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PAYMENTS AND TRADE IN LATIN AMERICA

Current problems

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INTRODUCTION

At the sixth session of the United Nations Economic Commission for Latin America (Bogota, Colombia, August-September 1955), the States members of the organization resolved to set up a Trade Committee (Resolution 101 (VI)). ^{1/} It will be the task of this Committee to make specific recommendations for the solution of the problems analysed in the Study of Inter-Latin-American Trade (E/CN.12/369) or of others relating to commercial policy, payments, maritime transport and trade in certain products. Another of its aims will be to promote the development of an inter-Latin-American trade policy consistent with measures designed to expand the region's trade with the rest of the world.

During the discussions held in Bogota it was agreed that at its first session the Committee should give priority to the examination of payments questions, the special features of which had already been analysed with considerable thoroughness in document E/CN.12/369.

Shortly after the adoption of the resolution cited, the exchange reforms introduced in some of the Latin American countries - partly as a step towards multilateralism in their foreign trade - brought about radical changes in certain bilateral channels of intra-regional trade, where payments are governed by the clearing system. The new problems thus created, most of which are still existent at the date of completion of the present report, began to arouse feelings of concern in the region which relate not only to the future expansion of inter-Latin-American trade, but also to the more immediate aim of maintaining its present levels.

In order to prepare a background document for the Committee's first session, which would enable changes in payments systems to be discussed on the basis of fuller data than those presented in the Study of Inter-Latin-American Trade (E/CN.12/369), the ECLA secretariat set up a special

^{1/} The text of resolution 101 (VI) is given in Annex 3 at the end of this report.

group of three experts on foreign trade. ^{2/} The preliminary work of sending out questionnaires once completed, the group visited, during May and June 1956, the Latin American countries playing most part in intra-regional trade, as well as others which also feel the repercussions of the reforms mentioned. In seven countries in all, the group contacted the foreign trade and Central Bank authorities, as well as officials from parastatal institutes and private organizations connected with trade and production. The present report sums up the data and suggestions gathered in the course of the survey; these touch not only upon the specific problems of bilateralism, but also - and primarily - on the possibility of advancing towards a multilateral system. For the sake of brevity, the analyses or statistics of inter-Latin-American trade which appear in document E/CN.12/369 ^{3/} are not included in this paper.

The present report is divided into two parts. The first, "Payments and recent exchange reforms", begins with a brief review of the situation up to August 1955, and goes on to consider the subsequent reforms and their consequences, both in general and with respect to intermediate and manufactured products; the second, dealing with the "Search for ways of solving current problems", and using information and opinions gathered by means of the survey, analyses the bases of certain measures that are now being studied in competent circles with a view to overcoming the intra-regional trade difficulties created by the reforms in question. Lastly come the annexes, in two of which the new international exchange measures are examined (Annex 1), and a summary is given of the various countries' replies to relevant consultations by ECLA on aspects likely to be of use in establishing the general lines and at the same time analysing the

^{2/} The group was composed of two ad hoc consultants - Mr. Eusebio Campos, from Argentina, and Mr. José Garrido Torres, from Brazil - and Mr. Esteban Iovovich, Chief of the ECLA Inter-Latin-American Trade section.

^{3/} A revised edition of this document has also been placed at the disposal of the delegates to the first session of the Trade Committee. (See E/CN.12/C.1/2.)

possibilities for a Latin American multilateral trade policy, both over the long term and during a necessary period of transition (Annex 2). ^{4/}
A third annex gives for the information of delegates the text of resolution 101 (VI), by virtue of which the Trade Committee was created.

^{4/} On broader lines than those laid down for the preparation of the present report, the opinions collected during the ECLA groups' survey are analysed, and some recommendations presented, in document E/CN.12/C.1/4, under the signature of the consultants Mr. Eusebio Campos and Mr. José Garrido Torres.

I

PAYMENTS AND RECENT EXCHANGE REFORMS

1. Situation in August 1955

a) Bilateralism and clearing accounts

The situation recorded over a period of years with respect to payments deriving from the movements of goods and services within Latin America, was analysed with considerable thoroughness in Chapter V of the Study of Inter-Latin American Trade, presented at ECLA's sixth session. The examination of the changes which have taken place since that meeting, and which appear to constitute the initial phase of a highly important process of development, may usefully be preceded by a brief reminder of certain features characterizing the intra-regional payments system in force when the above document was prepared.

The annual registered value of the transactions involved in the Latin American countries' reciprocal trade amounted in 1955 to 737 million dollars in each direction. Although all the republics take part in this trade on a larger or smaller scale, about nine-tenths of the total sum corresponds to operations carried out in South America, largely under the clearing accounts system. In 1955, if petroleum values are excluded, such accounts covered approximately 85 per cent of inter-South-American trade.

The motives governing so substantial an augmentation of the clearing accounts régime among most of the South American countries are not quite the same as those that determine the establishment of a clearing system with States in other regions. To begin with, under the exchange control régime, which often stipulates that an import licence be obtained in every case, the appropriate permit is usually granted provided that at the time of issue foreign exchange holdings exist in the currency in which the supplier country is to be paid. Under the clearing system, the licence can be given even if exchange is not available, since its issue does not imply the authorization of a transfer of foreign currency which will have to be effected practically at once, or within a very short time limit.

For the moment, the transaction is merely an item noted on current account, which will affect the amount of the balance to be liquidated at the end of the period agreed upon between the parties, or when the balance concerned rises above a predetermined critical level. Other reasons besides this explain the extension of the system of clearing accounts. Some republics saw in others within the region itself an important potential market for their surpluses of primary and intermediate goods, as well as for certain manufactured products, and made a sustained effort to give the sale of these commodities the backing of a mutually advantageous policy. Such a policy was often reflected in the conclusion of short-term but constantly-renewed agreements, providing for the exchange of products for approximately equivalent values through operations liquidated within the clearing accounts concerned. As these accounts formed part of the system of selective and quantitative controls applied by each country to its imports as a whole, their mechanism served a further end, by protecting goods which the Latin American countries exchanged on a basis of surcharges - these being due to low domestic productivity or to over-valued export exchange rates - from the effects of foreign competition within intra-regional trade.

The widespread adoption of the clearing accounts system was also connected with certain circumstances peculiar to trade policy in South America. The tariff instruments previously signed by some of the largest South American countries with States in other regions contained no saving clause that left an adequate margin for the establishment of special intra-regional tariff treatments, to the benefits of which goods exported by the States in question were not also entitled. Consequently, these instruments prevented or hindered the conclusion of agreements designed to promote inter-Latin American trade by means of customs rebates and exemptions confined solely to trade within South America. The trammels thus imposed on commercial policy particularly hampered inter-Latin-American trade in intermediate and manufactured products. In these conditions, the only course open was to resort to instruments based on

/exchange control

exchange control - including clearing accounts -, since the contracting parties could use these at their discretion, almost entirely uncircumscribed here by the restraints deriving from treaties with countries in other regions. As a result, the system of payment on clearing accounts often was - and still is - a basic tool of commercial policy within intra-regional trade among most of the South American countries.

In those Latin American countries where foreign trade has been subject to direct controls, it is recognized that the clearing system permits the removal or reduction on reciprocal terms of the handicaps arising from the shortage of convertible foreign exchange, and even, at times, the creation of incentives to trade in intermediate and manufactured products. Thus in some cases, by virtue of such factors as the determination, within the accounts, of high reciprocal credit levels, certain goods have been exempted from the import licence regulation, and flexible rules have been laid down for the settlement of debit balances allowing their value to be covered in commodities, (for example, instead of in United States dollars).

b) Heterogeneity of methods

The heterogenous nature of the various trade and payments agreements which form the groundwork of the clearing system stands out in sharp contrast to the homogeneity of the motives that have dictated its widespread adoption in South America. The basic clauses of these instruments differ widely from one to another. There are striking divergences of opinion on matters so important as the granting of most-favoured-nation exchange treatment, the observance of parities, reciprocal credits, settlement of balances, re-exports, inclusion or exclusion of invisible items, etc. From another standpoint, even the methods of registering operations and the accounting procedures used vary so greatly that there are occasions when on one and the same date substantial discrepancies appear between the balance situation as recorded by one of the contracting parties and as shown on the books of the other.

/c) Lack of

c) Lack of co-ordination among accounts

Furhtermore, the lack of a tradition of close collaboration among the Latin American countries, with respect to the practical manifestations of trade policy at the inter-Latin-American level, is reflected in each account's absolute isolation from the rest. Apart from the wide range of criteria and methods by which the mechanisms of the accounts are determined, no source of information has as yet been organized from which periodical indications of the over-all situation in the bilateral balances can be obtained. Neither do the relevant agreements contain clauses providing for transfers between more than two countries, despite the constant accumulation of balances in certain bilateral channels. Private enterprise sometimes manages to unfreeze such balances by means of awkward combinations. Hence the system of watertight compartments which characterizes the present structure of the accounts is clearly not the most adequate to ensure any considerable broadening of the market which Latin America can offer to its intra-regional trade.

d) Co-ordination and transferability

The search for solutions to these problems dates from several years back. In competent circles consideration has more than once been given to the idea of instituting a multilateral clearing system, which would inevitably be accompanied by some measure of liberalization of trade in goods and services. Although full background data - such as those relating to the balance of payments between one republic and another - have not hitherto been collected for a complete study of trade balances, some useful conclusions can be reached. If such an undertaking is to be successful, it must be embarked upon by gradual stages. The magnitude of the disequilibria recorded during the last decade or two by some republics in their inter-Latin-American trade is one of the factors whose persistence might prevent the machinery of the clearing system from running smoothly. However, grounds are not lacking for the belief that some of the most serious imbalances might be corrected by means of

suitable commercial agreements and a trade expansion programme. In certain cases a prerequisite would be the establishment of realistic instead of over-valued export exchange rates. For these and other reasons - as was pointed out during the discussions held at ECLA's sixth session - in present circumstances it seems advisable for the time being to pursue aims less ambitious than the institution of what might properly be termed a clearing organization. To such an end - and this too was suggested at Bogota - measures might be put into effect with a view to gradually transcending, in the course of a period of transition, the rigid bounds imposed by bilateralism as it exists at present. The steps to be taken would be directed towards the achievement of some degree of co-ordination in the system of clearing accounts, perhaps as a first move towards their future incorporation into an integrated payments régime covering the whole or a sector of Latin America. This phase would have to be supplemented by another giving more or less immediate priority - still as a means of approach to reforms of broader scope - to at least two complementary measures, i.e. a) modification of the system of exchanging commodities within the clearing accounts on the basis of short-term agreements, delays in the renewal of which interrupt the continuity of trade; and b) the establishment of a mechanism for the voluntary transfer of balances above given levels between more than two countries, with a view to effecting payments both within and outside the region.

e) Commercial relations between the clearing and multilateral trade sectors

To complete this brief indication of the most salient general features of the inter-Latin-American payments situation up to the third quarter of 1955, and of the suggestions mooted in competent circles as to possible solutions for some of the problems connected with trade based on clearing agreements, mention must be made of a significant fact. While clearing accounts represented a way out of the difficulty created by the shortage of convertible currencies in the reciprocal trade of the southern countries of Latin America, which by this means expanded remarkably in specific channels, trade with those Latin American countries where multilateral commercial practices were prevalent remained at very low levels. In fact,

/the figures

the figures for transactions between one sector and the other still account for less than 10 per cent of intra-regional trade as a whole. Although various agreements aimed at the intensification of such trade have been concluded, one of the gravest impediments seems to be constituted by the surcharge which is the usual rule in those republics where exchange control imposes over-valued export rates. Other obstacles originate in geographical factors, and also in the extra costs deriving from the lack of direct maritime transport services on certain routes, and the consequent need for trans-shipments. In such circumstances, operations aiming, for example, at the establishment of a reciprocally advantageous commodity trade in petroleum royalties on the one hand and cereals, fats, tinned foodstuffs and manufactured goods on the other, have failed to result in more or less steady trade flows between one sector of South America and the other, despite the complementary nature of many of their natural resources.

f) The customs tariff and the clearing system

Furthermore, an analysis of the significance of clearing accounts in inter-Latin-American trade would not be complete without an explanation of why they are used for purposes proper to the customs tariff.

In the first place, it should be recalled that repeated endeavours have been made to co-ordinate the economies of Latin American countries by means of tariff agreements - often signed and never subsequently ratified -, with little or no practical success. Failure has sometimes been due to a certain vagueness in the wording of the commitments implied by such agreements, attributable to the fact that no clearly-defined programmes had been drawn up beforehand. Sometimes they were too ambitiously conceived to be consistent with the objective possibilities of the markets it was desired to unify or co-ordinate. In other instances, the repudiation and dispute of agreements already concluded has been allied to political considerations. Again, it was the broad scope of basic tariff treaties with countries in other regions, or the existence in such instruments of unconditional most-favoured-nation clauses containing no reservation on behalf of inter-Latin-American preferential treatment, that on other occasions prevented the agreements concerted from being put

/into force.

into force. The Southern Zone offers very clear cases in point. Moreover, the basic treaties mentioned above, and the national importance of the economic interests they involve, have some bearing upon a curious aspect of the region's trade, namely, the lack of agreements - in the case of certain countries - providing for the mutual application of the most-favoured-nation clause as minimum treatment in the commodity trade concerned.

A distinction must be drawn within this general picture. Not all the Latin American countries have so little freedom to use the customs tariff for purposes of special inter-Latin-American agreements. ^{5/} Broadly speaking, the limitations are most marked in those countries whose reciprocal trade is based on clearing accounts, although the two facts do not represent cause and effect. This situation is reflected in a very peculiar feature; in trade pacts signed in the Southern Zone of Latin America during the last fifteen years, is rarely had to tariff agreements.

The disuse into which agreements of this kind have fallen is clearly not unrelated to the special features of the situation in Argentina, where the inefficacy of the customs tariff seems to have reached an extreme; in 1953 the duty paid by the importer represented on an average little more than 4 per cent of the value of the goods on which it was imposed. ^{6/} Contractual limitations, which leave Argentina scant liberty to use the tariff as an instrument for import selection and for the encouragement of its inter-Latin-American trade, have probably also helped to determine the line of conduct almost universally followed by the southern countries, that is, the conclusion of treaties designed to regulate and expand reciprocal trade without recourse to tariff agreements. Moreover, this explains the interest - plainly observable in the course of the ECLA survey - felt in various Latin American capitals as to the

^{5/} The five Central American countries (Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador) are at present studying a draft multilateral treaty prepared with the technical co-operation of the ECLA secretariat.

^{6/} See Study of Inter-Latin-American Trade, op.cit., chapter IV, section I, point 1.

possible attitude of Argentina towards the General Agreement on Tariffs and Trade (GATT). Patently the factors influencing the decision whether to accede to this instrument or not differ from one individual country to another, and relate both to trade policy proper and to programmes for expanding domestic production of articles similar to those negotiated under the terms of customs agreements. As regards these latter, when a country is a member of the GATT, its application of the prohibitions or quantitative restrictions that it deems needful for the protection of a given line of domestic production is subject to certain conditions and consultations. If, after weighing these factors, Argentina decides to join the GATT, and the result, as in the case of other republics, is a strengthening of the country's capacity for tariff negotiation, much more use might be made of the customs tariff in future as an instrument of trade policy within Latin America. The role of the clearing system would then become less important. Opinions such as these were expressed to the members of the ECLA group in various countries.

Yet another aspect must be considered. The adoption of exchange measures or of means deriving from quantitative controls in order to channel or expand inter-Latin-American trade is subject to certain limitations in the case of countries that are members of the GATT or of the International Monetary Fund. Under the regulations of both these organizations, quantitative restrictions may be applied, on certain conditions, if they can be justified on the grounds that they will help to stabilize the balance of payments. ^{7/} In countries that show a deficit in their external accounts, measures of this kind have at the same time served other ends, such as the protection of domestic industry against competition from alternative products of foreign origin, as well as the safeguarding and expansion of inter-Latin-American trade. The support given to the latter by such means - subject to the balance-of-payments situation - would therefore be gradually weakened in proportion to the progressive improvement in the capacity for external payment.

^{7/} See Article XII of the GATT and Article XIV of the International Monetary Fund Agreement.

2. Recent exchange reforms and inter-Latin-American
trade on clearing accounts

a) Revision of monetary and exchange policies

Since September 1955, when ECLA's sixth session came to an end, interesting developments have taken place in the monetary and exchange policies of certain Latin American countries. Broadly speaking, these events reflect current trends towards economic liberalization, and are also the outcome of a more resolute attitude to inflation on the part of individual countries.

As far as the exchange system is concerned, the new situations arise from reforms of varying scope, but in essence dictated by the same aim of establishing more realistic exchange rates, which can be rapidly adjusted to the evolution of the structure of prices at the domestic level. These measures have meant the modification or discarding of former systems based on exchange rates which were, as a rule, strikingly over-valued and were separated from reality by a gap that widened almost as fast as inflation grew.

Another element shared in common by some of the exchange reforms is the abolition or reduction of multiple exchange rates, which had attained considerable variety. This régime had fostered the increase of administrative machinery for dealing individually with innumerable private applications for export and import permits, on the basis of procedures in which the decision often did not depend solely on factors of a strictly economic nature.

