

**FOREIGN CAPITAL
IN LATIN AMERICA**



UNITED NATIONS

Department of Economic and Social Affairs

New York, 1955

E/CN.12/360
ST/ECA/28

November 1954

UNITED NATIONS PUBLICATION

Sales No.: 1954. II.G. 4

Price: \$U.S.1.75; 12/6 stg.; Sw. fr. 7.00
(or equivalent in other currencies)

FOREWORD

This study has its origin in resolution E/CN.12/132, adopted on 10 June 1949 during the second session of the United Nations Economic Commission for Latin America. In the resolution, which deals with the investment of foreign capital for economic development in Latin America, the Executive Secretary of the Commission was requested to arrange for the preparation "on a co-ordinated basis of a study, country by country, of the legal, economic and financial conditions affecting the investment of public and private capital in Latin America". The study was to "include all or part of the countries of Latin America and [to] cover the relevant legal, administrative and juridical provisions and give some historical illustrations on the subject".

Pursuant to this resolution, studies relating to nine countries were submitted to the third session of the Commission in 1950 (E/CN.12/166 and addenda 1 to 9). The Commission took note of the studies in resolution E/CN.12/198 and requested that the inquiry be extended to other countries in Latin America. Accordingly, another group of studies, dealing with six countries, was submitted to the fourth session, in 1951 (E/CN.12/166, addenda 10 to 15). The present report was prepared pursuant to resolution 8 (IV) adopted at that session, which requested the Executive Secretary to complete and publish the report on the status of foreign investments in Latin America. In view of the close relationship of this study to other inquiries undertaken by the United Nations Department of Economic and Social Affairs at Headquarters, an arrangement was made under which the study was prepared by the Bureau of Economic Affairs of that Department.

Part I of the present study is devoted to analysis of general trends and comparison of policies. It contains a broad survey of the development of foreign investments in the region and the present size and nature of such investments. The second chapter of part I reviews national policies affecting private foreign investments. In part II, a chapter on each of the twenty countries in the region traces the historical development and present status of the country's external debt and other foreign investments; it also summarizes laws and major governmental policies affecting private foreign investment. Among the topics covered are regulation of the entry of foreign capital, establishment and control of foreign-owned enterprises, employment of foreigners, exchange control, taxation and the extent of governmental participation in industry. The statistical appendix relates largely to the historical survey contained in chapter 1 of the report.

So far as possible, this report is based on information from official sources. Unless otherwise indicated, data on United States direct investments are estimates published by the United States Department of Commerce. The nature of these estimates is described in a note to appendix table XV. A large part of the information on laws and administrative measures relating to foreign investments is derived from publications of the Pan-American Union (series entitled *A Statement of the Laws of . . . in Matters Affecting Business*) and the United States Department of Commerce (series entitled *Establishing a Business in . . .*). Part of the information on foreign exchange restrictions is taken from the International Monetary Fund's *Annual Report on Exchange Restrictions*. Information was also obtained from governments in reply to a questionnaire which the Executive Secretary of the Economic Commission for Latin America addressed to member governments pursuant to resolution E/CN.12/198, adopted during the Commission's third session. The study has not, however, been submitted to the governments concerned for their review.

The summary of laws and government policies pertains to the situation prevailing at the end of 1953; in some instances, however, the information relates to conditions at a somewhat earlier date. Various aspects of the international flow of private capital since the end of the war have been dealt with in previous reports of the United Nations and other agencies. Mention may be made, in particular, of a recent study, *The International Flow of Private Capital, 1946-1952* (United Nations publication 1954.II.D.1), which contains references to other official reports.

EXPLANATION OF SYMBOLS

The following symbols have been used in the tables throughout the report: Three dots (. . .) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A minus sign (-) indicates a deficit or decrease, unless otherwise noted.

A full stop (.) is used to indicate decimals.

A comma (,) is used to distinguish thousands and millions.

A slash (/) indicates a crop year or fiscal year, e.g., 1952/53.

Use of a hyphen (-) between dates representing years, e.g., 1950-53, normally signifies an annual average for the calendar years involved, including the beginning and end years. "To" between the years indicates the full period, e.g., 1950 to 1953 means 1950 to 1953, inclusive.

