the production is accounted for by two United States enterprises, about 30 per cent by British-controlled enterprises, and the remaining 10 per cent by "independent" producers including Chilean and small foreign interests.

The development of the nitrate industry proceeded rapidly after the acquisition by Chile of the "nitrate provinces" from Peru as a result of the war of the Pacific (1879-1884). During the war Peruvian investors, apprehensive of the security of their properties, sold their holdings to British interests whose title to the properties was subsequently validated by Chilean courts. By 1890 foreign capital, principally British, represented 88 per cent of the investments in the industry.<sup>1/</sup> Production expanded steadily until the first world war, when competitive synthetic nitrates were developed abroad. Chilean production, which reached a peak of more than 3 million tons in 1914, has declined to about one-half of that amount in recent years. In the 1920's United

<sup>1/</sup> Felipe, Herrera Lane, op. cit., page 65.

/States enterprises

States enterprises acquired two important nitrate companies in Chile and supported the competitive position of the industry by introducing the "Guggenheim" process which achieved a considerable reduction in costs. Although the nitrate industry has declined from its former position in the Chilean economy, it remains the second-ranking export industry.

Chile's deposits of high-grade iron ore have been only partially exploited. Concession rights to the only deposit intensively worked thus far were acquired in 1908 by a French firm and leased in 1913 to a subsidiary of the United States-owned Bethlehem Steel Corporation. The lease, which expired in 1943, was renewed at that time for a second period of thirty years. Most of the output is exported to the United States, but steps have been taken to ensure needed supplies for the steel plant now under construction in Chile. In his annual message to Congress in May 1949 the President of Chile announced that the supply of ore to the latter plant had been guaranteed for thirty years and that the Bethlehem Steel Corporation had made a substantial investment in the development of additional properties.<sup>1/</sup> The Export-Import Bank credit of \$2.75 million authorized in October 1949 is to finance about one-third of the cost of developing a new iron ore deposit, the remaining two-thirds to be supplied by the Bethlehem Corporation.<sup>2/</sup>

<sup>1/</sup> Mensaje de S.E. El Presidente de la República don Gabriel González Videla al Congreso Nacional al inaugurar el período ordinario de sesiones, 21 de Mayo de 1949, page IX.

<sup>2/</sup> International Monetary Fund, International Financial News Survey, 4 November 1949.

## 2. Manufacturing

Foreign enterprises have participated in manufacturing in Chile since the second half of the nineteenth century. They have introduced new techniques into the country and their contribution has been more important therefore than a purely quantitative comparison may suggest. German investment and immigration into southern Chile in the last part of the nineteenth century contributed to the development of manufacturing industries. A small steel industry was started by French capital in the early twentieth century. Various United States and British trading firms, which have been important in distribution in Chile, have broadened their activities from ordinary merchandising to include manufacturing, particularly in consequence of import restrictions resulting from foreign exchange shortages.

It is estimated that in 1938 about 25 per cent of the investments in manufacturing were foreign-owned.<sup>1/</sup> United States investments in recent years include enterprises engaged in the manufacture of glass products, automobile tires, asbestos, iron and steel products, and synthetic textiles. Chilean private and governmental capital has participated as a minority interest in these enterprises. The value of United States investments in manufacturing increased from \$4.7 million in 1936 to \$27.5 million in 1943, but the inflow of United States capital into manufacturing since the end of the war has been negligible. It

<sup>1/</sup> George Wythe, Industry in Latin America, (New York, 1949) page 222.

may be recalled, however, that a large proportion of the credits extended by the Export-Import Bank have financed the establishment of Chilean-owned manufacturing enterprises, some of which are owned jointly by the government and Chilean private interests.

### 3. Other industries

There is little foreign investment outside mining and manufacturing. Branches of United States, British, French and other foreign banks have operated in Chile. About 25 per cent of the railway mileage is foreign-owned. The Chilean-owned merchant marine carries all coast-wise freight and also maintains some overseas service. Internal air traffic is monopolized by a government-owned company. The telegraph lines are owned by a Chilean enterprise, but telephone service is largely controlled by a subsidiary of a United States company. A subsidiary of a United States company also operates an important part of the electric light and power industry.<sup>1/</sup> In 1948 this enterprise was planning a six-year programme of investment involving the expenditure of more than \$35 million. Previously, in 1945, the government had acquired a five-year option to purchase the enterprise, but this option has not thus far been exercised. In 1945 the government also purchased a tramway system from the same enterprise, after having taken over its management in 1941 without