Furthermore, the guiding principle in the establishment of export exchange rates was usually related to the production costs of the goods exported. Lower rates were assigned to export commodities in whose case productivity was high or satisfactory, so that these were at a disadvantage in relation to the sector which registered heavier costs or could bring greater influence to bear on the modification of the exchange rates in force. Moreover, the higher rate of exchange allotted to certain exports increased the price of the foreign currency which the official

/exchange control

exchange control organization bought from exporters. When this raised import exchange rates in general, the consequent upward movement in the price of foreign exchange also meant heavier production costs in the most productive activities, which had not reaped the benefit of the increase in the export exchange rate.

As a general rule, the exchange controls in force before the reforms were primarily aimed at restricting imports. But, for fear of the possible repercussions of an over-all modification of exchange rates on the cost of living and inflation, the rates were maintained at unrealistic levels. The inevitable consequence of such a system was the discouragement of exports, while imports felt the effects of the pressure arising from the artificial rates of exchange. As a corollary, the stabilization of the balance of payments was sought through the application of severe quantitative controls. In essence, the régime maintained low exchange rates for imports, the volume of which was generally considerably below the country's requirements. It was by no means unusual in practice for profit margins intended to benefit the final consumer to remain in the hands of some of the intermediary sectors.

Furthermore, the magnitude of the private interests affected by the movements of exchange rates, and the suspicions aroused by the struggle to obtain licences, were among the factors which helped to create a climate favourable to the shelving of the method in question. In some countries allusion was made to the "moral price" of the system, over and above its economic cost. It was obvious, too, how wearisome were felt to be the procedures involved in reaching a separate decision in each individual case. All this must have influenced the adoption of a solution which would afford greater competitive freedom to the import and export trades.

Certain countries, therefore, within their over-all programmes in the sphere of economic and monetary policy, tackled the task of modifying their exchange régimes, with the aim of unifying the multiple rates and establishing approximate parity between the internal and external purchasing power of the national currency. Argentina and Brazil, moreover,

/negotiated with

negotiated with European countries the institution of multilateral trade zones - the Paris and The Hague Clubs - in which use was made of European currencies reciprocally convertible on a parity basis.

The exchange reforms to be described below ^{8/} created or aggravated certain difficulties for inter-Latin-American trade. Two circumstances constitute the focal points of these problems. First, the import licence system has to some extent lost its importance as a selective instrument for determining the source of imports, since the new régimes give the importer more freedom to make his purchases indiscriminately in various markets. Secondly, there are signs of a tendency, non-existent before the reforms for buyers' decisions to depend mainly on considerations relating to price, quality and trademark prestige. Some deterioration is already observable in intra-regional exports of Latin American intermediate and manufactured goods for which productivity conditions are not as satisfactory as for those from other regions. Secondly, on some of the exchange markets resulting from the reforms introduced, quotations for the units of account utilized in inter-Latin American trade are lower than those registered for convertible foreign exchange, because of the non-transferability of these currencies and the want of arbitration mechanisms. Consequently, not even when productivity conditions match those prevailing for competing goods, can certain intra-regional export flows maintain the levels hitherto attained.

b) Use of convertible foreign exchange

In the context of the reforms, various circles are wondering whether it would not be preferable and feasible to use United States dollars or other transferable foreign exchange for the intra-regional trade payments at present effected through the fifteen clearing accounts which exist in Latin America (see table 1), and within which operations to a value of 432 million dollars in each direction were liquidated in 1955.

^{8/} See Annex 1.

Table 1

LATIN AMERICA: PAYMENTS AGREEMENTS IN FORCE

Contracting parties	Dates of entry into force and expiry	Unit of account	Reciprocal credits (Millions of dollars)	Liquidation of balances
1) Argentina-Bolivia	9. 9.54 24. 9.57	Dollar-units of account	3 _{a/}	Up to 18 months after the expiry of the agreement, in commodities. After that date, in United States dollars.
2) Argentina-Brazil <u>b/</u>	25. 6.54 31.12.56	"	40 _{a/ c/}	In commodities on expiry of the agreement, in two annual quotas. The remainder in United States dollars
3) Argentina-Chile <u>b/</u>	19. 2.54 31.12.58	"	15 _{a/}	In commodities up to 18 months after the expiry of the agreement. The remainder in United States dollars
4) Argentina-Ecuador <u>b/</u>	22. 8.53 22. 9.56	"	2 _{a/}	After one year, in commodities. The remainder in United States dollars
5) Argentina-Paraguay	14. 8.53 14. 8.56	"	5 _{a/}	After 6 months, in the form agreed upon by the two Governments
6) Argentina-Uruguay	27. 8.48 5. 9.56	"	8.4 a/ d/	Within a term of three years, in United States dollars
7) Bolivia-Brazil	24.12.53 23.12.56	"		
8) Bolivia-Chile	10.11.55 10.11.56	"	0.5	After 9 months, in United States dollars
9) Bolivia-Uruguay	29.11.55 29.11.56	"	0.5	In commodities, within one year after the expiry of the agreement. The remainder in United States dollars
10) Brazil-Chile	19. 4.41 (no fixed date of expiry: 3 months notice required)	"	3.2	In United States dollars
11) Brazil-Uruguay	28.12.49 (no fixed date of expiry)	"	3 a/ d/	
12) Chile-Ecuador	4. 8.49 (automatic annual renewal)	United States dollars	0.25	Every six months, in United States dollars
13) Colombia-Ecuador	1. 4.49 (automatic annual renewal)	Sucres and pesos	g/	Every six months, in United States dollars
14) Ecuador-Uruguay	4. 6.55 4. 6.58	Dollar-unit of account	0.2	Six months after the expiry of the agreement, in United States dollars
15) Paraguay-Uruguay	10. 1.53 10. 1.57	"	4 _{d/}	On expiry of the agreement, in United States dollars
Total reciprocal credits			85.05	

Sources: Ministries of Foreign Affairs and Central Banks.

Note: The conclusion of a payments agreement between Brazil and Paraguay is under consideration.

a/ Establishes the observance of parity with the United States dollar.

b/ Contains the most-favoured-nation clause with respect to exchange rates.

c/ This credit is unlimited. The sum noted represents the maximum reached in October 1954. Interest -- 2 per cent -- is payable on the balance only when this exceeds 15 million dollars; if it rises above 30 million, 2.5 per cent is payable on the excess.

d/ Interest is payable on the debit balance.

While the reforms were still being introduced, some countries thought of extending the new general principles to inter-Latin-American trade and discontinuing the practice of bilateral clearing agreements. But the studies carried out in each case by the local authorities promptly led to the conclusion - as the survey showed - that a measure of this kind might at the present time be prejudicial to intra-regional commerce, and would at best be premature. It is apparently felt that years of inter-governmental effort to consolidate trade relationships based on the complementarity of certain natural resources and on the new requirements created by economic development, would be frustrated if the clearing accounts system were discarded, since this is not regarded strictly as an instrument of exchange restrictions in the region, but rather as an expedient employed in trade policy.

The situation is further influenced by other considerations. The tendency towards multilateralism in those Latin American countries which have put exchange reforms into effect bears little relation to any real improvement in their prospects of achieving convertibility. Methods of transacting foreign trade have been altered, but balance-of-payments equilibrium continues to depend on the imposition of import restrictions, which in some countries affect not only luxury and non-essential articles, but also capital goods. ^{2/}

Despite the energetic nature of the selective and quantitative measures applied, there are several Latin American countries in whose current trade payments delays are frequently recorded. Moreover, they have to draw upon their reserves and resort to the credits stipulated in the payments agreements. Tension of this kind - most marked as a rule in relation with the dollar and other transferable currency areas - would probably increase if such exchange were utilized for those intra-regional trade payments which up to now have been defrayed in units of account. At all events, this is the inference to be deduced from the observations - made to the ECLA group during the survey - of which a summary follows below.

^{2/} At the time of drafting the present report, this situation exists in Argentina and Chile.

Besides securing the benefit of the reciprocal credits granted by the Central Banks concerned - amounting to an annual sum of about 85 million dollars in each direction - inter-Latin-American trade operations effected in units of account eliminate the necessity of daily recourse to United States dollars for the opening of credits and the payment of invisible items. If the whole system were based on transferable foreign exchange, each country would have to set aside a proportion of its holdings in such currencies large enough to constitute its working capital in the intra-regional sector. As availabilities barely suffice to finance trade with other regions, this does not seem feasible, at any rate over the short term.

The problem is complicated by another element. It often happens that the magnitude of the disequilibria between the southern countries of Latin America is considerable. At present it is only on rare occasions, and after a certain lapse of time, that these imbalances give rise to disbursements of convertible currency. If the clearing accounts were discontinued and trade were conducted in hard currencies, balances would have to be settled immediately, to the detriment of the availabilities - small enough to begin with - which today are earmarked for trade with other regions.

In contrast, one of the countries visited was inclined to advocate the abolition of the present system. The feeling here is that trade in convertible foreign exchange would enable advantage to be taken of short-term private bank credit, which would in that case resume the role it had played in earlier periods. In so far as bank credit served to channel funds accruing from financial markets outside Latin America, it would facilitate the movement of goods and would help to ease the payments tensions described. There seems to be no approximately exact idea of the potential aggregate volume of credits from this source.

These considerations apart, the survey made it clear that there is an almost universal consensus of opinion as to the inadvisability of utilizing the dollar or other transferable foreign exchange for intra-regional payments at the present time. This is felt more strongly in some countries than in others, in accordance with the special situation of each as regards the United States dollar and other transferable currencies. But, briefly, countries whose reciprocal trade is based on clearing accounts seem on the

/whole to

whole to favour the maintenance of the system.

In this connexion, the income and expenditure situation of selected countries with the sterling area, as indicated by statistics for 1955, is given by way of illustration. (See table 2).

Table 2
LATIN AMERICA: INCOME AND EXPENDITURE OF SELECTED
COUNTRIES IN POUNDS STERLING, 1955
(Millions of pounds sterling)

	Argentina	Brazil	Chile	Paraguay	Peru	Uruguay
<u>Income</u>	<u>77.4</u>	<u>38.4</u>	<u>11.0</u>	<u>2.2</u>	<u>17.5</u>	<u>22.3</u>
Exports	72.1	28.8	11.0	1.6	12.7	10.3
Other heads	5.3	9.6	-	0.6	4.8	12.0 ^{a/}
<u>Expenditure</u>	<u>94.8</u>	<u>32.3</u>	<u>10.6</u>	<u>2.1</u>	<u>17.9</u>	<u>26.1</u>
Imports	79.3	11.0	9.7	1.5	11.7	25.0
Other heads	15.5 ^{b/}	21.3	0.9	0.6	6.2	1.1
<u>Balances</u>	<u>-17.4</u>	<u>6.1</u>	<u>0.4</u>	<u>0.1</u>	<u>-0.4</u>	<u>3.8</u>

Sources: For Argentina, Paraguay, Peru and Uruguay: Central Banks; for Brazil: Superintendencia da Moeda e Credito; for Chile: Consejo Nacional de Comercio Exterior.

a/ Including dollars converted into pounds sterling, to cover the disequilibrium in the latter currency, for an amount equivalent to 10.9 million pounds.

b/ Including transfers of pounds sterling against dollars.

Note: Bolivia's receipts in pounds sterling amounted to 11.7 million. Data on expenditure in this currency are not available.

As can be seen, the group formed by the seven southern countries of Latin America registers in the aggregate a substantial disequilibrium in its balance in pounds sterling, and it should be noted that some of these republics resorted to their dollar availabilities to cover the deficits. Attention may be drawn to certain individual cases which deserve comment.

/Argentina. Intensive

Argentina. Intensive use has been made of the credit of up to 20 million pounds provided for in this country's agreement with the United Kingdom. A part was utilized to buy back the dollars with which Argentina had paid for purchases made in the sterling area, before the signing of the agreement. The current balance with this area shows the same unfavourable trend as can be observed in Argentina's aggregate foreign accounts.

Bolivia. This country's receipts in pounds sterling amounted to 11.7 million in 1955. Statistics of expenditure are not available. It should be borne in mind that Bolivia is included under the regulations of the "American accounts" sector, and that its income in pounds sterling can therefore in practice be computed in terms of dollars.

Brazil. A surplus is shown in Brazil's balance of payments with the sterling area. It must be taken into account that during the first eight months of 1955, until, in August of that year, the Hague Club agreement came into force, the supply of pounds in Brazil's exchange auctions was severely restricted, since receipts in this currency were primarily used for the settlement of trade debts.

Uruguay. As a considerable deficit was registered in its accounts with the sterling area, Uruguay allocated 30.6 million dollars to this external payments sector.

c) Possible accession to the Hague and Paris Clubs

As an outcome of the exchange reforms, in circles directly interested in the development of intra-regional trade, attention has also been given to the possibility and expediency of acceding to the Hague or Paris Club in order to incorporate inter-Latin American trade payments into the operations of these organizations.

Clearly, faced with a decision of this nature, each country will have to work out its own attitude by evaluating, among other factors, the payments position itself a) in the regional sector, and b) in relation to the European sector.

The problem does not appear simple. If further consideration is given to the cases of Argentina and Brazil, and the movement of trade values between these two countries is examined, the sharpness of the seasonal

/or short-term

or short-term disequilibria is clearly evident. At the same time it can be seen that over 3-to-5-year periods there is a tendency for the aggregate values of reciprocal trade to be levelled up. In 1955, Brazil's deficit with Argentina stood at 30 million dollars. If Argentina had joined the Hague Club, Brazil would have settled this balance immediately and automatically, and availabilities for Brazilian payments in Europe would thus have been reduced by an equivalent sum - rather high in proportion to this country's earnings within the Club. (See table 3.) Conversely an imbalance unfavourable to Argentina might attain considerable relative magnitude if wheat production were inadequate to cover then usual exports to Brasil. Here too the resulting curtailment of Argentina's availabilities in Europe would severe.

Table 3

BRAZIL: TRADE WITH MEMBERS OF THE HAGUE CLUB AND THE SOUTHERN
COUNTRIES OF LATIN AMERICA, 1955
(Millions of dollars)

	Exports (f.o.b.)	Imports (c.i.f.)	Balances
Federal Republic of Germany	104.4	88.0	16.4
Sterling area	77.3	17.7	59.6
Austria	6.0	5.9	0.1
The Netherlands	4.4	34.0	8.4
Italy	47.5	48.7	- 1.2
Union of Belgium and Luxembourg	17.6	24.6	- 7.0
<u>Total with Hague Club</u>	<u>294.2</u>	<u>218.9</u>	<u>76.3</u>
Argentina	99.8	151.9	- 52.1
Bolivia	0.4	2.0	- 1.6
Chile	11.4	11.4	-
Paraguay	0.02	0.2	- 0.1
Peru	0.06	0.7	- 0.6
Uruguay	32.8	29.1	3.7
<u>Total with Southern countries of Latin America</u>	<u>144.5</u>	<u>195.3</u>	<u>- 50.8</u>
<u>Total with the world</u>	<u>1,423.2</u>	<u>1,306.8</u>	<u>116.4</u>

Source: Official statistics.

Another point that would have to be ascertained would be the reaction of the European countries if faced with the prospect of the Hague Clubs being extended to embrace certain inter-Latin-American payments. The transfer of large sums - such as those involved in trade between Argentina and Brazil especially - might perhaps at a particular moment modify a given country's balance situation in relation to the European Payments Union. The impression gathered during conversations with European experts - also in connexion with the survey - coincided with the views expressed in

competent Latin American circles. It seems that it would be premature to take immediate steps towards securing the collatoration of the Hague Club mechanism in the transfer of inter-Latin-American total balances, especially with respect to those of Brazil with Argentina and Uruguay, where the disequilibria are usually substantial.

This would not apply to balances in intra-regional channels where the absolute values of reciprocal trade are not so high and the disparities resulting from imbalances are intrinsically smaller. Trade between Argentina and Paraguay is a case in point. For this and other trade flows of similar volume, the machinery of the Clubs might possibly be set in motion immediately as far as the situation of the European countries is concerned. In this connexion, it should be noted that in Paraguay the ECLA group met with opinions supporting the adoption in trade with Argentina of payments formulae based on European foreign exchange of limited transferability.

From this point of view, some of the South American countries on the Pacific seaboard are in different position. As their extra-regional trade is mainly channelled towards the United States, they would be unlikely to possess enough European foreign exchange for the settlement of negative balances in their inter-Latin-American trade.

The remarks made in connexion with the possibilities of resorting to the Hague Club mechanism as a means of transcending the rigid limits at present restricting transfers in intra-regional trade would be largely applicable to the prospects of utilizing the Paris Club for the same purpose. In this instance however, a different feature is to be noted; the level of aggregate operations is higher. (See table 4.) Therefore, the relative importance of the Inter-Latin-American balances which might conceivably be liquidated within this Club would be less than in the case of the Hague Club. At all events, the survey revealed a consensus of opinion to the effect that a solution of this kind would hardly be feasible unless a greater and more stable degree of equilibrium payments within the area were first secured. For this purpose more confidence is felt in the intra-regional arrangement to be described later, ^{10/} which in any case would serve as an initial or transitional system, paving the way either for subsequent accession to the

^{10/} See "Official credits and balances", Annex 2, e).

