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The international price of copper is the lowest it has been in four years, a result of the Asian financial crisis and an oversupply on the world market. Chilean economists are watching the continued fall of copper prices with growing pessimism, as concerns about the economy spread.

Chile is the world's largest copper producer. This year it expects to extract 3.7 million tons, an increase of 8.8% compared with the 3.4 millions tons produced in 1997. Last year, the value of copper exports reached US$17 billion, although income is expected to decrease this year by about 10%. The growth in output has largely come from increased foreign investment in the mining sector. Investors have been attracted by growing demand for copper in Asia, especially China, where the construction, electricity, and arms industries saw substantial growth in demand, as did the auto and telecommunications industries.

In early January, however, the price of copper on the London exchange reached US$0.74865 per pound, the lowest since December 1993, when the price was US$0.74004 per pound. The current low comes on the heels of a four-year boom in copper prices. From 1994-1997, the average price remained above US$1.00 per pound, with the price peaking in 1995 at US$1.332 per pound.

Aldo Picozzi, an executive with the state-run Chilean Copper Commission, estimates that the lower prices will hang on for the next several years, since industry analysts expect about 500,000 tons of excess copper on the world market during the next four years.

However, he did expect to see some recovery in prices over the January lows. Chile's Minister of Mining, Sergio Jimenez, said the government will be forced to draw on the Copper Stabilization Fund, a financial mechanism set up to minimize the impact of drops in world copper prices on the state budget.

Copper woes spread to rest of economy

Also in early January, the peso weakened on concern that export revenue will fall as Asia buys less copper and other Chilean commodities. About one-third of Chilean exports go to Asia, making it the most exposed country in Latin America to Asia's economic problems. The Central Bank, which fears that the slowdown in Asia will lead to unmanageable trade deficits, raised interest rates on Jan. 8 by nearly 7 percentage points, from 6.5% to 13%. The bank hopes to curb consumer spending and slow imports.

Last year, spending outpaced economic growth by 1.5 to 2 percentage points, according to Central Bank president Carlos Massad. "That's a rate of growth in spending much higher than we estimated and, in the context of difficulties abroad, it puts the stability of Chile's economy at serious risk," Massad said.

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Massad added that Chile would take "harsh" measures to check the plummeting peso and head off inflation. In December, the bank sold between US$700 million and US$800 million, accounting for most of the US$982 million decline in the bank's foreign reserves. But with US$17.84 billion in net international reserves, the bank still has ample room to shore up the peso. One of the world's strongest performers last year, the peso started sliding in October, and its decline accelerated in early January. Jan. 8 was the currency's worst day in five years, as it tumbled 3.2% against the dollar. [Sources: Notimex, 01/08/98; The Miami Herald, 01/08/98, 01/10/98; Inter Press Service, 01/05/98, 01/07/98, 01/12/98; Journal of Commerce, 01/12/98]

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