<sup>1/</sup> This subsidiary of the American and Foreign Power Company serves 52 communities with an estimated population of 1,666,000. See the Company's Twenty-fifth Annual Report, 1948, (New York, 1949) page 34.



compensation during a labour dispute. In 1943 the Development Corporation drew up a general plan for the electrification of Chile and formed a subsidiary, the Empresa Nacional de Electricidad, S.A. (Endesa), to carry it out. The plan, extending over 18 years, is considered basic to the economic development of Chile and the new generating facilities are to be constructed by Endesa. Private enterprise will be permitted to participate in transmission facilities, however. An International Bank loan of \$13.5 million has been granted in connexion with this programme.

B. Foreign investments and economic development

The investment of foreign capital in Chile's nitrate and copper resources undoubtedly has had a profound influence on the country's economic growth. The early establishment of manufacturing, transportation and power facilities was associated largely with the working of these resources. Participation by foreign capital in other industries has been limited.

Since the post-1929 depression the country's economy has become more diversified. While private foreign capital has played a minor part in this process, external credits from the Export-Import Bank have been important, constituting close to 45 per cent of the total resources of the Development Corporation in the last decade.<sup>1/</sup>

It may be estimated that 15-20 per cent of the national income is presently accounted for by foreign-owned enterprise. This figure is arrived at from the figures in Table III by assuming that

<sup>1/</sup> See Desiderio García, op. cit., page 126.

Table III

National Income of Chile (at factor cost)

(in millions of pesos)

	1943	
	Value	Per cent
Agriculture	4,671	15.6
Fisheries	74	0.2
Mining	2,910	9.8
Manufacturing	5,882	19.8
Construction	584	2.0
Transportation	1,692	5.7
Public Utilities	408	1.4
Trade	4,034	13.6
Finance	1,175	4.0
Services	2,774	9.4
Rent and Interest <sup>a/</sup>	2,442	8.2
Government	2,684	9.1
Other	320	1.1
<b>Total</b>	<b>29,650</b>	<b>100.0<sup>b/</sup></b>

a/ Includes government debt and mortgage interest as well as rent.

b/ Total does not equal sum of components because of rounding.

Source: Statistical Office of the United Nations, National Income Statistics, 1938-1947 (1948), page 44.

foreign capital accounted for 95 per cent of the mining industry, 25 per cent of manufacturing, 20 per cent of transportation, and taking general account of investments in other industries.

C. Foreign investments and the balance of payments

The Chilean balance of payments was under strain even before the depression of the 1930's largely as a result of the burden of external debt service. The heavy inflow of loan capital from abroad in the 1920's had not been invested so as to facilitate the resulting outward payments. During the last half of the 1920's

of the 1920's, the foreign exchange position of Chile became increasingly precarious in spite of heavy borrowing abroad which was largely absorbed for the payment of service on the foreign debt. In 1929 debt service and the transfer of income and capital on direct investments is estimated to have equalled 54 per cent of total exports. With the collapse of the markets for Chile's exports and the cessation of foreign lending, the strain on the balance of payments became severe. As a result the default on the external debt and the establishment of rigid exchange control, were foreign exchange reserves maintained intact in 1932. There were no transfers of income on account of direct investments other than by the mining enterprises. These enterprises retained abroad in that year about 29 per cent of the proceeds from their exports.

Small export surpluses in 1946 and 1947 were insufficient to finance the outflow of capital, the payment of interest on public debt and the transfer of income on direct investments. Foreign exchange reserves were drawn upon, \$8.8 million were obtained from the International Monetary Fund in 1947, and commercial credits were received from Argentina and Brazil. A larger surplus on merchandise account in 1948, resulting chiefly from increased exports of minerals, helped to prevent a loss of reserves in that year. In 1949 the export surplus was again relatively low, about \$4 million compared to \$78 million in 1948, largely as a result of a decline in the price of copper. The

main elements in the balance of payments in 1948 are summarized in Table IV.

Exports by the large mining companies have continued to account for 70 to 80 per cent of total exports. In recent years these companies have retained abroad about 30 per cent of the proceeds of their exports. During 1946-1948 this averaged \$53 million annually.<sup>1/</sup> Other investment income transferred during this period amounted to \$11 million annually. Together these payments on account of foreign capital equalled about 22 per cent of the average annual value of exports.