Clubs mentioned or for the application of other solutions.

Table 4
ARGENTINA: TRADE WITH CURRENCY AREAS OF WESTERN EUROPE AND WITH
SOUTHERN COUNTRIES OF LATIN AMERICA, 1954
(Millions of dollars)

	Exports (f.o.b.)	Imports (c.i.f.)	Balances
Sterling area	209.8	162.8	47.0
Western Europe (Continent)	365.2	232.8	132.4
<u>Total with currency areas of</u>			
<u>Western Europe</u>	<u>575.0</u>	<u>395.6</u>	<u>179.4</u>
Brazil	89.0	120.0	- 31.0
Others	83.8	58.8	25.0
<u>Total with Southern countries</u>			
<u>of Latin America</u>	<u>172.8</u>	<u>172.8</u>	<u>- 6.0</u>
<u>Total with the world</u>	<u>1,062.0</u>	<u>954.8</u>	<u>107.2</u>

Source: Official trade statistics.

3. Repercussion of the reforms

a) General effects

In relation with the recent exchange reforms, something has already been said of the reasons why it seems advisable to maintain - at least for a time - some kind of system of payments on clearing accounts for specific sectors of intra-regional trade. In this context, in order to assemble background data from which to judge whether the existing bilateral system might still serve such an end, or whether it would have to be remodelled, the findings of the survey carried out in several Latin American countries must be analysed. Information and opinions were in fact collected in relation to the specific repercussions of the reforms as they affected trade liquidated through clearing accounts, as well as to the consideration of certain

/procedures which

procedures which might immediately remedy some of the unfavourable consequences of the reforms, and of others, more far-reaching in their scope, which might build up trade on bases designed to promote its expansion.

Serious concern is clearly felt as to the limiting influence that may be exerted by the exchange reforms on the development of certain lines of intra-regional trade, if suitable measures are not adopted to counteract these effects. Within trade channels where values are liquidated on account, considerable changes in price levels are being recorded. Prices traditionally higher than quotations on the world market are giving way to others of a more or less competitive nature. In the last few months, trade in wheat, meat, pork fats and other foodstuffs, as well as in certain raw materials, has been displaying a trend towards the rapid elimination of surcharges.^{11/}

11/ A comparison between quotations for given inter-Latin-American exports before and after the exchange reforms reveals the following f.o.b. price differences per ton in dollar-units of account:

	<u>1955</u>	<u>1956</u>
Wheat	71.25	61.90
Wheat flour	101.80	88
Frozen meat	500	385
Pork fat	360	228
Cocconut oil	1,000	400
Coal	13	11
Linen thread	5	3.2

In some cases, when the reforms annulled the joint effect upon prices of factors such as the over-valuation of the export exchange rate, the lack of monetary parity or the system of equalizing certain exports and imports, the new prices differed very greatly from those registered under the former régime. An extreme case in point, in terms of units of account, occurs in trade between Argentina and Peru. Frozen meat from Argentina was priced at 700 dollar-unit per ton and cotton from Peru at 2,650. Later, in transactions between the two countries effected in 1956, meat was quoted at 381 dollar-units and cotton at 1,100.

/For most

For most of these articles, the adjustment is facilitated by the fact that they are produced mainly for the world market, and the degree of specialization attained is therefore satisfactory. On the other hand, the situation is different for intermediate and manufactured goods. Since these are produced by industries in which productivity is lower than in competing foreign activities, the new exchange treatment often fails to eliminate the surcharge. Moreover, under the previous system, dependent as it was on administrative mechanisms now virtually discarded, or restricted in their use, regional trade in goods of this kind often took the form of barter arrangements. Hence exporters enjoyed the advantages not only of discriminatory treatment with respect to facilities or sole right of access to the buyers' market, but also of an exchange rate higher than that now established by the reforms.

Where inter-Latin-American exports of intermediate and manufactured goods are concerned, the principal doubt arises in connexion with the recently-established freedom to purchase from any source those goods whose importation is authorized. In contrast to the situation before the reforms, the purchaser or consumer can now buy a given article at will either in Europe, in the United States or in another Latin American country. ^{12/} Naturally, he chooses the market in which price and quality are most attractive. Ceteris paribus, he will probably decide in favour of the supplier whose prestige is greatest or whose contacts with his customers are most efficiently organized. Hence, as has become very apparent in recent months, purchases

^{12/} In November 1955, in order to absorb part of the credit balance registered in the clearing account through which its trade with Brazil is transacted, Chile authorized - over and above the margins indicated in the foreign exchange estimate for that year - imports from the former country of various kinds of machinery, electric motors, tools and tyres, to a value of 4.03 million units of account, and then granted import licences which represented practically the whole of this sum. Nevertheless, soon after the promulgation of the reform - under the terms of which the same commodities could be freely imported from any source - so many holders of the licences in question applied for their annulment that the values involved totalled rather more than 50 per cent of the sum mentioned, according to statistics supplied by the Consejo Nacional de Comercio Exterior de Chile.

are tending to shift towards the great traditional markets.^{13/}

Hitherto, intra-regional trade had been conducted under the protection of agreements and of the import licence system, the result having sometimes been the establishment of what almost amount to monopolies; witness the frequent cases in which import licences were granted for certain products from Latin American countries when similar imports from other sources were not authorized. The disappearance or weakening of the instruments which rendered this policy possible may be succeeded - as is thought in the countries visited during the survey - by a development somewhat similar to events in the early post-war period, when the renewal of trade with Europe led to a sharp drop in inter-Latin-American exports of manufactured goods, which had increased considerably during the war years. Although the technique of industrial production in Latin America has improved since then, it is feared that free competition on the regional markets may reduce the present volume of certain trade flows and hinder the expansion hoped for. The industrial sectors most seriously affected would of course be those whose installed capacity exceeds the requirements of the domestic market. Obstacles to the diversification of exports would also be created since the only outlet for surpluses would be their sale on the Latin American markets.

In face of these prospects, two salient questions are being discussed in circles connected with inter-Latin-American trade: a) whether it will or will not prove practicable to bring prices down to or closer to competitive levels, and b) whether special incentives can or cannot be created with a view to replacing those instruments for the promotion of intra-regional trade which until recently were provided by the system of direct control of foreign trade.

^{13/} When Chile began to apply the new exchange system, in April 1956, out of the aggregate operations authorized under the previous régime and at that date in the early stages of implementation, 61 per cent corresponded to imports from the United States. The import retainer deposits made during May and June show that in the two months subsequent to the reform the proportion of imports purchased from the United States rose to 75 per cent of the total.

As regards the first of these points, it is recognized that upon the internal expedients adopted by each country with the aim of exporting products of satisfactory quality at competitive prices, would largely depend the maintenance of the regional market and, above all, the expansion of the sales flow concerned. But a widespread feeling exists that it would be difficult to attain this end if units of account are negotiated at a price lower than that resulting from parity with convertible currencies. Even when the position as regards productivity is much the same Latin American exports are unlikely to be able to compete on the regional market with similar goods from the dollar area or from others where parity with this area is maintained. Hence, the problem of parity ^{14/} is highly important for the future of inter-Latin-American trade based on clearing accounts.

With respect to the second aspect of the problem, that is, the question of special measures for the maintenance and promotion of inter-Latin-American trade in intermediate and manufactured products, some authorized opinions advocate the adoption of such measures. ^{15/}

b) Particular effects of the reform in Argentina

The above general description of the main repercussions of the reform of the exchange systems on inter-Latin-American trade must be supplemented by a separate indication of certain particular effects of the measures adopted by Argentina. In practice these have resulted in the establishment of differential export prices. Argentina has two markets for the negotiation of the foreign exchange accruing from movements of goods and services, one official, with a fixed rate of 18 pesos to the dollar, and the other a free market in which dollar quotations are considerably higher. ^{16/} When this system was introduced, no machinery was set up in the latter market for the negotiation of units of account, so that goods and services scheduled in the free market must in reality be sold at the official market rate when they are exported to areas with which a payments agreements is in

^{14/} See Annex 2, b), for a special analysis of this problem.

^{15/} See Annex 2, k).

^{16/} About 67 per cent in August 1956.

force. ^{17/} If Argentine exporters wish to obtain values in local currency equivalent to those of their sales to the dollar area there is only one course open to them; they must raise the price of the product proportionally in terms of dollar-units of account, so as to offset the fall in their receipts deriving from the exchange rate.

In practice this régime results in surcharges on Argentine exports to treaty areas of commodities scheduled on the free market, such as manufactured goods of all kinds, and some intermediate industrial products, as well as pork meat and fats, fresh fruit and minerals. Two illustrative examples may usefully be given of the way in which it hampers the operation of Argentina's clearing agreements with Brazil and Paraguay. The reforms especially affected the Argentine-Brazilian trade in fresh fruit, the value of which amounted to more than 20 million dollars on each side and which virtually represented the barter of products similar in value and more or less equally essential. Exports of fruit were scheduled in Argentina in the free and imports in the official market. In the first case, the aim was apparently to encourage sales to convertible currency areas, and in the second, mainly to avoid further surcharges on the price paid by the Argentine consumer for bananas from Brazil. ^{18/} The consequent increase in the price of fruit sold by Argentina to Brazil gave rise to great

^{17/} The sale on the official market of units of account corresponding to operations scheduled in the free market but effected with countries with which clearing agreements are in force, is authorized only in the case of countries "geographically adjacent" to Argentina. The term "geographically adjacent" was adopted by the Central Bank of Argentina to denote a new grouping, since the official interpretation of the expression "adjacent countries" had for many years and for a number of reasons included Peru and excluded Brazil. Provisions established by the Central Bank in October 1955 assigned trade payments between Peru and Argentina to the United States dollar area.

^{18/} Up to October 1955 the rate of exchange for Argentine imports of fruit from Brazil was 7.50 pesos to the dollar. It rose to 18 as from 28 October.

uncertainty in the evolution of this trade. At one time the auctioning of exchange for importing Argentine fruit was suspended in Brazil.^{19/}

It should be recalled that with respect to almost the whole of the transactions between Argentina and Brazil (not only the fruit trade), a similar problem has arisen in relation to freight tariffs. Most of the transport in both directions is undertaken by Argentine shipping, and in Buenos Aires the companies concerned convert the dollar-units of account received for their services at the 18-peso and not at the free rate, just as they do when they carry products to or from countries with which Argentina trades on the basis of convertible currencies. In terms of real value, the system means that freight tariffs are higher than they would be if the exchange accruing to Argentine shipping, within clearing-agreements sectors could be sold in Buenos Aires on the free market, where other freights are scheduled.

The repercussions of Argentina's over-all measures on its trade with Paraguay were even more severe. In terms of foreign exchange, the prices of certain Paraguayan exports - such as lumber, and coconut oil - had to be reduced to adapt them to the new competitive conditions prevailing on the Argentine market. This was one of the objectives of Paraguay's exchange reform in March 1956. Again, lumber, which constitutes the bulk of Argentina's imports of Paraguayan products, is scheduled in the official market, and Argentina credits the value to Paraguay on the appropriate payments account.

^{19/} In the first six months of 1956, Argentina's exports of fruit to Brazil amounted to only 1,277,000 crates, as against 2,234,000 during the same period in the preceding year. However, it should be noted that this contraction in sales to Brazil was offset by an increase in exports to transferable currency areas, especially the United States, the United Kingdom and Venezuela. According to recent statistics, Argentina's total exports in the first half of 1956 reached 4,066,000 crates. (See The Review of the River Plate, Buenos Aires, 20 July 1956, page 41.) In the first six months of 1955 they had totalled 3,538,000 crates.

On the other hand, Paraguay's purchases are mainly composed of manufactured goods and other products scheduled in Argentina's free market, exports of which have to be paid for with transferable foreign exchange. It thus comes about that Paraguay has not sufficient outlet for the units of account obtained from the sale of lumber, and at the same time unregistered commodity trade between the two countries is increasing. Some manufactured goods which it is no longer easy to purchase through the clearing account are apparently being smuggled into Paraguay. The severe pressure observed in recent months on quotations for foreign currencies in Paraguay's free market is probably linked to this situation. As usually happens in such cases, the volume of contraband is proportionate to the difficulties hampering the conduct of trade proper.^{20/}

^{20/} In June 1956 the Paraguayan authorities calculated that unregistered trade with Argentina, which before the latter's exchange reforms had represented an approximate daily sum of 350,000 Argentine pesos, currently amounted to as much as 1 million pesos a day.

II

SEARCH FOR WAYS OF SOLVING CURRENT PROBLEMS

1. Exchange rates

a) Visible trade

The exchange reforms have intensified a feature which for a long time past, and with only circumstantial or very slight variations, has been of frequent occurrence in inter-Latin-American trade. This is the lack of a pre-determined relationship - parity - between quotations for units of account and for transferable currencies. In practice this results in different exchange rates for imports or exports of one and the same commodity, according to its market of origin or of destination. A summary follows of the situation brought about by existing exchange régimes in the three countries whose intra-regional trade on account represents the highest values, i.e., Argentina, Brazil and Chile. ^{21/}

Argentina. As regards imports, no problem is now created by differences in the price of exchange, since this is the same for goods from any source. The difficulty arises in connexion with exports, for which Argentina is paid in dollar-units of account, since real prices for these are far below quotations for the United States dollar and other transferable currencies. It is clear that up to a point these problems could be solved if the Central Bank of Argentina purchased the units of account accruing from free market exports at the prevailing free market rate. But the main reasons why this has hitherto been impossible are also clear. There would not be sufficient demand on the part of Argentine buyers for the units of account which would be accumulated through such purchases, since the imports scheduled on the free market - for instance, power generators, lorries, spare parts - are not as a rule traded intra-regionally. Consequently perhaps the easiest way to tackle the problem successfully might prove, as was suggested in the survey, to be the remodelling of Argentina's schedules of free market products (both exports and imports) to include goods

^{21/} In 1955, trade between these three countries represented 74 per cent of total inter-Latin-American trade on account.

which may involve the negotiation of fairly well-balanced quantities of Latin American units of account. This would eliminate or reduce the risk of losses in local currency as a result of exchange differences.

On the other hand, the retention of the present schedules of free market products would mean that Argentina was exposed to obvious risks. The difficulty in securing some degree of balance between sales and purchases of the corresponding units of account would be less, if the new schedules were drawn up not on bilateral bases alone, but with a view to trade with the several Latin American countries affected by the problem that it is desired to solve. Furthermore, if such schedules were effectively to promote trade, they would have to relate to products also incorporated in Argentina's free and not in its official market, in connexion with trade with other currency areas, or to articles of which imports from these areas were prohibited. From this standpoint, it should be noted that in setting up the Paris Club Argentina made reservations in favour of the special exchange measures it might later adopt in relation to its trade with adjacent countries.

However far-reaching were the effects of a solution of this type, they would not cover certain problems characterized by special features, like those already described in connexion with the exchange of fruit between Argentina and Brazil and with trade between Argentina and Paraguay. ^{22/} In the former case, the difficulty arises from the fact that fruit is assigned to different schedules in Argentina's exchange markets, although in practice the system allows the vendor the official rate only when the product is exported to areas with which a clearing agreement is in force. If exported and imported fruit were included on the same schedule in Argentina's free market, prices would fall for the fruit purchased, and rise for that sold, by Brazil. But if the parties concerned desired to maintain the existing terms of trade for their fruit transactions, it would not be impossible, as was pointed out during the survey, to reach a special

^{22/} See part I of the present report, section 3, b).

agreement on some such terms as the following: once all the fruit had been scheduled on Argentina's free market Brazil would not transfer to the consumer the value of the resulting rebate, but would use the sums thus obtained to subsidize its fruit exports to Argentina, so that their c.i.f. price would absorb the increase which the shift to the free market would otherwise imply for the Argentine consumer.

Another formula has also been discussed. This would consist in bringing fruit under the free trade régime in both countries, but excluding it from the present clearing system and from the usual exchange practices. To this end, accounts for exports and imports of fruit between the two countries would be kept by Argentina in Argentine pesos and by Brazil in cruzeiros. In both cases, conversions from one currency to the other would be calculated in relation to the United States dollar. Every three or six months the differences between exports and imports computed on each country's account could be liquidated between the two republics at the free market rate.

An examination must now be made of the maladjustments observable in the system of payments on clearing accounts in trade between Argentina and Paraguay. It has already been explained that this trade channel was more severely affected by the reform in Argentina than other sectors of inter-Latin-American commerce, since Paraguay's exports, especially where lumber is concerned, mainly comprise articles scheduled on Argentina's official market, while its imports are made up of free market products. Consequently, Paraguay cannot pay for these latter with units of account accruing from its exports. The idea that such units of account might be converted into transferable currency at a rate of exchange midway between the official and the free rates, so that Argentina and Paraguay would each absorb part of the consequent discount, was considered not long ago in authorized circles in both countries, but did not meet with a favourable reception in Asuncion. Nor did it seem easy, from another point of view to reach a solution by classifying all Argentina's lumber imports, whatever their origin, on the free market, because of the rise in prices that this would involve for Argentine consumers.