References to "dollars" indicate United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million.

Details and percentages in tables do not necessarily add to totals, because of rounding.

CONTENTS

Part I. Trends and Policies

	<i>Page</i>
1. THE GROWTH OF FOREIGN INVESTMENTS.....	3
The period before the First World War.....	3
The early capital inflow—After the 1860's—United Kingdom investments —French investments—German investments—United States investments— Other investments	
The inter-war period.....	7
Flotation of securities in the United States—United States direct investments —Investments of other countries—Governmental measures	
The period after the Second World War.....	10
Repatriation of investments—External debt settlements—United States direct investments—Capital from governmental sources—Investment yields—For- eign investment and the balance of payments	
2. GOVERNMENTAL POLICIES.....	16
Entry and control of foreign enterprises.....	17
Comprehensive regulation—Regulation according to industry—Regulation of extractive industries—Concession contracts—Public enterprise—Labour regu- lation	
Exchange control.....	21
Taxation.....	24
Tax concessions—Taxation of extractive industries—International double taxation	
Expropriation and default.....	27
Expropriation—Policies affecting external debt	
Treaties and international agreements.....	30

Part II. Country Studies

Argentina.....	35
Bolivia.....	43
Brazil.....	49
Chile.....	61
Colombia.....	68
Costa Rica.....	74
Cuba.....	79
Dominican Republic.....	84
Ecuador.....	88
El Salvador.....	93
Guatemala.....	96
Haiti.....	101
Honduras.....	105
Mexico.....	109
Nicaragua.....	120
Panama.....	124
Paraguay.....	129
Peru.....	133
Uruguay.....	139
Venezuela.....	144

Statistical Appendix
(See list on page vii)

LIST OF TABLES

	<i>Page</i>
1. External funded debt of the Argentine Federal Government, selected years	35
2. Foreign capital invested in Argentina, 1940.....	36
3. United States direct investments in Argentina, 1929, 1943 and 1950.....	37
4. United States direct investments in Bolivia, selected years.....	44
5. External public debt of Brazil, selected years.....	49
6. Composition of the external public debt of Brazil, 1931, 1940 and 1952.....	50
7. United States direct investments in Brazil, 1929, 1943 and 1950.....	51
8. Foreign capital invested in commercial firms and incorporated business enterprises registered with the Bank of Brazil, 31 December 1950.....	52
9. Foreign direct investments in Chile, 1948.....	62
10. United States direct investments in Chile, 1929, 1943 and 1950.....	63
11. United States direct investments in Colombia, 1929, 1943 and 1950.....	69
12. United States direct investments in Costa Rica, 1943 and 1950.....	75
13. United States direct investments in Cuba, 1929, 1943 and 1950.....	79
14. United Kingdom direct investments in Cuba, selected years.....	80
15. Ownership of sugar mills in Cuba, 1939 and 1952.....	80
16. United States direct investments in Guatemala, 1943 and 1950.....	96
17. United States direct investments in Haiti, 1943 and 1950.....	102
18. Foreign direct investments in Mexico, 1938, 1946, 1950 and 1952.....	111
19. United States direct investments in Mexico, 1929, 1936, 1943 and 1950.....	111
20. Foreign direct investments in Paraguay, 1949.....	129
21. United States direct investments in Peru, 1929, 1943 and 1950.....	134
22. United States direct investments in Uruguay, 1929, 1943 and 1950.....	140
23. Foreign investments in the petroleum industry in Venezuela, by country of origin, end of 1950.....	144