Under Chilean exchange control regulations, the large mining enterprises are free to transfer earnings and capital on their investments without official intervention. They return foreign exchange to the country to the extent of their local currency requirements for such current operating expenses as salaries and taxes. The buying rate for exchange surrendered for these purposes is 19.37 pesos per dollar, which is considerably less favourable than the buying rate for proceeds from other exports.<sup>2/</sup>

<sup>1/</sup> Exclusive of imports with their own exchange and intercompany capital movements.

<sup>2/</sup> The buying rates for proceeds from other exports ranged from 37 to 43 pesos per dollar until 10 January 1950. On that date the International Monetary Fund announced the temporary establishment by the government of a new rate of 60 pesos per dollar applicable to all exports except those later to be subject to export taxes and those of mining companies. Temporary establishment of this rate was described as preliminary to the adoption of a new single par value at about the level of the temporary rate to replace present multiple rates of exchange.

Table IV

Balance of Payments of Chile, 1948

(millions of United States dollars)

A. Current transactions		
Surplus on merchandise trade <sup>a/</sup>	77.6	
Profits remitted or retained abroad by mining companies	-56.3	
Other interest dividends paid (net payment)	- 7.2	
Other services etc. (net payment)	- 1.6	
	<hr/>	
Surplus on current transactions		12.5
B. Capital and monetary gold		
Withdrawal of capital by mining companies (depreciation of plant and equipment, reduction of stocks)	-27.5	
Other private capital (net inflow)	13.5	
Amortization of public debt	-12.4	
Export-Import Bank loans	17.2	
Commercial credits raised abroad by the government (net)	3.5	
Acquisition of gold and foreign exchange by the Central Bank and private banks	- 9.9	
	<hr/>	
Net capital inflow		-15.6
C. Errors and omissions (difference between A and B)		3.1

<sup>a/</sup> Based on exchange control records and reports by the large mining companies. Export sales by these companies are on a c.i.f. basis; a contra-entry for insurance and freight is included in "other services".

Source: International Monetary Fund, International Financial Statistics (October 1949), page 144.

/However, exchange

However, exchange surrendered by the mining companies for capital investment is bought by the exchange authorities at a rate of 43 pesos per dollar. Imports by these enterprises are paid for with their own foreign exchange resources and therefore do not enter into the annual foreign exchange budget established by the exchange control authorities.

In addition to special treatment accorded to the large foreign-owned mining enterprises, the right to transfer of earnings and amortization of capital on other foreign investments may be assured by agreement with the exchange control authorities, pursuant to a decree of April 1945.<sup>1/</sup> The decree directs the exchange control authority to grant first priority to the transfer of earnings on registered foreign capital.<sup>2/</sup> It establishes the principle that such earnings may be transferred in their entirety. Capital may be amortized normally at an annual rate of not more than 20 per cent, but the rate may be increased up to 30 per cent if the invested capital produces foreign exchange or enables the country to save foreign exchange. These transfers have been effected until recently at a selling rate of 43.1 pesos per dollar. The buying rate for incoming capital has been 43 pesos per dollar. Following the establishment of the new temporary exchange rate in 1/ Decree No. 2040 of 16 April 1945.

2/ For example, the income and capital transfer requirements of the subsidiary of the American and Foreign Power Company, the second most important investment after mining, were accorded first priority in 1949. See the Company's Twenty-Fifth Annual Report, (1948) page 9.

January 1950,<sup>1/</sup> the rate for incoming capital was increased to 60 pesos per dollar, and a similar selling rate was applied to outward transfers.<sup>2/</sup>

Income received in the United States from direct investments in Chile, expressed as a percentage of the value of the investments declined in 1946 from the high point reached during the war. In 1943 the yield was 10.3 per cent and in 1946 about 9.3 per cent.<sup>3/</sup> In the less profitable pre-war years of 1938-1940 yields averaged 7.4 per cent. In 1943 the yield was considerably higher than the general average for United States investments in Latin America (6.6 per cent). By 1946, however, the yield in Chile had fallen slightly below the general average (9.7 per cent).

Available data indicate that the re-investment of earnings on United States investments in Chile has occurred to a smaller degree in Chile than in Latin America as a whole. The re-investment of earnings by subsidiaries, which account for 28 per cent of total United States direct investments in Chile, amounted to \$3 million, or about 10 per cent of earnings on all investments in 1945, and was negligible in 1946. The comparable

<sup>1/</sup> See footnote 1 on page 28.