The suggestion was made during the survey that from Paraguay's point of view a possible expedient would be the utilization of some form of transferable

/foreign exchange,

foreign exchange, other than the United States dollar, for payments between the two countries, since it was felt in Asunción that, unless Argentina unified its official and free exchange rates, there was little prospect of a practicable formula's being devised whereby resources accruing from Paraguayan exports scheduled on the official market could be used to buy free market products from Argentina.

It is of interest to note that in trade on account between Argentina and Bolivia a similar situation is beginning to take shape. The export possibilities of Bolivia's petroleum products now exceed the capacity of existent facilities for their transport to Argentine centres of consumption. Once this obstacle has been removed, as it will be when the oil-pipe between Campo Durán and Embarcación is completed, the real growth of such exports will give rise to an imbalance in the corresponding clearing account between Bolivia's availabilities of official market currency and the free market currency it requires for the purchase of manufactured goods and other commodities which Argentina exports only against transferable foreign exchange.

Brazil. Under this country's existing foreign trade system, differing exchange rates are in force. On the exports side, a 4.06-per-cent discount is applied to the foreign exchange accruing from sales against non-transferable currency. Where imports are concerned, the difference arises from the regulations for the auctioning of foreign exchange in force since the end of 1953; in practice these determine varying prices - deriving in each case from the bidding procedure - for the foreign exchange allocated to importers. In Rio de Janeiro the survey showed this auction system to be flexible enough for it to be operated in such a way that the price of foreign exchange would be the same for more than one country in the region. To this end, it would in theory be necessary for at least two or more Latin American countries engaging in reciprocal trade with Brazil to reach an agreement with this latter on the establishment of a common exchange certificate for bidding purposes, and for the appropriate foreign exchange to be allocated through the auction system with a view to its indiscriminate use for payments to any of the contracting parties to the relevant agreement.

/Chile. The

Chile. The treatment accorded to units of account under the Chilean exchange system - whether for exporting or importing - bears as a rule no predetermined relation to the price of transferable currency. The only exception is the Argentine-Chilean dollar-unit of account, since the parties agreed to maintain parity between this currency and the United States dollar. Otherwise, with few exceptions, quotations for units of account on Chile's bank market are invariably lower than those recorded for transferable currencies. The incentive that should be provided for imports from clearing account areas when the corresponding currency is undervalued in relation the price of convertible foreign exchange, has been little in evidence on the Chilean market during the last few months.^{23/} The growth of the balances in Chile's favour existing in certain bilateral channels is proportionate to the increasing interest shown by importers in purchasing from the large world markets, as a result of the freer régime established by the exchange reform in April 1956. The problem of the accumulation of balances and of the consequences for trade on clearing accounts is well illustrated in the case of the payments agreement between Argentina and Chile. On 31 July 1956 a real balance of 7.1 million dollars was registered in favour of Chile in the account in question. Furthermore, credits had been opened for Argentine importers to make purchases from Chile to a value of 14.5 million dollar-units of account. Credits for Chilean purchases from Argentina amounted only to 2.1 million.^{24/} The balance in Chile's favour thereby rises to 19.4 million dollars. As the reciprocal credit provided for in the agreement is only 15 million, Chilean exporters to Argentina are concerned lest

^{23/} Many Chilean holders of exchange deriving from exports to treaty areas seem to have gradually liquidated it during the last few months, to avoid further depreciation.

^{24/} This sum does not include the value of purchases of wheat and meat for approximately 6 million dollars, already agreed upon, but for which the corresponding credits had not yet been opened.

their sales to be reduced if the real balance attains or exceeds the credit margin, and the Central Bank's intervention in the market may therefore possibly be confined to the purchase of foreign exchange - at the parity price - only up to a sum equivalent to the credit in question. Competent opinion holds that handicaps of this kind might be eliminated if in such circumstances the creditor country could transfer to third parties that proportion of the balance which is in excess of the credit stipulated.

Before closing these remarks on the problems created for Latin American trade by the lack of parity between units of account and transferable currencies, it is worth while to stress the three instances in which solutions would be facilitated if they could be put into practice by means of simultaneous agreement among several countries.

The first of these - linked to the peculiar conformation of Argentina's free market - concerns the drawing-up of schedules of the products to be negotiated on that market with a view to promoting relative equilibrium between the values of exports and imports. The ultimate adoption of this formula, which seems feasible on multilateral bases, could not be easily secured through isolated bilateral negotiation, since a pre-requisite for its application would be the co-ordination of specific rulings in the exchange régimes of the various countries interested in finding a solution to the problem

The second instance - inherent in the Brazilian system of auctioning foreign exchange for imports - is the establishment of a system whereby auctioned exchange could be used indiscriminately by the importer for purchases from more than one Latin American country.

On a broader plane the third point relates to the introduction of a system of predetermined parities. Such an aim might be partly attained through bilateral agreements. But if these were concerted only between some of the countries that maintain clearing accounts and not between the majority, the resultant differences in the purchasing power of the dollar-unit of account would hinder multilateral transfers of balances, which would in every case be subject to special negotiation as to the rate of exchange to be used.

b) Invisible and frontier trade

Because of the new conditions set up by the existence of free markets for the sale of foreign exchange, most of the countries which conduct their reciprocal trade through clearing accounts display a wish to exclude invisible items, exempting them from controls in the shape of licences or selection of the currencies to be utilized. This would mean that operations on account would cover only the f.o.b. value of the commodities traded.^{25/}

2. Multilateral negotiations

For some months - and in certain cases for almost a year - the Latin American countries conducting their intra-regional trade on clearing accounts have been seeking devices whereby the functioning of this system can be reconciled with the new exchange régimes. Despite the interest displayed at the date of completion of the present report no progress which can properly be termed substantial can as yet be observed. To overcome certain bilateral difficulties it is expected that some agreements will be concluded within a short space of time, but there is widespread scepticism in Latin America as to the value of the results that can be obtained through isolated bilateral negotiations alone. As was previously pointed out, such action - in relation, moreover, with the problems of the lack of parity - would be simplified if in each case the agreements concerned were signed by more than two countries. This would permit a more rapid approach to multilateralism in Inter-South-American trade. On this plane very clearly defined ideas exist which are reinforced by the failure, up to now, of efforts to discover a bilateral solution for the problems created by the reforms. The necessary reconstruction of the system of payments agreements would be more practicable if it were founded on collective negotiations. The examples provided by the constitution of the Hague and Paris Clubs are also encouraging. But at the same time it is emphasized that the success of any attempt to build up inter-Latin-American trade on bases permitting the multilateral transferability of balances would call for previous co-ordination of the relevant clauses in the various bilateral agreements, and, as far as possible, the establishment of a standard type of agreement for payments on account.^{26/} In this connexion, Annex 2 of the present report

^{25/} See Annex 2, e).

^{26/} As has been seen, the Hague Club is constituted by a body of bilateral agreements identical in their wording.

contains a brief summary of concrete ideas, gathered in responsible Latin American circles, as to the principal points that it would be useful to bear in mind in grappling with such a task. If the Latin American countries resolve to undertake it, the material in question would supply the information required for preparing a draft standard agreement and for facilitating certain aspects of the practice of multilateral negotiations. As the Annex itself will show, the most important points are those relating to parity between units of account and transferable currencies, to the invisible trade and re-export system, to private credits and to the concerting of special measures for maintaining and expanding inter-Latin-American trade flows.

3. Settlement of balances

An attempt to establish multilateral practices within the clearing account systems would meet with little or no success if the aggregate balances of these accounts did not offer a wide margin for reciprocal compensation, or, at least, prospects of securing it within a reasonable space of time. Latin America's position must therefore be examined from this point of view. The theoretical possibilities for the settlement of intra-regional balances have already been investigated in the Study of Inter-Latin-American Trade, ^{27/} in the light of statistics for the two decades ending in 1953. In the most favourable years, that is, when there was least disequilibrium between bilateral export and import values - according to official foreign trade statistics -, the twenty Latin American countries had at their disposal a hypothetical margin for mutual compensation which did not represent as much as 80 per cent of inter-Latin-American trade. It should be remembered that in estimates of this kind, given the possibility of errors or defects in statistical valuations, allowance must be made for annual differences in each direction amounting to rather more than 10 per cent of effective commodity trade payments.

With this reservation, the situation may be viewed from the following two standpoints: a) taking into account reciprocal trade statistics for

27/ Op. cit. chapter V

the ten countries of South America, but excluding petroleum values, because of the special features characterizing payments for this product;^{28/} and b) considering in particular the figures for the intra-regional trade on clearing accounts conducted by the eight republics employing this system, i.e., Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay.

In the first case - that of South America as a whole - an approximate idea of the situation can be formed from table 5, which reveals a certain trend towards extending the limits of possible compensation. Up to 1952 the maximum annual figure reached had been 76 per cent of the total value of the commodities traded. In 1954 and 1955 the proportion compensatable rose to about 90 per cent.

Table 5
LATIN AMERICA: POSSIBILITIES FOR COMPENSATION IN INTER-SOUTH-
AMERICAN TRADE ^{a/}
(Percentages)

	1934-38 ^{b/}	1946-51 ^{b/}	1952	1953	1954	1955
Bilaterally compensated	57	71	58	61	80	76
Multilaterally compensatable	17	7	18	10	9	14
Net non-compensatable balances	26	22	24	29	11	10
<u>Total trade</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Total trade (millions of dollars)	<u>192</u>	<u>861</u>	<u>789</u>	<u>1,041</u>	<u>991</u>	<u>1,013</u>

Source: Official foreign trade statistics.

a/ Excluding petroleum products. Including the inter-South-American trade of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela.

b/ Average.

Note: This table, like tables 6 and 7, is based on the figures for visible foreign trade at f.o.b. export values. To extend the study of possibilities for compensation to invisible trade, it would first be necessary to assemble statistics - up to the present only fragmentary - based on balance-of-payments situations.

An examination of table 6 will clarify the situation from the standpoint of the eight countries taking part in the system of inter-Latin-American trade on clearing accounts. Up to 1954, the peak figure for possible compensation had been attained during the period 1946-51, when it seems to have represented 84 per cent of trade in both directions. During 1954 and 1955 the proportion compensatable rose to 93 per cent. This means that if in those two years the 15 bilateral payments mechanisms existing in Latin America had had a common regional clearing-house at their disposal a margin equivalent to 7 per cent of the value of the commodities traded would have had to be covered with foreign exchange from other sources, or absorbed by reciprocal credits between the Central Banks concerned. In 1955 this 7 per cent meant about 60 million dollars in both directions. In the same year the Central Bank credits for which the payments agreements provided also in both directions, reached as much as 170 million dollars. (See again table 1.)

Table 6
LATIN AMERICA: POSSIBILITIES FOR COMPENSATION IN THE INTER-LATIN-AMERICAN TRADE ON ACCOUNT OF EIGHT COUNTRIES ^{a/}
(Percentages)

	1934-38 ^{b/}	1946-51 ^{b/}	1952	1953	1954	1955
Bilaterally compensated	32	84	67	67	89	85
Multilaterally compensatable	15	4	6	6	4	8
Net non-compensatable balances	23	12	27	27	7	7
<u>Total trade</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Total trade (millions of dollars)	<u>163</u>	<u>668</u>	<u>584</u>	<u>870</u>	<u>850</u>	<u>861</u>

Source: Official foreign trade statistics.

^{a/} Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay.

^{b/} Average.

/The improvement

The improvement in compensatory capacity recorded in 1954 and 1955 was weakened by the decline, slight though it was, in the total trade values negotiated during those same years in units of account. In 1955 the decrease totalled 9 million dollars. In the same year the non-compensatable sum, which had been 233 million dollars in 1953, dropped to 62 million. Hence there seem to be signs of a relative increase in the proportion compensatable, though this is partly due to import controls.^{29/}

On the other hand, the tendency towards equilibrium noted in the last two years relates to a period too short for any conclusions to be drawn. But a development which has been manifesting itself in recent years may well be recalled here; countries which are traditionally importers of foodstuffs, and which often show a deficit in their accounts with Latin America, increased their capacity to reduce their unfavourable balances by expanding their exports to the supplier country. This was true of Brazil and Chile with respect to Argentina, and the same thing is beginning to happen in Bolivia in relation to the other three countries.

As Argentina, Brazil and Chile play the chief role in intra-regional trade based on payments agreements, the situation of each of these countries with respect to limits of compensatability may usefully be defined. (See table 7.) It should be recalled that the movement of trade among these three nations represents three-quarters of total inter-Latin-American trade on account. Hence, their reciprocal position exerts a decisive influence on the level and evolution of the possibilities for compensation within such trade.

^{29/} In practice the result might be slightly different, because of the usual margin of error in annual foreign trade statistics.

Table 7
LATIN AMERICA: LIMIT OF COMPENSABILITY IN TRADE AMONG
ARGENTINA, BRAZIL AND CHILE
(Percentages)

	1934-38 ^{a/}	1946-51 ^{a/}	1952	1953	1954	1955
Bilaterally compensated	64	93	65	69	93	86
Triangularly compensatable	1	3	1	2	1	7
Net non-compensatable balances	35	4	34	29	6	7
<u>Total trade</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Total trade (millions of dollars)	<u>102</u>	<u>500</u>	<u>434</u>	<u>723</u>	<u>610</u>	<u>635</u>

Source: Official foreign trade statistics.

a/ Average.

In 1954 and 1955 the proportion of the reciprocal trade of Argentina, Brazil and Chile susceptible of bilateral or triangular compensation was practically the same as that recorded for the fifteen inter-Latin-American clearing account mechanisms as a whole during the same years - about 93 per cent. The remainder could be covered either with exchange from other sources or by the granting of credits. It was this latter that took place among the three countries mentioned. Moreover, it is important to emphasize that for six years now their reciprocal trade has involved no disbursements in convertible currency for the settlement of balances. Consequently, from this point of view, there would have been no obstacle to a triangular agreement among the countries in question.

Stress must be laid on some of the points emerging from table 7. In 1952-53, the proportion of compensatable trade among Argentina, Brazil and Chile dropped to less than 70 per cent, mainly because of the fall in Argentina's exports of wheat in the former year. This decrease brought about a corresponding though smaller decline in Brazil's sales to Argentina. While wheat

/exports were

exports were resumed in the following year, the sale of Brazilian products to Argentina did not recover so quickly. Commodity trade movements in 1953 therefore left a substantial balance in favour of Argentina. In those years, as before, trade between Argentina and Brazil, despite the very sharp short-term fluctuations, revealed a trend towards equilibrium when periods of not less than three years are taken into account.

Much the same was true of Argentina's trade with Chile in 1954 and 1955, since the former country's 1954 credit balance switched over to Chile's favour in the following year. At the close of 1955, however, symptoms of a persistence of Argentina's deficit began to appear. Although they became serious in the first half of 1956, since at one time the balance on account according to statistics, exceeded the credit provided for in the payments agreement, in August the heavy purchases which Chile was planning to make from Argentina gave grounds for anticipating a considerable reduction of this disequilibrium.

To return to the possibilities for the compensation of balances in the Latin American clearing accounts as a whole, attention must also be drawn to some developments favourable to the achievement of greater equilibrium at increasingly high levels, provided that no serious setbacks occur to affect the principal commodities traded. Such developments apparently mark the incorporation of new goods into the traditional trade flows. Iron ore and manganese from Brazil, as well as Chilean iron will be imported to supply the new steel works at San Nicolas in Argentina, and Bolivia is beginning to export petroleum products to Argentina, Brazil and Chile. Mention may also be made, inter alia, of pulp and newsprint, which in a short time, thanks to the development of this industry in Chile, will be sold to Argentina and of the steel plate surplus that will result from the forthcoming installation of a second blast furnace by the Compañia de Acero del Pacifico in Chile. All these would be exports from countries that usually have deficit balances with the region, and in some cases might bring about reversal of traditional balance positions. Apart from this - as has already been pointed out elsewhere ^{30/} trade in manufactured goods could undoubtedly

^{30/} See Estudio del Comercio Interlatinoamericano, op. cit. chapter III.

make an important contribution to the stabilization of balances, if existing obstacles in the sphere of payments and trade policy were successfully removed.

4. Conclusions

The conclusions to be deduced from the foregoing considerations will now be reviewed.

1. The new conditions created by recent exchange reforms in some of the Latin American countries have considerably reduced the efficacy of the clearing accounts system as an instrument of trade policy. But as at the moment it does not seem that the purpose of safeguarding and expanding intra-regional trade for which this system is used can be equally well served by the customs tariff in Latin America, the intention is to retain it - at least for a time - but to remodel the structure of the accounts.
2. The simultaneous negotiation of agreements by more than two countries would seem to be the most suitable means of reconciling trade and payments agreements with the trends towards the adoption of multilateral trade practices that are now becoming apparent.
3. Certain specific difficulties in trade on clearing accounts for which the reforms are responsible have not yet been successfully overcome by means of isolated bilateral agreements. In view of the nature of these problems - as in the case of the reconciliation of the clearing accounts with multilateral trends - it would seem that their solution would be less difficult if it were attempted through collective negotiations among the group of countries affected.

