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The Soviets Abandon Allende

During Salvador Allende's last year as President, the Soviet Union failed to provide the massive financial assistance so desperately needed to bolster Chile's staggering economy. In December 1972, Allende traveled to Moscow in search of untied convertible currency credits or commodity assistance to relieve Chile's balance of payments crisis. Instead Moscow granted more long-term credits, largely to finance the import of Soviet machinery and equipment, and offered advice to set Chile's economic house in order.

During his first two years in office, Allende frittered away the inheritance from the Frei years. Continuing trade deficits and large capital outflows caused Chile's net foreign exchange reserves to plummet from \$378 million in September 1970, the month Allende was elected, to minus \$289 million in December 1972.

Mounting trade deficits reflected both increasing imports, and falling export earnings. In contrast to the \$245 million trade surplus in 1969, the 1972 trade deficit reached \$427 million. Much of the increase in imports was due to the massive foodstuff purchases abroad, as food imports tripled during 1970-72 to \$400 million. Agricultural production fell more than 20% during 1972 and 1973, while Allende's policies encouraged growing demand.

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With Chile's poor international credit rating and its lack of convertible currency, Allende turned to the Soviet Union for assistance in obtaining desperately needed foodstuffs, petroleum, spare parts and other commodities. In the face of these needs, Moscow's response was clearly inadequate. During 1971-73, the Soviet Union authorized short-term credits totaling \$98.5 million and long-term supplier's credits amounting to \$162.0 million, but Chile was able to utilize little of either line of credit. Moscow may have failed to grant larger credits because it was already supporting Cuba at great cost and agricultural difficulties at home were causing the Soviet Union to import substantial quantities of wheat from the United States.

During the first eight months of 1973 the Soviet Union refused to grant additional credits, despite continuing deterioration in the economy. Agricultural production fell from the 1972 low, necessitating food imports of \$650 million. Industrial output continued its decline. Copper production, which accounted for most of Chile's foreign exchange earnings, also began to drop.

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Table 1

Imports of Foodstuffs

| Millions US \$ |             |             |             |             |
|----------------|-------------|-------------|-------------|-------------|
| <u>1969</u>    | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> |
| 128            | 192         | 260         | 404         | 650         |

Table 2

Trade Balance

| Millions US \$   |             |             |             |             |             |
|------------------|-------------|-------------|-------------|-------------|-------------|
|                  | <u>1969</u> | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> |
| Imports (c.i.f.) | -927        | -1,001      | -1,085      | -1,285      | -1,447      |
| Exports (f.o.b.) | 1,172       | 1,135       | 984         | 858         | 1,191       |
| Trade balance    | 245         | 134         | -101        | -427        | -256        |

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Table 3

Net Foreign Exchange

| Millions US \$                 |                                 |                                |                                |                                |
|--------------------------------|---------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <u>December</u><br><u>1969</u> | <u>September</u><br><u>1970</u> | <u>December</u><br><u>1970</u> | <u>December</u><br><u>1971</u> | <u>December</u><br><u>1972</u> |
| 219.8                          | 377.6                           | 343.5                          | 39                             | -289                           |

Table 4

Annual Percentage Increase in Cost of Living  
(December to December)

| <u>1969</u> | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973 a/</u> |
|-------------|-------------|-------------|-------------|----------------|
| 29.3        | 34.9        | 22.1        | 163.4       | 710.0          |

a. Computed on a new index.

Table 5

Percentage Changes in Gross Domestic Product

| <u>1969</u> | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973 a/</u> |
|-------------|-------------|-------------|-------------|----------------|
| 3.3         | 3.7         | 8.3         | 1.6         | -9.3           |

a. January-September

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