STATISTICAL APPENDIX

	<i>Page</i>
I. United Kingdom investments in Latin America, 1913.....	153
II. French investments in Latin America, 1902 and 1913.....	153
III. United States investments in Latin America, by area, 1897, 1908 and 1914.....	154
IV. United States direct investments in Latin America, by industry, 1897, 1908 and 1914.....	154
V. United States private long-term investments abroad, selected years....	154
VI. Latin American securities publicly offered in the United States, 1920 to 1929.....	155
VII. Status of foreign dollar bonds, 1935.....	155
VIII. Industrial distribution of United States direct investments in Latin America, 1914, 1919, 1924 and 1929.....	155
IX. United States direct investments in Latin America, 1914, 1919, 1924 and 1929.....	155
X. United Kingdom investments in Latin America, 1913, 1930, 1938 and 1951.....	156
XI. United States holdings of Latin American dollar bonds, 1930, 1945 and 1951.....	157
XII. Outstanding publicly offered Latin American foreign dollar bonds, 1935, 1945 and 1952.....	157
XIII. Outstanding Latin American sterling bonds, 1939, 1945 and 1951....	158
XIV. Liquidation of United Kingdom investments in Latin America, 1946 to 1951.....	158
XV. United States direct investments in Latin America, 1950.....	159
XVI. Industrial distribution of United States direct investments in Latin America, 1943 and 1950.....	160
XVII. Flow of United States long-term capital, and income on United States investments in Latin America, 1946 to 1952.....	160
XVIII. Flow of United States capital to Latin America for direct investment, by industry, 1949 to 1952.....	161
XIX. Loans by International Bank for Reconstruction and Development to Latin America, 15 September 1953.....	161
XX. Export-Import Bank credits to Latin American countries, 1934 to 1953	162
XXI. Ratio of earnings to equity, United States direct investments in Latin America, by industry, 1948 to 1951.....	162
XXII. Ratio of income received to equity, United States direct investments in Latin America, by country, 1950 and 1951.....	162
XXIII. Ratio of earnings to equity, investments in Latin America and the United States, 1948 to 1951.....	162
XXIV. Ratio of local income taxes to net earnings before taxes, United States direct investments in Latin America, 1950.....	163
XXV. Yields of selected Latin American and other dollar bonds, June 1953....	163
XXVI. Selected items in balance of payments of Latin America, 1925-29, 1949, 1950 and 1952.....	163
XXVII. Ratio of Latin American investment income payments to receipts on account of goods and services, by country, 1938, 1947 and 1950....	164
XXVIII. Net outflow of capital from the United States for direct investments in Latin American countries, compared with income received, 1946 to 1951	164

Part I

TRENDS AND POLICIES

Chapter 1

THE GROWTH OF FOREIGN INVESTMENTS

The inflow of foreign capital became a distinctive feature of the economy of most countries of Latin America in the second half of the nineteenth century. Until the Second World War private investors were the source of almost all such capital, which took the form of loans to governments or private enterprises, or of equity capital. The recent inflow of capital from governmental and international lending agencies has coincided with the reduced inflow of private capital into most countries of the region since the 1920's and has partly been designed to compensate for it.¹

The reduced amount of private capital imported into the region has been traced to factors at work both within and outside Latin America. Among those frequently mentioned are the laws, administrative regulations and other expressions of governmental policy of capital importing countries affecting the entry and operation of private foreign enterprises.² The present report is largely devoted to this subject. The following record of foreign investment within the region attempts to place presently applied governmental policies in their historical perspective.

The period before the First World War

Before 1914 the international flow of capital to Latin America proceeded in almost complete absence of governmental control in both the capital exporting and the capital importing countries. Taxes in both these groups of countries were low, and exchange control was non-existent. The legal framework within which foreign investments operated in Latin American countries was relatively simple and on the whole non-discriminatory. Occasionally, special assurances were extended by the governments of capital importing countries to investors, particularly in the form of a guaranteed yield on capital invested in railways and public utilities. As a major recipient of foreign funds, governments of course exerted a profound influence on the investment process, particularly if their part in encouraging railway construction is taken into account, and the stimulation of immigration through governmental action also helped to induce an inflow of capital. Otherwise, the only significant determination of the conditions under which private capital was invested was contained in concession contracts and franchises, applicable mainly to the extractive industries and public utilities.

The early capital inflow

The liberation of the greater part of Latin America from colonial status during the early decades of the nineteenth century opened the area to international trade and investment. The servicing of foreign loans and the transfer of the yield of equity investment has naturally depended heavily on exports. The success or failure of foreign investments in Latin America has accordingly depended to a considerable extent on the

development of exports. When markets for Latin American exports have been favourable, foreign investments have been attracted to the export sector, and the resulting economic expansion has in time attracted additional investments. This does not mean that foreign capital has been invested only in export industries; large sums have been absorbed by government borrowing or business activities, particularly public utilities.