The matters which could only be satisfactorily dealt with if they were jointly considered by several countries include some of such importance as the setting-up of machinery on the exchange markets for the negotiation - on bases of some degree of equilibrium between supply and demand - of inter-Latin-American units of account at parities which will not discourage exports. Stress must also be laid, in connexion with multilateral agreements, on the question of the exclusion of invisible items from the clearing accounts system, and also on the adoption of uniform rulings as to re-exports.

4. The evolution of the balances in inter-Latin-American trade on clearing accounts during the last few years shows trends which, if stimulated by the reciprocal co-ordination of national trade policies, would create conditions favourable to the progressive extension of multilateral practices in intra-regional trade. In this context it must be emphasized that the non-compensatable annual balances in the trade on account conducted by eight countries have in the last two years only represented about one-third of the aggregate credits granted by the appropriate Central Banks for such trade operations in each financial year. Again, among three countries whose trade on account covers 75 per cent of total trade of this type in Latin America, no disbursements in transferable currencies for the settlement of balances have been registered since 1950.

5. The conclusion of multilateral agreements designed to impart some degree of transferability to inter-Latin-American units of account, in order to encourage the expansion of the market which the region can offer to its own countries' trade, does not seem impossible in present circumstances given the adoption of a trade and payments policy designed to stabilize balances at increasingly higher levels.

Statistical Appendix

Table I

LATIN AMERICA: INTRA-REGIONAL TRADE TOTALS AND BALANCES

(F.o.b. values in millions of dollars)

Country	1954			1955		
	Exports to Latin America	Imports from Latin America	Balances	Exports to Latin America	Imports from Latin America	Balances
1 Argentina	186.8	197.8	- 11.0	195.7	211.4	- 15.7
2 Bolivia	3.2	10.9	- 7.7	4.5	12.1	- 7.6
3 Brazil	145.3	215.1	- 69.8	146.1	240.6	- 94.5
4 Chile	59.8	100.9	- 41.1	61.1	91.9	- 30.8
5 Paraguay	17.9	14.6	+ 3.3	17.0	16.3	+ 0.7
6 Peru	46.1	20.8	+ 25.3	57.1	24.0	+ 33.1
7 Uruguay	39.9	60.2	- 20.3	31.7	55.0	- 23.3
8 Colombia	8.7	19.1	- 10.4	5.9	14.0	- 8.1
9 Ecuador	12.7	4.8	+ 7.9	11.2	7.3	+ 3.9
10 Venezuela	132.6	14.5	+118.1	160.3	14.3	+146.0
11 Costa Rica	2.2	1.3	+ 0.9	2.4	3.3	- 0.9
12 Cuba	13.1	15.2	- 2.1	12.0	20.4	- 8.4
13 Dominican Republic	0.6	1.0	- 0.4	1.2	1.7	- 0.5
14 El Salvador	2.4	6.5	- 4.1	3.8	7.0	- 3.2
15 Guatemala	0.4	4.7	- 4.3	0.4	7.0	- 6.6
16 Haiti	0.1	0.8	- 0.7	0.1	0.8	- 0.7
17 Honduras	6.9	1.5	+ 5.4	8.5	2.7	+ 5.8
18 Mexico	14.2	3.4	+ 10.8	14.2	2.5	+ 11.7
19 Nicaragua	2.9	1.1	+ 1.8	3.4	0.9	+ 2.5
20 Panama	0.9	2.5	- 1.6	0.6	4.0	- 3.4
Total Latin America	696.7	696.7	0	737.2	737.2	0

Source: Official foreign trade statistics.

Table II

LATIN AMERICA: INTRA-REGIONAL TRADE TOTALS, 1954
(F.o.b. export values in millions of dollars)

Importer country	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Paraguay	Peru	Uruguay	Venezuela	Costa Rica	Cuba	El Salvador	Guatemala	Haiti	Honduras	Mexico	Nicaragua	Panama	Dominican Rep.	Total Latin America	
Argentina	x	2.7	96.7	0.6	51.5	0.1	11.6	15.2	2.4	4.3	...	0.8	...	...	...	...	2.7	...	0.2	...	186.8
Bolivia	1.3	x	0.9	...	1.0	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	3.2
Brazil	100.0	0.5	x	0.4	11.9	0.1	0.2	...	30.8	0.4	...	0.9	...	...	...	...	0.1	...	...	...	145.3
Colombia	1.6	...	...	x	0.1	0.5	...	0.9	0.4	3.8	0.3	0.2	...	...	0.1	...	0.1	...	0.7	...	8.7
Chile	36.4	1.2	8.5	0.8	x	1.1	0.1	2.2	7.1	0.5	0.1	0.8	0.3	0.1	...	...	0.5	...	0.1	...	59.8
Ecuador	1.6	...	...	7.8	2.1	x	0.1	0.1	0.3	0.3	...	0.1	...	...	...	...	...	...	0.3	...	12.7
Paraguay	14.7	...	...	...	...	...	x	...	3.2	...	...	...	...	...	...	...	...	...	0.3	...	17.9
Peru	6.0	4.8	0.6	3.0	26.2	2.3	...	x	1.7	1.0	0.2	0.1	...	...	...	...	0.1	...	0.1	...	46.1
Uruguay	...	0.5	34.3	1.4	0.2	...	2.6	0.3	x	0.2	...	0.3	...	...	...	...	0.1	...	...	...	39.9
Venezuela	36.2	...	72.5	1.6	0.8	...	...	0.4	13.3	x	0.1	6.4	0.5	0.2	...	...	...	...	0.2	0.4	132.6
Costa Rica	...	...	...	1.6	...	...	...	...	...	x	0.1	0.3	...	0.2	...	...	...	...	...	...	2.2
Cuba	...	...	...	0.8	6.7	...	...	0.3	3.6	2.4	...	x	0.1	...	...	0.2	1.7	...	0.1	0.1	13.1
El Salvador	...	...	...	...	...	0.1	...	0.1	...	...	0.1	...	x	0.6	0.1	0.7	...	0.6	0.1	...	2.4
Guatemala	...	...	...	...	...	...	...	...	...	...	...	...	0.4	x	...	...	...	...	...	...	0.4
Haiti	...	...	...	0.1	...	...	...	...	...	...	...	...	...	...	x	...	...	...	...	...	0.1
Honduras	...	...	...	...	...	...	...	...	...	0.5	0.1	1.3	3.5	1.4	...	x	0.1	...	...	...	6.9
Mexico	...	1.2	1.6	0.6	0.4	0.5	...	0.3	0.1	0.4	0.3	3.9	0.3	2.4	0.4	0.5	x	0.5	0.3	0.5	14.2	
Nicaragua	...	...	...	0.1	...	...	...	1.0	...	...	...	0.3	1.1	...	...	...	...	x	0.4	...	2.9
Panama	...	...	...	0.3	...	0.1	...	...	...	0.4	0.1	...	...	...	...	...	...	...	x	...	0.9
Dominican Republic	...	...	...	...	...	...	...	...	0.3	0.3	...	...	...	...	...	...	...	...	x	...	0.6
Total	197.8	10.9	215.1	19.1	100.9	4.8	14.6	20.8	60.2	14.5	1.3	15.2	6.5	4.7	0.8	1.5	3.4	1.1	2.5	1.0	626.7	
1955																						
Argentina	x	3.7	124.6	0.4	28.6	...	15.6	14.8	1.3	4.9	0.6	...	...	...	...	...	0.9	...	0.3	...	195.7
Bolivia	1.8	x	2.0	...	0.5	...	...	0.2	...	...	...	...	...	...	...	...	...	...	...	...	4.5
Brazil	99.8	0.4	x	0.1	11.4	0.9	...	0.1	32.8	0.4	...	0.1	...	...	...	...	0.1	...	...	...	146.1
Colombia	...	...	0.3	x	0.1	1.3	...	0.3	0.9	1.9	0.4	0.2	...	...	...	...	0.1	...	0.4	...	5.9
Chile	44.6	1.0	8.5	0.4	x	0.9	...	2.9	0.6	0.3	0.1	1.1	0.2	...	...	...	0.2	...	0.3	...	61.1
Ecuador	1.6	0.2	...	5.6	1.3	x	...	0.1	...	0.1	1.0	0.1	0.5	0.2	...	...	...	0.1	0.4	...	11.2
Paraguay	16.0	...	...	...	...	...	x	...	1.0	...	...	...	...	...	...	...	...	...	...	...	17.0
Peru	4.8	6.3	0.6	3.1	36.3	3.9	0.2	x	1.0	0.6	...	0.1	...	...	...	...	...	...	0.1	0.1	57.1
Uruguay	...	0.5	26.2	0.8	0.2	...	0.5	3.3	x	0.2	...	...	...	...	...	...	...	...	...	...	31.7
Venezuela	42.4	...	77.6	0.4	8.7	0.8	16.4	x	0.1	11.1	0.2	0.5	0.2	0.2	0.8	0.9	160.3
Costa Rica	...	...	...	1.4	...	...	...	...	...	0.1	x	0.1	0.1	3.1	0.2	...	...	...	0.4	...	2.4
Cuba	0.2	...	0.1	1.0	4.9	0.1	...	0.2	0.9	2.4	0.1	x	0.1	0.1	0.1	0.4	1.2	0.1	0.4	0.3	12.0	
El Salvador	...	...	...	...	...	0.2	...	...	...	0.2	0.2	...	x	0.8	0.1	1.9	...	0.3	0.1	...	3.8
Guatemala	...	...	...	...	...	...	...	...	...	...	...	...	0.4	x	...	...	...	...	...	...	0.4
Haiti	...	...	...	0.1	...	...	...	...	...	...	...	...	...	...	x	...	...	...	...	...	0.1
Honduras	...	...	...	...	...	...	...	...	...	1.2	0.3	1.9	4.1	0.7	...	x	...	...	0.3	...	8.5
Mexico	0.2	...	0.7	0.3	0.5	...	...	0.1	...	0.6	0.3	5.0	0.6	4.5	0.2	0.3	x	0.2	0.3	0.4	14.3
Nicaragua	...	...	...	0.1	...	...	...	1.2	...	0.6	0.1	0.5	0.7	...	...	...	...	x	0.2	...	3.4
Panama	...	...	...	0.3	...	...	...	...	...	0.1	0.1	...	0.1	...	...	...	...	...	x	...	0.6
Dominican Republic	...	...	...	...	...	...	...	...	0.1	0.7	...	0.2	...	...	...	0.1	...	...	x	...	1.2
Total	211.4	12.1	240.6	14.0	91.9	7.3	16.3	24.0	55.0	14.3	3.3	20.4	7.0	7.0	0.8	2.7	2.5	0.9	4.0	1.7	737.2	

Source: Official foreign trade statistics.

Table III
LATIN AMERICA: INTRA-REGIONAL TRADE BALANCES, 1954
(Millions of dollars)

	Argen- tina	Bolivi- a	Bra- zil	Colom- bia	Chile	Ecuador	Para- guay	Peru	Uru- guay	Vene- zuela	Costa Rica	Cuba	El Sal- vador	Guate- mala	Haiti	Hondur- as	Mexi- co	Nicar- agua	Pan- ama	Domi- nican Re- public
1. Argentina	x	-1.4	+3.3	+1.0	-15.1	+1.5	+3.1	-9.2	-2.4	+31.9	...	-0.8	...	...	...	...	-0.7	...	-0.2	...
2. Bolivia	+1.4	x	-0.4	...	+0.2	...	...	+4.8	0.5	...	...	...	...	...	...	...	+1.2	...	...	...
3. Brazil	-3.3	+0.4	x	-0.4	-3.4	-0.1	-0.2	+0.6	+3.5	+72.1	...	-0.9	...	...	...	...	+1.5	...	...	...
4. Colombia	-1.0	...	+0.4	x	+0.7	+7.3	...	+2.1	+1.0	-2.2	+1.3	+0.6	...	...	...	...	+0.5	+0.1	-0.4	...
5. Chile	+15.1	-0.2	+3.4	-0.7	x	+1.0	-1.0	+24.0	-6.9	+0.3	-0.1	+5.9	-0.3	-0.1	...	...	-0.1	...	-0.1	...
6. Ecuador	-1.5	...	+0.1	-7.3	-1.0	x	-0.1	+2.2	-0.3	-0.3	...	-0.1	+0.1	...	...	...	+0.5	...	-0.2	...
7. Paraguay	-3.1	...	+0.2	...	+0.1	+0.1	x	...	-0.6	...	...	...	...	...	...	...	...	...	...	...
8. Peru	+9.2	-4.8	-0.6	-2.1	-24.0	-2.2	...	x	-1.4	-0.6	-0.2	+0.2	+0.1	...	...	...	+0.2	+1.0	-0.1	...
9. Uruguay	+2.4	-0.5	-3.5	-1.0	+6.9	+0.3	+0.6	+1.4	x	+13.1	...	+0.3	...	...	...	...	...	...	...	+0.3
10. Venezuela	-31.9	...	-72.1	+2.2	-0.3	+0.3	...	+0.6	-13.1	x	-0.1	-4.0	-0.5	-0.2	...	+0.5	+0.4	...	+0.2	-0.1
11. Costa Rica	...	...	...	-1.3	+0.1	...	...	+0.2	...	+0.1	x	-0.1	-0.2	...	-0.2	+0.1	+0.3	...	+0.1	...
12. Cuba	-0.8	...	+0.9	-0.6	-5.9	+0.1	...	-0.2	-0.3	+4.0	+0.1	x	-0.1	...	...	+1.0	+2.2	+0.3	-0.1	+0.1
13. El Salvador	...	...	...	...	+0.3	-0.1	...	-0.1	...	+0.5	+0.2	+0.1	x	-0.2	-0.1	+2.8	+0.9	+0.5	-0.1	...
14. Guatemala	...	...	...	...	+0.1	...	...	...	...	+0.2	...	...	+0.2	x	...	+1.4	+2.4	...	...	...
15. Haiti	...	...	...	...	...	...	...	...	...	...	+0.2	...	+0.1	...	x	...	+0.4	...	...	...
16. Honduras	...	...	...	...	...	...	...	...	...	-0.5	-0.1	-1.0	-2.8	-1.4	...	x	+0.4	...	...	...
17. Mexico	+0.7	-1.2	-1.5	-0.5	+0.1	-0.5	...	-0.2	...	-0.4	-0.3	-2.2	-0.3	-2.4	-0.4	-0.4	x	-0.5	-0.3	-0.5
18. Nicaragua	...	...	...	-0.1	...	...	...	-1.0	...	...	...	-0.3	-0.5	...	...	...	+0.5	x	-0.4	...
19. Panama	-0.2	...	...	+0.4	+0.1	+0.2	...	+0.1	...	-0.2	-0.1	+0.1	+0.1	...	...	...	+0.9	+0.4	x	...
20. Dominican Republic	...	...	...	...	...	...	...	...	-0.3	+0.1	...	+0.1	...	...	...	...	+0.5	...	...	x
Net balances	-11.0	-7.7	-69.8	-13.4	-41.1	+7.9	+3.3	+25.3	-20.3	+116.1	+0.9	-2.1	-4.1	-4.3	-0.7	+5.4	+10.8	+1.8	-1.6	-0.4
1955																				
1. Argentina	x	-1.9	-24.8	-0.4	+16.0	+1.6	+0.4	-10.0	-1.3	+37.5	-0.6	+0.2	...	...	...	...	-0.7	...	-0.3	...
2. Bolivia	-1.9	x	-1.6	...	+0.5	+0.2	...	+6.1	+0.5	...	...	...	...	...	...	...	...	...	...	...
3. Brazil	+24.8	+1.6	x	+0.2	-2.9	-0.9	...	+0.5	-6.6	+77.2	...	...	...	...	...	...	+0.6	...	...	...
4. Colombia	+0.4	...	-0.2	x	+0.3	+4.3	...	+2.8	-0.1	-1.5	+1.0	+0.8	...	...	+0.1	...	+0.2	+0.1	-0.1	...
5. Chile	-16.0	-0.5	+2.9	-0.3	x	+0.4	...	+33.4	-0.4	+8.4	-0.1	+3.2	-0.2	...	...	...	+0.3	...	-0.3	...
6. Ecuador	-1.6	-0.2	+0.9	-4.3	-0.4	x	...	+3.8	...	-0.1	-1.0	...	-0.3	-0.2	...	...	...	...	...	...
7. Paraguay	-0.4	...	...	...	...	x	...	+0.2	-0.3	...	...	...	...	...	...	...	...	...	...	...
8. Peru	+10.0	-6.1	+0.5	-2.8	-33.4	-3.8	-0.2	x	+2.3	+0.2	...	+0.1	...	...	...	...	+0.1	+1.2	-0.1	+0.1
9. Uruguay	+1.3	-0.5	+6.6	+0.1	+6.4	...	+0.5	-2.3	x	+16.2	...	+0.9	...	...	...	...	+0.6	+0.4	-0.7	+0.2
10. Venezuela	-37.5	...	-77.2	+1.5	-0.4	+0.1	...	-0.2	-16.2	x	...	-0.7	...	...	...	...	...	...	...	...
11. Costa Rica	+0.6	...	...	-1.0	+0.1	+1.0	...	...	+0.9	+8.7	...	x	+0.1	-0.1	-0.2	+0.3	+0.3	+0.1	-0.3	...
12. Cuba	-0.2	...	...	-0.8	+3.2	...	...	+0.1	-0.9	...	...	+0.1	-0.1	-0.1	-0.1	+1.5	+3.0	+0.4	-0.4	-0.1
13. El Salvador	...	...	...	...	+0.2	+0.3	...	...	...	...	...	x	+0.4	-0.4	-0.1	+2.2	+0.6	+0.4	...	...
14. Guatemala	...	...	...	...	...	+0.2	...	...	...	+0.5	+0.1	+0.1	x	...	+0.7	+4.5	...	...	...	...
15. Haiti	...	...	...	-0.1	...	...	...	...	...	+0.2	+0.2	+0.1	+0.1	x	...	...	+0.2	...	...	...
16. Honduras	...	...	...	...	...	...	...	...	...	-1.2	-0.3	-1.5	-2.2	-0.7	...	x	+0.3	...	...	...
17. Mexico	+0.7	-0.6	-0.2	-0.3	-0.3	...	...	-0.1	...	-0.6	-0.3	-3.8	-0.7	-4.5	-0.2	-0.3	x	-0.2	-0.3	-0.4
18. Nicaragua	...	...	...	-0.1	+0.1	...	...	+3.2	...	+0.4	...	+0.4	-0.4	...	...	...	+0.2	x	...	...
19. Panama	+0.3	...	...	+0.1	+0.3	+0.4	...	+3.1	...	+0.7	+0.3	+0.4	...	...	...	...	+0.3	+0.3	+0.2	...
20. Dom. Rep.	...	...	...	...	...	...	...	...	+0.1	-0.1	...	+0.1	...	...	...	...	+0.4	...	...	x
Net balances	15.7	-7.6	-34.5	-8.1	-30.8	+3.9	+0.7	+31.1	-23.3	+146.0	+0.9	-8.4	-3.2	-6.6	-0.7	+5.8	+11.7	+2.5	-3.4	-1.5

Source: Official foreign trade statistics.

