The object of this study is to examine the way in which Chile’s external economic relations affected the transformation of its economy while the Unidad Popular (UP) Government was in power. To do this, we must pay special attention to the following points: (1) the level and ‘style of development’ that prevailed before this transformation process was initiated; (2) the policies contained in the programme of economic transformation and the way in which they were carried out; (3) the behaviour and relative strength of the social groups, inside and outside Chile, which supported or were affected by this transformation process.

The discussion that follows has been organized within this frame of reference. It should be kept in mind that this chapter is merely part of a larger study dealing with the international system and the internal situations in the developing countries as interdependent phenomena; that the role of foreign trade is only one dimension of the problem; and that Chile represents a specific experience from which it is possible to derive lessons that may be useful for other countries.

In the first section we shall discuss the main features of the Chilean economy during the 1960s, with particular emphasis on the external sector. Here we shall focus on trade relations with the United States and we shall try to measure their impact on the Chilean economy.

In the second part we shall examine the way in which implementation of the UP Government’s Programme affected the external sector. This will be followed by an analysis of the Government’s policies and achievements in relation to the external sector. We shall conclude with some general comments on the economic blockade.

The basic argument of this chapter is that the transformation process in Chile between 1970 and 1973 was shaped and determined by internal factors.

Footnotes and tables to this chapter may be found on pp. 168-181.
We must not, of course, minimize the significance of external constraints for there are indeed lessons to be learned from them that might be useful to other countries. However, we are drawn to the conclusion that these external constraints were unavoidable and that in fact they were not applied to Chile with as much rigour as they might have been. Thus the problem should be seen as one of managing the process of change in such a way as to be able to cope with the kinds of external constraints that are certain to emerge whenever genuine social transformations are attempted.

1. THE CHILEAN ECONOMY DURING THE 1960s

1.1. Introduction

We shall begin discussing the main features of the Chilean economy during the 1960s by giving a general survey of the economy during that period; this will be followed by a more detailed discussion of Chile's trade relations with the United States. (The evolution of the external sector in general is discussed in Alexis Guardia's 'Structural Transformations in Chile's Economy and in its System of External Economic Relations' (Chapter 3 of this volume) and will therefore not be examined here.)

Because of the fact that Chile's major external conflicts involved U.S. companies and the U.S. Government, it seems useful to probe the relationships with them in order to establish whether they really had a 'strategic' character and to obtain a general picture of the ways in which the United States was able to affect the Chilean economy.

The fact that a country has attained a certain level of industrial development makes it more vulnerable to external constraints. In semi-industrialized countries, import restrictions affect mass domestic consumption through the effect on the level of economic activity and the creation of new jobs. Obviously the political consequences of import restrictions in this kind of situation are quite different from what they might be in a situation where only high income groups are affected.

This is one of the issues which makes us feel that a close examination of the 'style of development' in which the transformation process was launched is necessary.

1.2. Problems in the Chilean Economy during the 1960s

During the 1960s it was becoming obvious that Chile's capitalist economic system was in difficulty. *Per capita* income was growing slowly at an average rate of about 2% *per annum* during this period, but by the end of the decade the