<sup>2/</sup> Decree No. 1831 of 31 January 1950.

<sup>3/</sup> "Income received" included re-invested earnings of branch plants but not of subsidiaries. The value of the investments is the book value as reported to the United States government.

proportion re-invested in Latin America as a whole was about 25 per cent in each year.

The yields of interest and dividends transferred on British investments are considerably lower than those of income received on United States direct investments in Chile. It is to be noted that the estimates of these yields are not directly comparable with those for United States investments since the British yields include portfolio investments, relate only to interest and dividends remitted and are calculated on the basis of nominal or par values of securities traded on the London Stock Exchange.<sup>1/</sup> Railway securities, which constitute about a third of the British holdings, yielded only 1.5 per cent in 1938-1940 and 1.2 per cent in 1943 and 1946. The more profitable "miscellaneous" group, including nitrate holdings, which yielded only 1.5 per cent in 1938-1940, increased to 3.4 per cent in 1943 and 3.9 per cent in 1946.

### III. Government policy and foreign investment

#### A. General controls

##### 1. Entry of foreign capital

In general Chilean laws make no distinction between domestic and foreign nationals and firms with respect to the right to organize business enterprises. Specific authorization is required for foreign corporations to establish branches in the country, but this regulation does not appear to have been

<sup>1/</sup> South American Journal (London), 12 February 1949, page 79.



applied to exclude such enterprises. Authorization is also required for the formation of domestic corporations, whether organized by domestic or foreign interests.

Regulations limit the business of insurance to domestic companies but permit foreign interests to participate in such companies. Similarly, petroleum may be imported and distributed only by domestic companies, but foreign enterprises may participate in such companies.

Coastal shipping is reserved to vessels owned by Chilean nationals. Two-thirds of the capital of domestic airlines must be Chilean-owned and at least two-thirds of the members of the board of directors must be Chilean nationals. A government-owned concern operates domestic air transport facilities. By virtue of a special arrangement with this concern a foreign-owned airline (PANAGRA) has been permitted to operate domestic passenger service. Radio broadcasting is reserved for Chilean-owned enterprises.

Governmental control of new investment, domestic and foreign, is authorized by the so-called Law of Overproduction, adopted in 1932 as an anti-depression measure.<sup>1/</sup> In practice this Law has been invoked only to a limited extent in respect of certain branches of manufacturing. The Law empowers the President to declare specific industries "saturated", following which new factories may be established only upon authorization. Regulations

1/ Decree-Law No. 281, 25 July 1932.

/established

established pursuant to the Law in 1939 place certain restrictions on the transfer to foreign enterprises of factories in industries declared subject to the Law.<sup>1/</sup> As interpreted in practice the Law confers sufficiently broad powers to the government to require official approval of all new investment, domestic or foreign, whether or not a particular industry has been officially declared "saturated". In effect, therefore, all potential foreign investment is subject to specific approval in each case.

While Chilean legislation does not require that foreign capital be invested in any determined proportion in association with domestic capital, official encouragement has been given to the formation of enterprises involving joint participation by foreign and domestic investors. The purpose of this policy has been the stimulation of productive investment by domestic nationals and the introduction of modern industrial technique.

A number of such joint enterprises are important in Chilean manufacturing industry.<sup>2/</sup> In glass production, the Corning Glass Works and the Pittsburgh Plate Glass Corporation of the United States are associated with Cristalerías de Chile, S.A. Part of the stock ownership by the foreign interests represents an investment of funds and part reimbursement for patents, trademarks and technical assistance. In the tire industry, the General Tire and Rubber Company of the United States is associated with the enterprise

<sup>1/</sup> Decree-Law No. 1649, 14 November 1939.

<sup>2/</sup> Guillermo Aldunate Carvallo, op.cit., pages 171-190

known as "Insa". The Development Corporation stimulated the formation of this enterprise during the war in association with domestic private capital and the foreign enterprise. Supervision of plant construction and of production processes has been carried on by the General Tire Company. In asbestos-cement production, Belgian enterprise, through the firm "Eternit" which has widespread foreign interests, has been associated since 1938 with "Pizarreño, S.A." in Chile and has provided technical assistance as well as capital funds. The foreign copper and nitrate companies have invested jointly with the Development Corporation in the formation of the "Compañía de Aceros del Pacífico, S.A.", to which \$48 million of credit has been extended by the Export-Import Bank. Furthermore, capital stock, which the Development Corporation has the option of purchasing after initiation of production, has been taken in payment of services by the United States firm of Koppers Company, which designed the plant. An Italian-Chilean firm is reportedly proposing to establish a galvanized iron pipe plant near this steel mill.<sup>1/</sup>

A United States engineering firm, Kohorn Company, which designed a plant for the manufacture of rayon and other synthetic textiles for the "Victoria de Puente Alto" company has also taken capital stock in payment for services. Other instances of joint investment are found in industries manufacturing electric articles, soft drinks, milk products, and matches.