III
SPECIAL ANNEXES

1. NEW INTERNATIONAL EXCHANGE RULINGS

a) Argentina

When the reform was decreed in October 1955, the Government declared that the "unifying of official market rates and the creation of the free market should be regarded as a transitional phase preparing the way for the establishment of a single exchange market, where one conversion value only will be assigned to the national currency, and foreign transactions will not be subject to the issue of licences, certificates or other restrictive expedients".^{31/}

Before the reform there were two exchange markets operating in Argentina. One of these was official, with rates of 5, 7.50 and 13.98 Argentine pesos to the dollar, plus the several variants due to the existence of the regulation that proportions of the exchange accruing from certain exports should be liquidated at different rates; for example, 50 per cent had to be negotiated at 5 and 50 per cent at 7.50 pesos to the dollar, whence an average rate of 6.25 resulted. In addition there was the so-called "free" market, which was not so in reality, as the operations for which it was used - specific exports and imports of a marginal nature, freight payments and other invisible items - were transacted at the fixed rate of 13.98 pesos to the dollar.

Under the reform two markets were set up, one official and one free. The former was subject to the fixed rate of 13 pesos to the dollar, intended for the liquidation of foreign exchange corresponding to exports and imports of those goods whose economic significance for the country is greatest, and to official services, a licence being required for every operation. At the same time, to simplify the method of controlling exports on the official market, a system of official base values was instituted. Its purpose is to determine the minimum value in foreign currency which the exporter must negotiate at the rate of 13 pesos to the dollar. This aspect of the régime has a special feature designed to promote sales to convertible currency

^{31/} Press communiqué issued by the Ministry of Finance of the Republic of Argentina, 28 October 1955.

areas; exports on the basis of units of account are subject to a surcharge of up to 4 per cent on the official base value in force. Furthermore, in pursuit of what was already traditional Argentine exchange control policy, the reform reaffirmed the regulations under which freight charges on official market imports from countries with which an agreement is extant - i.e., those with which Argentina conducts trade on clearing accounts - can be defrayed only in the currency used to pay for the commodity purchased.

On the new free market transactions can be negotiated without licences, at the rate resulting from the inter-action of supply and demand - about 30 pesos to the dollar in August 1956 - provided that such operations, whether relating to visible or invisible trade, are not among those scheduled on the official market. ^{32/} Although there are no administrative difficulties to prevent Argentine exporters from accepting units of account in payment for products scheduled on the free market, when this occurs the Buenos Aires price which they receive for each dollar-unit of account is only that of the official market - 18 pesos -, not that of the free market, which is much higher. ^{33/} In the case of imports scheduled on the free market and purchased from countries with which an agreement is in force, the Argentine importer is not at liberty to cover their value in units of account. For this purpose he must buy foreign exchange negotiable on the free market. Hence sales of free market commodities effected against units of account are much less lucrative for the exporter than those to transferable currency areas, unless a surcharge is imposed on the foreign purchaser, who thus bears the burden of the difference. On the other hand, imports of free market products from countries with which an agreement has been concluded, in terms of the exchange rate imply for the Argentine purchaser, a disbursement equivalent to that required for a similar purchase from convertible currency areas.

^{32/} To protect domestic industry, a surtax of 20 or 40 pesos to the dollar is in force for imports of spare parts, which are scheduled on the free market.

^{33/} On 18 July 1956, the Central Bank of Argentina authorized arbitrage between units of account with adjacent countries and transferable foreign exchange for the negotiation of differences in the official base values, at the rate fixed by the Bank itself. Thus the parity problem was eliminated as far as such differences were concerned.

There are other aspects of the reform in Argentina. Under its new policy, Argentina concluded an agreement - the Paris Club - with countries members of the European Payments Union, so as to set up a multilateral trade system, which came into force on 2 July 1956. Contracting parties to this agreement were Austria, Denmark, the Economic Union of Belgium and Luxembourg, France, Italy, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom. Once certain pending questions relating to trade debts have been settled, it is hoped that Germany will also participate in this régime.

The area of the Club is one of limited transferability. Within it, payments between Argentina and the other members can be effected in the currency of any of the European contracting parties, whatever the market of origin or destination of the commodities traded. ^{34/} Moreover, Argentina's balances in the currencies of the other contracting parties are reciprocally transferable in the arbitrage markets of any of the European countries mentioned. Arbitrage of foreign exchange corresponding to balances resulting from operations on Argentina's official market is effected through its Central Bank. The currencies used in free market operations can be arbitrated among themselves directly by the Argentine commercial banks.

This system represents the repudiation of the strictly bilateral agreements which were in force between Argentina and each of the member countries of the new multilateral zone. Where imports are concerned, as the system excludes any kind of discrimination as to prices or rates of exchange, it will be the Argentine purchaser who will select, on competitive bases of price and quality, the market from which he buys. This means that exchange control has ceased to be a means of channelling trade towards one or other of the European contracting parties. In turn, Argentina products will circulate freely among the other members of the Club, which are not entitled to adopt exchange measures that will alter parities between their

^{34/} See circular N° 2530, dated 29 June 1956, of the Central Bank of the Republic of Argentina.

currencies when this implies modification of the structure of prices of Argentine goods. Exports to the territory of contracting parties of the Paris Club of any product which is sold to other areas by a member country of the Club cannot be prohibited. Lastly, it should be noted that in principle the granting of reciprocal credits between Argentina and the European participants is not envisaged. Apparently it is anticipated that the operation of so wide an area of limited transferability will facilitate the intervention of private banking institutions in the role proper to them. This would at least partly counteract the effects of the abolition of the inter-Central-Bank credit system, which formerly played an important part in relations between Argentina and Europe.

b) Bolivia

There has been no extensive reform of this country's exchange régime, but in April 1956 some fairly important measures were adopted to simplify the import system. Certain variable duties on foreign goods existed in Bolivia under the title of "reversionaries". These were determined, after the goods had become Bolivian property, by local authorities in the consumer centres. Rates were not fixed, but were established in each case in accordance with the real sale price paid for the article concerned by the public. The measures mentioned above replaced such duties by the so-called "c.i.f. surcharge". The scale of this duty, which is highest for the least essential goods, rises to as much as 2,000 per cent of the c.i.f. value of imports, for which the official basic rate of 191.90 bolivianos to the dollar is still maintained.

In addition, an official market still exists in Bolivia with different rates for the liquidation of exchange accruing from exports and its sale to importers. The rate at which the Central Bank purchases the foreign exchange obtained for exports from the large tin mines administered by the Corporación Minera is 1,200 bolivianos to the dollar. The rate assigned to exports from the medium and small mines, effected through the Banco Minero, is 1,500 bolivianos.

Besides the official market there is also a free market for invisible trade operations.

/c) Brazil

c) Brazil

The trends towards multilateralism in this country's foreign trade assumed concrete shape with the establishment of the Hague Club in August 1955. This originally comprised agreements for the settlement of debts deriving from imports previously effected by Brazil. In order to facilitate the multilateral use of a certain number of European currencies, the Hague Club is based on a common statute, which takes the form of a group of identically-worded bilateral agreements concluded between Brazil and each of the other contracting parties, i.e., Austria, the Federal Republic of Germany, Italy, the Netherlands (including Dutch New Guinea), the United Kingdom and certain territories in the sterling area, plus the Economic Union of Belgium and Luxembourg, together with the Belgian Congo and the African territories of Ruanda-Urundi. Every European contracting party opens a credit account in Brazil's favour. Payments made by Brazil to the Club zone can be effected indiscriminately in any of the currencies stipulated in the relevant bilateral agreements - Austrian schillings, florins, Belgian francs, lire marks, and pounds sterling. For this purpose the authorized Brazilian banks open accounts in Europe and arbitrate the currencies in question. Furthermore, Brazilian exporters to countries in the Club zone are exempt from the 4.06-per-cent discount in force in Brazil for the conversion into cruzeiros of foreign exchange accruing from sales against non-convertible currencies.

As regards imports, Brazil's general provisions had to be reconciled with the Hague Club system. The existing régime is of course based on the auctioning of foreign exchange to be utilized for payments in a specific country, the sum auctioned depending on current availabilities of the exchange concerned. For similar goods from different sources, the price of foreign exchange varies in every case. To prevent discrimination at the time of auction, the foreign exchange to be used for financing purchases from the Hague Club countries is now offered in a single group under the generic name of "Dólares A.C.L." (limited-convertibility-area dollars). Once the exchange has been auctioned, the appropriate licences are issued in terms of some of the currencies mentioned above, according

to the Brazilian importer's decision in each case. Purchases from Brazil made by the other contracting parties must be covered with the foreign exchange stipulated for such payments in the bilateral agreement concerned.

From another point of view, the agreements on which the Club is based establish that its European members shall not adopt internal measures resulting in the abandonment of parity between their currencies and, consequently, in modifications of the structure of prices of Brazilian goods. Although these agreements do not prevent Brazil from utilizing the foreign exchange received from the other contracting parties for payments to the United States dollar area, on signing the instruments in question Brazil stated its intention of avoiding such transfers.

Shortly after the constitution of the Hague Club, and especially in the early months of 1956, the establishment of an integral exchange reform seemed to be imminent in Brazil. Although it has not yet been put into effect, the intention to carry it out does not seem to have been relinquished. Only a partial measure has been adopted. Through an increase in existing bonuses for exports of certain industrial products, the rate of exchange assigned to some of these was raised to 67 cruzeiros to the dollar, instead of 56.06.^{35/}

d) Chile

The new exchange régime came into force in April 1956. It largely abolishes direct controls on foreign trade, replacing them by others of a more indirect nature deriving from monetary and fiscal policy. Before the reforms were adopted, measures were applied in relation to credit, the expansion of the money supply and the rate of readjustment of prices and wages. Next, the new exchange system froze excessively large resources in local currency by means of prior deposits on imports.^{36/}

^{35/} Instruction 131 (19 June 1956) issued by the Superintendencia da Moneda e Crédito (SUMOC) raised the bonus in favour of certain exports, and improved the existing exchange rate for industrial products by 34 per cent.

^{36/} For purposes of the deposit, imports are classified in five categories, to which the following percentages of the Chilean port c.i.f. value are applied, converted into local currency on the basis of the most recent quotation registered for the foreign exchange to be used for payment: A, 5 per cent; B, 50 per cent; C, 100 per cent; D, 150 per cent; and E, 200 per cent.

All fixed exchange rates were annulled, as well as those resulting from the barter system, which up to that time had taken the form of equalizing, with official approval, the values of export and import operations, often on the basis of a subsidy in favour of exports at the expense of imports. The reform abolished this régime, and for both visible and invisible foreign trade operations instituted a free bank market, on which exchange is negotiated at the price determined by supply and demand.^{37/}

The available means of avoiding abrupt short-term variations in the price of foreign exchange derive from two factors. The first of these is the existence of an exchange control fund, amounting to 75 million dollars,^{38/} and the second, and more important, the powers assigned to the Central Bank for this purpose under the reform. The Central Bank operates on the bank market as buyer and seller of the foreign exchange declared to be automatically convertible, i.e., United States dollars, pounds sterling and Swiss francs. It buys from the Government the exchange accruing from taxation of the large copper mining companies, and from these latter the exchange they sell in Chile to cover their production costs. As Chile's exchange earnings from copper represent a high proportion of total income from exports,^{39/} the intervention of the Bank in the exchange market is in effect a factor which exerts a decisive influence on the price of foreign exchange. The reason is clear. When demand exceeds supply in any commercial bank, this does not result in a rise in the price of foreign exchange if the bank concerned can purchase the difference from the Central Bank.

^{37/} Dollar quotations on the bank market fluctuate around 500 pesos, while before the reform the rate in force for the bulk of foreign trade was 300 pesos to the dollar.

^{38/} To establish the regulating fund - of which no use had been made up to the date of completion of the present report (beginning of August 1956) - Chile negotiated credits for 35 million dollars with the International Monetary Fund, for 10 million with the United States Treasury and for 30 million with various United States private banks.

^{39/} The "Foreign Exchange Estimate" approved by the Consejo Nacional de Comercio Exterior on 16 February 1956 envisages a total export income of 389.8 million dollars for the year in question. Out of this sum, 218 million correspond to the legal costs of copper production and to the taxation established by Act N° 11828.

Chile's free market, unlike Argentina's, can also handle units of account, but when they are bought to pay for imports or invisible trade services they can be used only within the bilateral channel concerned. This is because the provisions on which the reform is based embody different regulations for the negotiation of exchange, according to whether it is convertible or not. Convertible foreign exchange, whatever its origin, can be purchased by the commercial banks, provided that the supply accumulated in each does not exceed proportions predetermined by the Central Bank. This exchange can only be sold to the public for purposes of covering the price of authorized imports or services. The commercial banks are at full liberty to arbitrate reciprocally convertible currencies. They can also translate non-convertible currencies - generally units of account - into convertible foreign exchange, but in practice it is difficult to carry out such operations because of the magnitude of the discount they would involve for the holder of the exchange in question. Furthermore, the system sets up no machinery for the arbitrage or transferability of units of account.

In these circumstances the price of such units does not necessarily correspond to the quotation in force on the same date for the negotiation of convertible currencies, ^{40/} unless the Chilean authorities were to decide to intervene in the market with the aim of maintaining certain price levels for the units of account used in trade between Chile and those countries with which it had concluded some agreement on the reciprocal observance of parity. ^{41/}

Another characteristic of the reform is the abolition of the direct instrument which Chile had been using to channel purchases of goods from abroad towards the market which balance-of-payments considerations rendered desirable. This instrument was the import licence. By eliminating

^{40/} While the United States dollar was quoted at 498 pesos on 1 August 1956, on the same day the following prices in Chilean pesos were registered for units of account: Chile-Brazil, 390; Chile-Argentina, 483; Chile-Spain, 430; Chile-France, 477.

^{41/} The Central Bank of Chile, by virtue of clause N°24 in the Trade and Financial Agreement signed on 19 February 1954 between Argentina and Chile, intervenes in the market to maintain quotations for the unit of account concerned at a level close to that of the United States dollar.

the means of selection thus provided, the new rulings allow authorized commodities to be freely imported from any source whatever. Clearing agreements have thereby largely lost their capacity to direct trade flows into specific channels.

Besides the bank market, for operations which this does not cover - remittances of capital, profits, interest, tourist expenditure, etc. - there is a stock exchange or brokers' market, in which the rate is also that resulting from supply and demand. ^{42/} Foreign exchange negotiated in this market can be used for payments proper to the bank market, when bought for this purpose by the commercial banks

e) Paraguay.

This country has radically altered its exchange system. Decrees issued in March 1956 unified the system of multiple rates, which ranged from 15 to 73.70 guaraníes to the dollar, replacing them by a single quotation - 60 guaraníes to the dollar - on the official market.

This rate is in force for all exports and imports of essential goods, as well as for official transactions and for the payment of freight charges, insurance, and commissions on essential commodities. To a second group of imports a temporary surcharge of 25 guaraníes to the dollar is applied.