<sup>1/</sup> United States Department of Commerce, Foreign Commerce Weekly, 10 January 1949, page 14.

## 2. Personnel

Employment opportunities for nationals are safeguarded by the provision of the Chilean Labour Code that employers hiring five or more employees must employ Chileans to the extent of at least 85 per cent of the total, and must pay at least 85 per cent of total wages and salaries to such persons. This provision does not, however, apply to specialized technical personnel whose work cannot be performed by nationals. Chilean employees may not be paid less than aliens for similar work.

## 3. Taxation

The normal income tax consists of a basic rate, varying with the source of income, and surtaxes on incomes in excess of 50,000 pesos.<sup>1/</sup> The basic rate of taxes on corporate income, except in the mining industry, is 13 per cent. Corporate income in the mining industry is subject to a normal tax of 16.9 per cent. Iron mining enterprises, however, pay a lower rate of 7.8 per cent. The progressive scale of surtaxes on all types of income ranges from 7.7 per cent of the bracket of income from 50,000 to 100,000 pesos to 25.8 per cent of income over 2,000,000 pesos. Dividends distributed to the stockholders of corporations are also taxed at the rate of 19.5 per cent and in the case of bearer shares, at 28.6 per cent.

Excess profits, defined as those in excess of 15 per cent of invested capital, are taxed at the rate of 13 per cent on profits between 15 and 20 per cent of capital, 26 per cent between 20

<sup>1/</sup> Law No. 3996, 2 January 1924, as amended to date. /and 25 per cent

and 25 per cent of capital, and 39 per cent on profits in excess of 25 per cent of capital.<sup>1/</sup> Excess profits remaining after payment of this tax must be re-invested.<sup>2/</sup> Enterprises may re-invest such profits in the liquidation of their obligations, in the expansion of their activities, in other enterprises which will augment national production, or in bonds of the government's Development Corporation.

Foreign-owned enterprises, whether organized under Chilean law or operating as branches of foreign companies, are subject to a special tax of 16.9 per cent on income in addition to the normal taxes on business income and excess profits.<sup>3/</sup> However, taxes paid by foreign-owned subsidiaries on dividends distributed to their parent companies are offset against this tax.

Profits are also subject to taxation in order to provide for the housing of workers. The levy for workers' housing amounts to 5 per cent of the annual net profits of industrial and mining companies (4 per cent of nitrate companies), or 2 per cent if the companies provide housing for their workers.<sup>4/</sup>

In addition to the taxes mentioned above, enterprises engaged in the mining of copper are subject to a tax of 50 per cent of the income obtained as a result of increases in the price of copper

<sup>1/</sup> Law No. 7144, 31 December 1941.

<sup>2/</sup> Law No. 7747, 23 December 1943.

<sup>3/</sup> Title VI of Law No. 8419, 27 March 1946.

<sup>4/</sup> Law No. 7600, 8 October 1943

/over certain

over certain basic prices.<sup>1/</sup> The nitrate industry is exempt from the income tax since it sells at cost to a semi-official corporation, which in turn exports the product and distributes 25 per cent of its profits to the government.

Exemptions from certain taxes may be accorded to enterprises on an individual basis. Companies engaged in the production or processing of copper, iron or steel from domestic ores, may be granted total or partial exemption from income or other taxes, provided that 60 per cent of their share capital is owned by Chileans, or 30 per cent by the Development Corporation and 20 per cent by Chileans. Mining enterprises and manufacturing concerns engaged in the processing of locally extracted ores may be granted exemption from the excess profits tax and from the requirement of compulsory re-investment regardless of the nationality of their ownership. A similar exemption may be granted for a period of ten years to new enterprises that process domestic raw materials and produce articles not previously produced in the country in sufficient quantity to satisfy local demand.

#### 4. Commercial policy

Import duties and quantitative restrictions on imports are applied with a view to achieving the diversification of economic activities. This policy has probably tended to attract some foreign capital into manufacturing in Chile although it was not intended primarily for this purpose.

<sup>1/</sup> Law No. 7160, 20 January 1942.

Important upward revisions of the basic tariff of 1928 were made in 1931 and 1932 to protect domestic industries. "Essential" imports are generally subject to lower rates of duty than locally produced goods. Similarly, imports are generally taxed over and above ordinary customs duties, the usual rate being 18 per cent but a lower rate of 3 per cent being applied to goods "essential" to the national economy and a higher rate of 38 per cent to specified luxury items.<sup>1/</sup> It has also been a feature of Chilean commercial policy to accord exemption from import duties on capital equipment for certain new enterprises.

Domestic industries have also been protected by import quotas and exchange control. Direct import quotas have been applied to certain products, chiefly sugar, wheat, textiles, chemicals, glass and electric appliances. In the case of exchange control the local availability of goods has been an important criterion for the establishment of priorities.

#### B. Government participation in industry

The Chilean government participates directly in the nitrate industry, in railways, and in the electric light and power, petroleum and miscellaneous other industries through its Corporation for the Development of Production.

A State monopoly in charge of the export of nitrate and iodine was established on 8 January 1934. These monopoly rights were transferred by the government for a period of 35 years to the

<sup>1/</sup> Decree 2772, 18 August 1943, as amended.

semi-official entity known as the Corporación de Ventas de Salitre y Yodo de Chile. The Corporation's eleven-man board of directors consists of five governmental representatives, five representatives of the producers, and a chairman, elected by eight votes, who must be a Chilean. The chairman in practice has been the Minister of Finance.<sup>1/</sup> The Corporation allocates production quotas to the producers, who are required to sell their output to it at cost. The Corporation in turn sells the output abroad and distributes 25 per cent of the profits to the government and 75 per cent to the producers. This method of control was adopted primarily to facilitate competition abroad of Chilean nitrate with synthetic nitrates.

The Chilean government has extended its participation in public service industries by gradual acquisition from foreign owners of railways, a large part of which are owned and operated by its organization known as the Chilean State Railways, and by increased ownership and control of electric light and power enterprises. In 1936 the government acquired partial control of and a financial interest in the principal electric light and power concern, the Compañía Chilena de Electricidad, a United States-owned subsidiary. In 1945 it purchased a tramway system from this enterprise and acquired a five-year option to purchase all of the share capital of the enterprise. Moreover, the trends toward State participation in the electric power industry has been intensified in recent years

<sup>1/</sup> Felipe Herrera Lane, Política Económica, Tomo II, Santiago, 1948, pages 68-69.



through the activities of the Development Corporation subsidiary known as Empresa Nacional de Electricidad, S.A. The objectives of this official enterprise are: (1) the development of the primary generating possibilities of each region of the country; (2) the inter-connexion of regional transmission systems; and (3) the control of the entire system under a single agency.

Exploration for and refining of petroleum has been carried on exclusively by the Chilean government, in recent years through its Development Corporation. The right to explore, exploit and refine petroleum has been reserved for the State.<sup>1/</sup> In April 1948 the Development Corporation created the Chilean Petroleum Service to assume complete responsibility for the petroleum development programme. A State monopoly on the importation and distribution of petroleum and products was authorized in 1932<sup>2/</sup> but has not since been made effective. The government does participate in this trade, however, through Compañía de Petróleo de Chile, which was organized under official sponsorship and with partial official financing in 1934. This company shares the trade with two leading foreign concerns, one British and the other American.

The emphasis on economic diversification and development in the policies of Chile led to the formation in 1939 of a governmental Corporation for the Development of Production, which has come to

<sup>1/</sup> Law No. 4109, 23 December 1946; Law No. 4281, 15 February 1928; and Law No. 4927, 5 January 1931.

<sup>2/</sup> Law No. 5124, 17 May 1932.

assume an extremely important role in the further development of existing industries and in the formation of new ones. The Corporation was formed as a complementary organization of a Reconstruction and a Relief Corporation in April 1939, the latter concerned with the short-term problem of rehabilitation from earthquake damage that had occurred early in the year and the former with the long-run problem of development. In connexion with its general responsibilities for economic development and diversification, the Corporation was directed "to obtain greater participation of Chilean interests in industrial and commercial activities".