The Central Bank draws up a list of authorized imports; it then issues individual permits, taking into account the prices, quality and other conditions offered by the applicants, as well as existing availabilities of the various currencies. To give effect to the permits and to the opening of documentary credits, the importers make prior deposits in the proportion determined by the bank itself. ^{43/}

^{42/} Dollar quotations on the stock exchange market are usually higher than the price on the bank market. On the same day - 1 August 1956 -, when the former stood at 498 pesos, the latter was as much as 516 pesos.

^{43/} These deposits range from 30 to 70 per cent of the value of the imports concerned according to the degree in which the goods are essential.

The reform abolished the existing system of official base values for the negotiation of export exchange earnings. The whole of the value obtained by their sale must now be liquidated on the official market. On the other hand, the new system exempts the free market from controls, leaving it outside the sphere of intervention of the Central Bank. Payments unrelated to the official market, like movements of capital, are effected on the free market, where prices are determined by the inter-action of supply and demand.

f) Uruguay

Uruguay also remodelled its exchange system at the beginning of August 1956, adopting a mixed régime of fixed and fluctuating rates. The reform established an official or controlled market for both United States dollars and units of account. On this market a certain proportion of the foreign exchange accruing from exports - varying according to the products ^{44/} will be negotiated, at the rate of 1,519 Uruguayan pesos to the dollar. Exchange for the most essential imports will also be purchased on the official market, at a rate of 2.10 pesos to the dollar, whether the goods come from transferable currency areas or not. These imports are subject to the requisite of a prior deposit, the amount of which varies between 30 and 75 per cent of their value. A sworn declaration replaces the licence previously required.

Alongside the official market the free commercial market will function. In this exporters will sell - through a system of certificates ^{45/} and at the price agreed upon with the purchaser - the freely-negotiable proportion of any foreign exchange that they obtain from their sales abroad. Foreign exchange bought in this market can be used by the importer to pay for goods scheduled therein, subject on occasion to individual quotas established by the exchange authorities. A sworn declaration is also required, and a

^{44/} Eleven categories of products were established, in accordance with the different proportions fixed for negotiation on the official and on the free commercial markets.

^{45/} Certificates can be utilized for imports effected by the exporter himself, or they can be sold to other importers. If this has not been done within eight days, they are bought by the Banco de la República Oriental del Uruguay at the price in force on the preceding day for the currency in question.

prior deposit must be made amounting to 30 per cent of the c.i.f. value of the product imported. In some cases the deposit is larger. As the units of account negotiated on the official free market can be utilized only for payments to the country concerned, it seems that in this market parities will probably not be officially maintained between the price of United States dollars and units of account.

Up to the present the schedules of export and import products to be included in each market have not yet been issued. However, the authorities have declared their intention of placing bans on less essential goods.

Apart from the two markets mentioned, the free financial market will continue to operate for transactions unconnected with foreign trade.

2. INTER-LATIN-AMERICAN TRADE AND PAYMENTS AGREEMENTS. POINTS TO BE TAKEN INTO ACCOUNT IN NEGOTIATIONS.

To complete this account of the findings of the ECLA survey carried out in various countries of the region on the characteristics of inter-Latin-American trade, its problems and their solutions, a summary follows of the replies given in competent circles to a questionnaire on possible bases for an organized system of trade and payments agreements. The opinions and suggestions gathered may be useful for the bilateral revision of the instruments in question, as well as for facilitating the application of the decisions which some countries may adopt to conclude certain multilateral agreements.

a) Most-favoured-nation clause

The idea that the special exchange treatments stipulated in bilateral agreements might be extended to other Latin American countries by the introduction of a most-favoured-nation clause into trade and payments agreements does not seem to be acceptable. It is thought, however, that this might be done on reciprocal bases, or in order to readjust clearing accounts on multilateral lines.

Although the most-favoured-nation clause was referred to in the survey in connexion not with tariffs but with the exchange and payments régime, some of the observations received may usefully be noted. As has been pointed out, among some Latin American countries there are no extant agreements establishing most-favoured-nation treatment for commodity trade. In some cases this situation arises between adjacent countries, and where it exists, products from the region itself are actually likely to receive more severe tariff treatment on certain frontiers than is applied to similar goods from extra-regional sources. There is, however, a want of reasonably exact data on the real importance of this fact for the inter-Latin-American trade flows. Hence, attention was drawn in the survey to the usefulness of determining its significance through a study of the principal products affected by this situation. Such a study would have to be carried far enough to define what contractual margins are available for modifying the present state of affairs by means of fresh negotiations with suppliers of the same products in other regions. Furthermore, the suggestions collected seem to indicate that

/general aspirations

general aspirations towards the establishment of an inter-Latin-American minimum tariff treatment to facilitate the circulation of goods are hardly likely to gain much practical ground without a previous elucidation of the real bases of the problem from the economic and contractual points of view.

b) Parities

Should a constant relationship be established between units of account in intra-regional trade and the United States dollar? A brief outline of the replies received is given below.

i) From a general standpoint, most opinions coincide as to the theoretical desirability of maintaining such a parity, although with the application of some sanction or discount because of the smaller extent of the area in which units of account can be used. Nevertheless, it is pointed out that to this end the corresponding trade would have to be conducted at competitive prices, since the observance of parity would not be justified if there were surcharges on the prices of the commodities traded. In such an event the maintenance of parity might mean that the economy of the importing country absorbed the surcharge deriving from the exporter's lower productivity. Even if surcharges are imposed on both sides, to recognize parity between the unit of account and the dollar would imply the attribution to the former of a purchasing power greater than it really possesses. In this context there is a tendency, especially in countries which are attempting to extend the application of free market methods in their foreign trade to recommend that units of account should seek their own level on the market. This of course largely depends - setting aside the effect of seasonal demand and supply - on the competitive capacity of the exports in question.

ii) Nevertheless, in view of the peculiar structure of inter-Latin-American trade, most experts recognize that its expansion may not be best promoted by the free negotiation of units of account. The fall in quotations for such units in the creditor country during periods when balances accumulate, in combination with the surcharge on the price of goods to which lower productivity often gives rise, is apt to interrupt the continuity of exports and to prevent specialization in the supply of certain markets. Although a decline of this nature should encourage imports and contribute to the restoration of equilibrium, various factors, including

/the seasonal

the seasonal nature of the movement of staple commodities in Latin America, slow up and often counteract its influence in this direction. Latin American trade offers many examples of the interruption of certain supply flows for this reason.

iii) The maintenance of parity with the United States dollar in the operation of the accounts safeguards the purchasing power of trade balances, a circumstance which may favourably affect the granting of higher and longer-term credits. On account of these and other considerations, and even though the result might be the application of a special régime to inter-Latin-American trade, in the same countries which put forward the arguments summarized under point i) some opinions were expressed in favour of the maintenance of a system of predetermined parities in intra-regional trade, through the intervention in the market of the appropriate Central Bank, and on the basis of the acceptance of a margin of fluctuation, also agreed upon beforehand, in the price of the currencies used. Furthermore, as the effect of the recent exchange reforms in certain countries tends to do away with the practice of surcharges, the importance of the objections which might on principle be raised to this position is weakened.

iv) It is useful to clarify the relationship that would exist between those clauses in trade treaties or payments agreements which establish parities and those which relate to the granting of reciprocal trade. Are these clauses interdependent? The answer is usually given in the affirmative. When the demand for imports is so small as to bring down the price of the unit of account, the contractual commitment to maintain it by Central Bank purchases should in any event cover a sum not less than that of the credit stipulated in the agreement.

c) Inclusion or exclusion of certain highly essential products

The regulations contained in the agreements are not uniform in their scope, since not all of them embrace the whole of the transactions conducted between the contracting parties. While in some of these instruments it is specified that all operations be included, others expressly exclude certain commodities from the clearing account, either because they are so essential that they can be sold on the open market or because, in addition, they are produced in consequence of special contracts with foreign enterprises.

/Lastly, in

Lastly, in a number of agreements no attempt is made to define whether all the transactions between the parties are covered by the clearing account. Practical experience indicates that this omission exposes the trade concerned to the risk of interruption when one or other of the parties decides to exact payment for specific goods in dollar cash.

To facilitate the regular extension of the clearing system to goods of the kind described, it has more than once been suggested, and on some occasions agreed, that values on account shall be computed in two groups, one comprising first-category or essential goods and the other commodities of secondary importance. As far as possible, in the case of products in the first category, equally essential commodities to an equivalent value quoted at world prices, would be delivered to the exporter country. In some countries it is thought that the device of dividing the accounts into two circuits of compensation would assist in the liquidation of final balances, as is already the case in certain channels.

It must be emphasized that the opinions gathered in the course of the survey - especially in those countries where interest is felt in purchasing from Latin American sources mining products generally quoted in the world market on a United-States-dollar basis - tend to advocate the inclusion of primary goods and their by-products in the agreements. It is pointed out that, as a rule, clearing-account balances in Latin America have been traditionally unfavourable for those countries which habitually need to import foodstuffs, and that such countries apparently find in mining products and by-products a means of stabilizing their balance of payments and increasing the volume of their trade. Trade between Argentina and Chile provides a good example.

In the countries that export mining products and their derivatives the views expressed on this point are cautious. Although it is admitted that the decision to include such products in the clearing accounts automatically strengthens their contractual capacity, these countries feel that if such a system is to prove acceptable there must be some possibility of obtaining equally essential products on reciprocal terms from the other contracting party, as in the case of the agreements of this kind already in existence. Stress is also laid on another aspect of the question, linked to a problem that is not always easy to solve. When

goods of this same type are produced under special contracts with foreign enterprises, if the exporter country wishes to negotiate them through clearing accounts it must be willing to accept from the companies concerned the dollar-units of account received by these latter in payment for their exports, and to use them for covering the enterprises' liabilities to the State in United States dollars for production costs or taxation. If the dollar-units of account are not negotiated on the exchange market on a basis of parity with the United States dollar, the above procedure means that the State loses money. Hence it would seem that general rulings on this point cannot be introduced into the trade and payments agreements. For the same reasons, the most-favoured-nation exchange clause could not be extended to include an obligation to sell certain goods to third countries in Latin America itself against units of account, although the fact that sales are being thus effected under specific agreements with a given country might be adduced in favour of such a practice.

d) Official base values

In the sphere of foreign exchange, the so-called "official base values" procedure serves two important purposes in Latin America, i.e., i) the regulation of the maximum sums per unit to be assigned for import licences, when the authorities see in this expedient a means of maintaining at a certain level the price paid by consumers for specific supplies, or of preventing exchange manoeuvres based on the alteration of commercial invoices; ^{46/} ii) the determination of the minimum sum in foreign currency, also per unit, which the exporter must hand over to the appropriate Central Bank at a given rate of exchange.

^{46/} Under the cloak of the system of multiple exchange rates, in some channels a surcharge is entered on the invoices, and the exporter in one country returns part of this extra sum to the importer in another, through the free market. In some cases, the importer receives, for every dollar bought in his own country's official market, the equivalent in local currency of almost double the price he paid for the dollar. In practice, such a curious "exchange profit" seems to be equally distributed between buyer and seller. With a view to eliminating incentives of this kind, some countries are considering the application of a system of official base values under which the Central Bank of the importer country would authorize the negotiation on its official market of only a part of the value of the invoice, so that the difference would have to be liquidated on the free market.

As regards the first of these purposes, continued action on the basis of isolated national decisions, is not felt to be desirable, since over and over again the maximum prices fixed by the buyer country for the sale of an imported commodity to the public have been lower than its real cost for the importer. When this is the case, the importer must either sacrifice quality or meet the difference by means of the free market. Sometimes the importer receives the difference through another channel; it is paid by those exporters in his own country that have effected sales within the same bilateral sector without finding a purchaser for the accruing foreign exchange. In order to sell this, they sacrifice part of its price in favour of the importer who buys it, so that he will thus be enabled to import goods which in the consumer country are subject to an official base value lower than the c.i.f. price. The distortion of trade through such procedures can be prevented by a system of prior consultation between the contracting parties on the establishment and modification of official base values.

The repercussions of the other use of the official base value - the fixing of the minimum sum which the exporter must liquidate at the pre-determined rate of exchange - have only recently made themselves felt. As has been shown, in order to increase sales against convertible currencies, some of the most recent exchange reforms allow that proportion of export exchange earnings which exceeds the official base value to be negotiated at the free market rate. Since the free market operates only with hard currencies, units of account cannot take advantage of this privilege, as there is no demand for them at the free rate. To remedy the resulting situation, arbitrage machinery has been set up in Argentina to permit the extension of the benefit described to units of account with adjacent countries. ^{47/}

e) Exclusion of invisible items

Is it considered advisable that clearing accounts include all visible and invisible items in movements of payments, or is it felt to be more

^{47/} See the circular issued by the Banco Central de la República Argentina on 18 July 1956.

useful for such accounts to be limited to the registration of items of visible trade on an f.o.b. basis, leaving the remainder to be liquidated through the free market?

On this point there was virtually a consensus of opinion, to the effect that invisible items should be excluded from the clearing accounts régime, and that the corresponding transfers should be authorized without licences or specification of the kind of currency in which payment must be made. This would be in line with current trends towards liberalization.

Two additional comments were made, however. These were as follows: i) In some channels invisible items are larger than is commonly supposed, so that if they appear in the clearing account concerned they may at a given moment constitute factors of disequilibrium; and ii) any measure eliminating maritime freight charges from the accounts would have to be universally adopted by countries engaging in inter-Latin-American trade under the clearing system, by some of them only, as otherwise the development of Latin America's shipping enterprises would be even more seriously handicapped than at present by the varying exchange treatment which different countries accord to the foreign exchange earmarked for or accruing from maritime transport. The validity of the first of these remarks can to some extent be measured by a study of table 8, which clearly shows the importance of the invisible items within total operations liquidated through clearing accounts in certain bilateral channels.

Table 8

ARGENTINA: OPERATIONS ON ACCOUNT WITH SELECTED COUNTRIES, 1955

Country	Total movements on account (dollar-units of account)	Percentage of total trade represented by invisible items
Bolivia	6.0	7.9
Brazil	248.0	12.2
Chile	89.0	10.1
Paraguay	37.5	15.5
Uruguay	4.0	45.9

Source: Banco Central de la República Argentina.

f) Barter arrangements

The value of those products - often more or less equally essential - which are traded, usually under short-term contracts, on a basis of quantitative barter arrangements, is liquidated as a rule through the clearing accounts. The survey indicated a clearly-defined attitude to this subject which can be summed up as follows.

In the first place, it is not felt to be advisable that the remodelling of existing treaties should involve the discontinuance of the barter system, which is regarded as an instrument in the conclusion of agreements of a kind considered useful for the encouragement of given lines of production, since the availability of a buyer market among other Latin American countries provides them with an incentive. Practical experience bears witness to this in the case of agreements relating to certain cereals and to fresh and dried fruit. It is thought, however, that such arrangements ought to cover periods of at least three years, and that when the price adjustments are stipulated a procedure should be adopted for this purpose which need not interrupt the continuity of the trade flows concerned. This last remark recurred with particular frequency in sectors linked to the clearing-account trade in fresh fruit, the annual figures for which amount to more than 20 million dollars in each direction in the Southern Zone. Short-term agreements in this line of trade, and the interruptions of the trade flow caused by the

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interval between the expiry of the agreement in force and the application of the new one, are a source of anxiety for the producers concerned. In such conditions the farmer cannot plan his work on stable bases, nor can he accept the financial commitments involved in meeting disinfection and fertilization requirements.

In the industrial sectors of certain countries it is also thought that reciprocal agreements for trade in certain intermediate products and manufactured goods, though not the most desirable expedient from the stand-points of developing a regional market on competitive bases and of encouraging productivity, might sometimes be justifiable on the grounds that they stimulate trade.

Apart from these opinions in favour of limiting the barter system to specific cases, the majority of these consulted advocated trade based on the unrestricted circulation among the contracting parties of the products covered by the relevant agreement, especially when prices are competitive.

g) Re-exports

Trade and payments agreements reflect a variety of attitudes towards the possibility of re-exporting natural products of the countries concerned or intermediate products and manufactured goods obtained wholly or partly from imported raw material. Some instruments do not even mention re-exports. Most of them seem to imply disapproval of the practice, since they establish that the goods traded shall be exchanged only for the satisfaction of the domestic consumer or industrial requirements of the parties. Among the agreements in force, only one recognizes the possibility of re-exporting, inasmuch as it stipulates that applications to this effect shall not be granted without prior consultation. Some countries consider that if the agreement in question says nothing of re-exports, the domestic consumption clause should be regarded as implicit. It must be noted that in practice - when the agreements do not contain specific provisions as to the ultimate destination of the goods negotiated - certain countries deem it legitimate to authorize re-exports provided that the applicant first pays the import duty, thus making the commodity in question national property. Again, the omission of the means of securing equilibrium which re-exports in some cases represent, since they facilitate the utilization of idle balances, fosters the clandestine transaction of certain triangular operations.