The Corporation has been active in a wide variety of specific industrial fields as a first step toward its objective of a more developed and better integrated economy. During the first phase of its activities, it spread itself over wide areas of the economy in agriculture, mining and commerce and miscellaneous industries. At the end of the second world war, the Corporation adopted a policy of concentration on a few main branches of activity, principally the production of steel, electricity, and petroleum, the construction of irrigation facilities and the importation and distribution of agricultural machinery.

The Corporation has invested its capital directly in industries on an equity basis and in the form of loans. It is at present co-owner of approximately sixty different enterprises. As regards its holding of shares, its "policy is to sell them as soon as the /enterprises are

enterprises are consolidated economically and financially and can gain the support of private investors".<sup>1/</sup> It thus applies a policy of stimulating the investment of private savings in productive activities rather than replacing private investment. In his annual message to Congress in May 1944, President Ríos stated that the Corporation should not compete with private initiative but should undertake ventures that do not attract private investment or are beyond the capacity of private firms.<sup>2/</sup>

The domestic financing of the Corporation was originally achieved by diverting to it government revenues derived from the copper industry, but the government contribution is at present made from the general budget. Additional capital is derived from income on the Corporation's own remunerative activities. Government contributions increased from some 176 million pesos in 1940 to 707 million pesos in 1948 and the Corporation's own income from 4 million to 155 million pesos. As previously indicated, the Corporation has also relied heavily on Export-Import and International Bank credits.

The broad powers of the Corporation and particularly its responsibility for elaborating a national plan of production place it in a potential position of virtually complete control over investment activity, domestic as well as foreign. It may contribute capital to new enterprises on its own initiative if

<sup>1/</sup> See Desiderio García, op. cit., page 124.

<sup>2/</sup> As quoted in George Wythe, op. cit., page 221.

such action is deemed of national interest.

C. Attitude toward foreign investment

Chilean governmental authorities have expressed the view that foreign financing is necessary for the achievement of a desirable rate of economic development because of the insufficiency of domestic savings and the inflationary consequences of attempting to achieve such a rate of development without foreign assistance. Emphasis has been placed on governmental loans from abroad, although private equity capital has also been assigned an important role in the development programme. In a public statement in February 1949, the President of Chile stated that the country's programme requires foreign loans for basic development. Foreign loans have been stressed because of the unattractiveness to private investors of investments in public utilities and other basic development projects and because of the influential role of the Development Corporation in starting industries, such as steel, not deemed by such investors as sufficiently profitable, in view of the risk and heavy outlays involved. The President also stressed that Chile desires foreign private capital to join with domestic capital in developmental projects and that foreign investors may be assured of non-discriminatory treatment. In his annual message to Congress in May 1949, the President indicated that "as regards the inflow of private foreign capital, the collaboration of which is so necessary for us, my government is disposed to enter into

/agreements

agreements with capital-exporting countries that will contribute to the removal of the principal obstacles which obtain at present such as, for example, the elimination of double taxation."<sup>1/</sup>

Chilean officials have expressed the view that foreign loans should not be limited to providing the foreign exchange required for capital goods imported for specific development projects. At the meeting of experts on financing of economic development sponsored by the United Nations in November 1949, the Chilean expert present expressed the following views of this subject:

"The more one studies economic developments capable of resulting in an increase of production, in the lowering of costs and, generally in a real improvement of the living conditions of the people as a whole, the more one becomes convinced that in the under-developed countries it is impossible to make any progress with the systems employed in recent years whereby external aid is received only in the form of imports of machinery and other essentials, leaving all local expenditure to be covered with internal resources of the country itself. The result is either that because the investment in national currency has to be financed from ordinary savings, development is so slow, especially in the early stages, that it does not represent an effective improvement sufficient to prevent the unrest and chronic political and social discontent common in our countries, with all their attendant dangers, or, if it is sought to make the rapid progress required by the circumstances, the economy of the under-developed countries must make an effort in excess of its normal capacity, which inevitably results because of the unduly large capital issues which have to be made, in an inflationary process of forced savings, and this neutralizes the beneficial effects of economic development for a comparatively long period."<sup>2/</sup>

1/ Mensaje de S.E. El Presidente de la República don Gabriel González Videla al Congreso Nacional al inaugurar el período ordinario de sesiones: 21 Mayo de 1949, page XI.

2/ Desiderio García, op. cit., page 141.