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There is a widespread feeling that re-exports without previous consultation with the country of origin of the goods are incompatible with the system of trade on clearing accounts when this is carried on at non-competitive prices. Those who express such an opinion recall that exports on which a surcharge is authorized under the clearing accounts have frequently not been used for consumption in the country for which they were purchased, but have been diverted to transferable currency areas where they could be sold at low prices - through the non-observance of parity in the clearing accounts régime - and in some cases even in competition with the direct sales effected by the producer country itself. Consequently, unless proceedings are based on competitive prices and predetermined monetary parities, re-exports should in any case be subject to prior consultation, even when the goods have become the national property of the original buyer.

Other points of view were also put forward on this question. It is thought in some countries that re-exports are inadmissible in the case of goods sold by the producer country, whether or not at competitive prices, and re-exported by the first purchaser to areas where the country of origin habitually sells the same article. Again, in contrast with the opinions already stated, it was also emphasized in the survey that if a product is exported at soft currency prices - that is, with a surcharge - and is re-exported from the market of destination to a hard currency area, the operation is admissible, since profit will have accrued both to the producer country and to the first buyer - the former having received the surcharge, and the latter, convertible foreign exchange -, provided that such re-exports do not compete with the producer country's direct sales against hard currencies.

Broadly speaking, despite the variety of opinions on the best way of controlling re-exports under the terms of the agreements, there is a general sense of the need for a system of prior consultation, with contractual pre-determination of the time limit for replies.

h) Temporary exports and imports

There are cases in Latin America of republics whose economies find it in their interest to contract for the transformation of domestic raw materials for their own consumption with other countries in the region itself.

Problems of idle installed capacity also exist in relation to industrial equipment; so that better returns for the capital invested and lower prices for consumers would be ensured, if it were possible to arrange contracts for the transformation of raw material received from third countries. In the course of the survey various specific situations of this type were adduced to illustrate advantages of taking them into due account in the system of agreements. According to the data collected, the flow of trade and services to which contracts of the above type might give rise is in practice obstructed by the lack of clauses exempting from the current payments mechanism those movements of goods which derive from such arrangements, and at the same time establishing a special financial system to cover the value of transformation. Attention was also called to the absence of regulations promoting the prompt circulation of matrices (industrial moulds) for the metallurgical, mechanical, plastic and other industries. Of course, the measures to be adopted in this sphere would not affect payments alone; they would also encourage the more widespread application in Latin America of the tariff procedure for temporary-admission and the system of waiving duties, already instituted by some countries.

i) Unregistered trade

As the official payments systems obstruct the movements of goods resulting from the national complementarity of adjacent regions, or from certain vital subsistence requirements of neighbouring townships belonging to different countries, contraband commodity trade attains exceptional dimensions. This is the comment made during the survey in connexion with the difficulties created by the recent exchange reforms in various bilateral channels in South America. In addition to legal unregistered trade, such as is permitted under the terms of special frontier agreements and by administrative provisions authorizing each individual to take with him goods up to a certain value, and the already chronic smuggling carried on in some districts, a clandestine trade has recently grown up whose value in some cases is apparently far greater than that of the legitimate trade registered in official statistics. ^{48/} Although these movements of goods

^{48/} According to authorized sources, the number of cattle on the hoof at present smuggled between Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay can be estimated at about 120,000 head yearly.

up to a point represent actual barter of commodities, there are grounds for the belief that at the present time substantial use is made of the United States dollar for the liquidation of the values concerned.

There is widespread agreement on the need for introducing into the agreements realistic clauses on questions of frontier trade and adjacent and complementary areas, to define which products could be traded freely, without licences and without registration on the clearing account, but subject to payment of the appropriate customs duty in the case of every operation above a certain value. In some republics there is a tendency to adopt this system even when the products which it covers are not consumed in the frontier district proper of the importer country.

j) Private credit

Some of the comments made to the ECIA group underline the necessity for encouraging private credit within the clearing accounts mechanism, since the present structure of some national exchange régimes in effect precludes all possibility of operating on the basis of external financing other than the reciprocal credits agreed upon between the Central Banks. As a rule - with certain variations from one country to another - it is stressed that the value of exchange to be used for imports must now be deposited within inflexible time limits, which makes it impossible to take advantage of the payment facilities granted by the foreign supplier. Certain countries will accept private credits granted abroad in the shape of consignations or deferred payments only when they relate to essential goods. Nor is the importer usually permitted to finance his suppliers through the whole or partial transfer of the value of the product when he places the order in question, without waiting for notice of embarkation. In some bilateral channels the general rules in force have almost entirely prevented the utilization of credits granted to customers in other Latin American countries by certain producers of essential goods, especially fertilizers. The situation is similar for exports, as the usual practice is to authorize them against irrevocable documentary credit, that is, in effect, against the immediate receipt of the foreign exchange involved. As inter-Latin-American trade lacks the support of any such private financial organization as gives backing to the firms engaged in trade between Latin America and other regions,

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it is intra-regional commerce that is most severely affected by restrictions on private foreign credit. Hence, in some countries, a certain number of those consulted definitely advocated the establishment of special regulations which, within inter-Latin American trade, would allow and encourage the granting of private credit in favour of imports and exports. One of these regulations would provide for the acceptance of deferred payment operations, within certain time limits and in conformity with the clauses relating to the maintenance of parity. It would be useful if the Central Banks set up a service for the exchange of information on the solvency of persons interested in utilizing private credit of this kind. It was also suggested that it would be well to establish special insurance to cover the risks inherent in deferred payment for exports of intermediate and manufactured products, goods for immediate consumption being excluded from this system.

k) Special measures

The recent exchange reforms have confronted inter-Latin-American trade in certain bilateral channels with the inescapable alternative of either reducing its levels or resorting to special devices capable of safeguarding both its present volume and its possibilities of development. Although theoretically the best instruments for the latter purpose are customs measures, the fact is that the breadth of the tariff agreements between a large number of Latin American republics and States in other regions does not leave enough margin for the use of the customs tariff as a means of encouraging certain lines of intra-regional trade. Several countries are therefore considering the possibility of adopting special measures of another kind, at all events provisionally, in order to achieve the ends desired. There seems to be no doubt that the influence of payments agreements on the stability and expansion of trade will be seriously weakened unless ad hoc expedients are adopted.

What form might these measures take? Some, of course, are among those formerly agreed upon by certain Latin American countries in favour of other republics in the same region, although as an exception to the usual rules of their exchange régime. Such measures have several features in common, as follows: i) they assign to particular exports or imports an exchange rate more favourable than that generally in force; ii) they exempt specific

/goods from

goods from the effect of import bans or quantitative restrictions, or from the need for an individual licence in every case in countries where this régime still prevails; iii) they provide for Central Bank intervention in the bank market so that parity can be maintained between the price of the units of account concerned and the United States dollar, up to the sum stipulated as a credit margin in the relevant payments agreement; iv) they free imports from Latin America from the requirement of prior deposits in national currency; and v) they grant certain domestic credit facilities.

With respect to the first feature - differential exchange rates - divergent opinions were gathered in the course of the survey. But, in countries whose inter-Latin-American commodity trade is among the heaviest, authorized circles declared themselves openly in favour of this procedure, especially when treaties with third countries hamper the use of the customs tariff for similar purposes. It is pointed out, however, that the utilization of the exchange rate with the aim of channelling trade in a given direction would call for certain contractual precautions, especially to ensure that the goods thus benefited were used for consumption by the contracting parties, as otherwise this system might encourage surreptitious re-exports.

On the second point - exemption from specific prohibitions or quantitative restrictions and from the compulsory licence for every operation - the general view supports this practice which up to the present time has more than once been employed within inter-Latin-American trade relations, because of the need - among other reasons - to supply incentives for the utilization of units of account which otherwise would remain inactive.

The scope of the third aspect - the intervention of the Central Banks to maintain the price of units of account - has already been analysed with sufficient thoroughness elsewhere.^{49/} As for the fourth - exemption from the requisite of prior deposits for imports from Latin America - almost universal confidence is felt in the stimulating influence which such a measure would exert on the utilization of Latin American units of account.

^{49/} See the present Annex, b), iv), Parities.

Because of the high rate of interest in force for internal credit, it is calculated in some countries that such exemptions would mean a difference of up to 10 per cent in the price paid by the importer for the goods purchased.

As regards the fifth and last of the devices mentioned - the granting of certain domestic credit facilities - it should be pointed out that as part of the system of selective control of imports, some Latin American republics authorize domestic bank credit to importers only for the purchase of foreign exchange to pay for essential goods. Under this system, the importer finds himself compelled to cover wholly or partially, without assistance from the banks, the value of the foreign exchange he requires to purchase products of secondary importance or non-essential goods. In the case of inter-Latin-American trade, some experts consider it advisable to adopt more flexible measures in favour of domestic bank credit for intra-regional trade purposes, with the additional aim of offsetting in some degree, by this expedient and the others previously mentioned, the disadvantage at which some trade lines are placed as regards competitive prices, the prestige of trademarks and other factors.

1) Official credits and balances

There is a patent trend towards imparting as much flexibility as possible to the mechanism of reciprocal Central Bank credits, both in the establishment of maximum levels, and by waiving the right to claim payment of the balance in convertible currencies. While in some channels a virtually unlimited margin of credit is granted, ^{50/}most countries refrain from exercising their contractual right to request that once the critical level has been reached the surplus be covered in dollars. At the time of the survey at least two republics in South America were following this course in connexion with substantial assets accumulated in bilateral accounts, which represented sums higher than the credit limit agreed upon. The well-known depressive effects on trade of insistence on claiming the balance in convertible currencies are among the considerations on which such conduct is based. Another, in the same connexion, is bred of the fact that certain bilateral disequilibria - very marked if they are assessed within the short

^{50/} In practice it sometimes exceeds 50 per cent of the value of trade in each direction.

term of one year - tend to right themselves spontaneously over the medium or long term. The policy governing the granting of official credits thus displays adaptability to the real situation of trade.

Another important contributory factor is the chronic shortage of convertible currencies in almost all the South American countries. It is for this reason that the attitude described is largely determined by the aim of preventing resources needed for the development of foreign trade with other regions from being deflected towards inter-Latin-American payments. Herein also lies the explanation of why the South American republics included in the transferable sterling area only on rare occasions make use of this currency to settle their reciprocal balances. Neither is the United States dollar generally utilized for this purpose. Fundamentally, the motives are the same as those that impel the Latin American countries of the Southern Zone to carry on their reciprocal trade in units of account.

From another point of view it can be seen that the inter-Latin-American accounts usually register frozen balances for considerable periods. The existence has an adverse effect on both the regularity and the expansion of trade within the bilateral channel concerned, since it often happens that the debtor country reduces its purchases so as not to increase its liabilities. The replies received during the survey as to the system which would seem advisable for the liquidation of balances approach the question from the two following points of view: a) that of the purely bilateral agreements and b) that of arrangements for transfers among more than two countries.

In the first instance some agreements already existing in Latin America give grounds for the idea that payments agreements should contain a formula providing for an extra credit, over and above the credit normally stipulated, which would enter into effect as soon as the predetermined limit had been attained. In this case the ordinary credit would be converted into a long-term debt to be paid off by instalments. In addition, as long as this last debt still registered balances outstanding sums whereby the extra credit was exceeded would have to be liquidated in convertible currency, at the request of the creditor. Moreover, ^{51/} it was emphasized in some

51/ See Study of Inter-Latin-American Trade, op. cit., chapter V.

countries that the granting of credits should be understood not solely as an official engagement to permit the export of goods whose equivalent value in commodities will be received after a long period, but also as a commitment to buy the corresponding units of account from the exporters in good time, especially when the agreement concerned contains the clause providing for the maintenance of parity between the unit of account and the United States dollar. Although it seems difficult to adopt any other feasible means of effectively observing parity in periods when there is a decline in the demand for imports, it is recognized that the application of principles such as these would expose the Central Banks to certain risks of loss through exchange differences, which would, however, be lessened if that part of the balances which exceeded the ordinary credit level could be transferred to third countries.

In the second case - the liquidation of balances by means of agreements among more than two countries - quite a number of foreign trade authorities in Latin America consider that in view of the present shortage of convertible currencies, the best solution of the problem would be to establish some co-ordinated system of payments which was really regional and calculated to promote the building-up of an integrated regional market, as well as to facilitate financial movements between member countries and those monetary groups in other regions by means of which an attempt is being made to impart flexibility to trade relations among the countries that compose them. The expression of this desire is accompanied by the recognition that the existing disequilibrium in some bilateral trade channels, together with other circumstances arising from the separation between economic and monetary policy in the Latin American countries, would militate against the success of any proposal for the establishment of a regional clearing mechanism, unless the first steps were taken with the greatest possible caution.^{52/} It would therefore be necessary in the initial phase to envisage objectives which were not too ambitious, and the pursuit of which would prepare the way for more far-reaching solutions.

^{52/} See Study of Inter-Latin-American Trade, op. cit. Chapter V.

Nor is it felt that there would be serious difficulties in the way of a short-term approach - did the countries concerned definitely desire it - to co-operation in attaining the targets established for this opening phase. The aim would be twofold: a) to supply the Latin American Central Banks and the other appropriate authorities with periodical and regular information on the balance situation in each bilateral channel; and b) to set up a simple system of voluntary proposals and counter-proposals for the transfer of balances above a certain level among more than two countries, through operations to be effected in each case at the exchange rate agreed upon between the parties.

Although in principle this idea emerged only in relation to payments within Latin America, it became clear during the survey that in some countries consideration was being given to the possible usefulness of extending this mechanism to payments with other regions.

Apart from the fact that one of the most important benefits aimed at in the first stage is the opportune supply of basic data - the lack of which at present constitutes a regrettable lacuna -, it is felt that this procedure might also open up the way to closer collaboration among the institutes concerned with inter-Latin-American payments. The method would also have to be adopted on bases that would not interfere with the special monetary arrangements which any individual contracting party in isolation, or several in a body, might concert in future, either reciprocally or with countries in other regions. 53/

53/ See document E/CN.12/C.1.4 for a recapitulation of the ideas and suggestions gathered during the survey, as elements that might be taken into account in the drawing-up of a programme of work for the Trade Committee.

3. TEXT OF THE RESOLUTION CREATING THE TRADE COMMITTEE

"Resolution 101 (VI) adopted on 15 September 1955 (E/CN.12/410)

"The Economic Commission for Latin America,

"Mindful of resolutions 20 (IV) and 69 (V),

"Considering that the report of the secretariat (E/CN.12/369) constitutes
"a very considerable advance in the sphere of research into the problems of
"inter-Latin-American trade, and, by representing such clear progress in the
"field of information and analysis, enables an examination of specific
"solutions aimed at intensifying such trade to be undertaken, and

"Aware that the countries of Latin America are engaged in a broad and
"increasingly intensive campaign for economic development, essential to a
"higher standard of living for their peoples, and that the pursuit of this
"campaign may require in certain circumstances adequate tariff protection
"as well as the broadening and complementing of the markets for specific
"products,

"Resolves:

"1. To set up within the Economic Commission for Latin America a Trade
"Committee formed by member countries for the purpose of intensifying inter-
"Latin-American trade - without prejudice to the expansion of trade with
"other regions and mindful of the fundamental necessity of increasing over-all
"world trade - through a solution of the practical problems which hamper or
"delay such trade and the preparation of bases to facilitate trade
negotiations;

"2. To this end, the Trade Committee shall concern itself with the
"preparation of specific proposals, in harmony with the present and future
"bilateral and multilateral commitments of member governments, and the
"modifications they may make to them, and taking into consideration national
"or regional economic conditions. In carrying out its functions the
"Committee shall bear in mind the topics covered in the secretariat's report
"E/CN.12/369), such as the problems of inter-Latin-American payments; trade
"policy; specific questions of maritime transport and the trade in given
/products; and,

"products; and, similarly, the other studies and subjects the analysis of
"which may lead to the achievement of the objectives which caused its
"establishment, and the comments and information of member governments on
"all such studies and subjects;

"3. In addition, as soon as possible, the Committee shall propose
"solutions to the specific inter-Latin-American trade problems of the
"land-locked countries of the region, to which item 4 of resolution 69 (V)
"refers;

"4. The Committee, after each of its session, shall submit a report
"on its work to the Commission. The Executive Secretary shall transmit the
"report of the Committee to member governments as soon as possible;

"5. In discharging its functions, the Trade Committee shall consider
"in detail and make full use of the studies, on the subjects recommended by
"the present resolution, carried out by the Inter-American Economic and
"Social Council and other international organizations;

"6. The sessions of the Trade Committee shall be held at ECLA
"headquarters, or wherever circumstances and the object of the meeting demand,
"at the discretion of the Executive Secretary of the Commission and after
"prior consultation with the government of the country acting as host to the
"session;

"7. The secretariat shall convene the sessions of this Committee and
"shall provide governments with the agenda and background documentation for
"the meeting not less than 30 days previously. The first meeting shall be
"convened as soon as possible and the secretariat shall prepare the
"provisional agenda on the basis of the contents of this resolution;

"8. The Committee shall be governed by the existing Rules of
"Procedure of the Commission in so far as they apply, without prejudice to
"its subsequent adoption of special rules for its operation; and

"9. For the purposes of the meetings, the Committee shall consist of
"the representatives of the governments participating in each session.