From about 1820 to the outbreak of the First World War there were three main periods of capital flow into the region: a brief investment boom during the 1820's, a more sustained movement beginning in the 1860's and a period of particularly large inflow during the decade before 1914. Throughout the period the main source of capital was the United Kingdom; towards the end of it, France, Germany, several other European countries and, in particular, the United States became important sources of funds.

The short-lived investment boom of the 1820's was concentrated largely in the United Provinces of the Río de la Plata, which formed the nucleus of Argentina. Capital was attracted to mining and to so-called immigration and land companies concerned with the opening up of the interior of the country for agricultural development. At the same time a relatively large loan was floated in the London market by Buenos

² The term "foreign enterprise" is used in the present study to denote an enterprise in which non-resident investors have a controlling interest, whether or not it is established under the laws of the capital importing ("host") country. From the point of view of the capital exporting country, a foreign enterprise may be either a subsidiary or a branch. A subsidiary is an enterprise organized under the laws of the host country. For statistical purposes, a branch represents other foreign assets held abroad for the purpose of conducting business. For further details see note to appendix table XV.

¹ See United Nations, *The International Flow of Private Capital, 1946-1952* (sales number 1954.II.D.1), chapter 1.

Aires for the purpose of developing port and sanitary projects and other municipal facilities.

During this brief period investors were attracted to several other areas in the region. Bonds were issued in London by several of the newly established States, including Brazil, Chile, Colombia, Peru and the Central American Federation. The funds raised were mainly intended to meet obligations resulting from the wars of liberation and also current governmental expenditure and only to a limited extent for public works directly or indirectly stimulating production. Somewhat later Haiti raised a loan in France to pay the first instalment of an indemnity due that country. The debt of the Central American Federation was divided in 1827 among Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua; in 1834 the new republics of Ecuador and Venezuela assumed parts of the external debt incurred earlier by Greater Colombia.

By the end of the 1820's all the governmental loans raised abroad had fallen into default and the bulk of the foreign investments in business ventures had failed. The collapse was due to a combination of fiscal difficulties, high interest rates, non-productive uses of the loans, political instability and failure of the export trade to prosper to the extent anticipated. The failure of investments in Argentina, where the prospects had appeared very promising, was particularly striking.³

During the three decades following the 1820's the external financial relations of practically all the countries were characterized by recurrent defaults, conversions and funding of arrears of interest. Many of the old external loans, after conversion and adjustment, remained outstanding for almost a century; in some countries, such as Ecuador, they are still traceable in the external debt statistics. A large part of the early business investment was wiped out through bankruptcy or liquidation and left little trace in the following decades.

After the 1860's

An era of large-scale capital inflow into Latin America opened after the 1860's, and particularly after the 1890's, following the widespread effect on economic relations between Latin America and Europe of the development of cheap steel, ocean-going steamships, effective refrigeration, and new mining techniques. Latin America assumed a position in world trade which favoured the attraction of foreign capital and facilitated the transfer of investment yields.

³ See H. S. Ferns, "The Beginnings of British Investment in Argentina", *Economic History Review*, Second series, vol. IV, No. 3 (London, 1951). The study points out that, unlike several early loans to other Latin American countries, that to the United Provinces of the Rio de la Plata was negotiated through a British brokerage firm of recognized standing (Barings') and that the proceeds were devoted to a constructive purpose, namely harbour development. The loan, nominally £1 million, was issued to the public at a 15 per cent discount; the brokers retained £150,000 as commission, and an additional amount of £130,000 was withheld as security against the payment of interest and sinking fund charges during the first two years. The effective interest rate would have been about 8½ per cent.

In addition to investments in mines and plantations, foreign capital found major outlets in the bonds and stocks of railways and port facilities, often privately owned, devoted primarily to getting primary products from the interior (for example the "coffee" railways of Brazil and Colombia and the "mineral" roads of Chile and Peru) and facilitating their shipment overseas. The same object was served by a substantial portion of the loans raised abroad by governments to finance railways and various public works. Considerable capital was also borrowed by governments to fund floating debts or to convert old external long-term debts into new ones.

The parallel growth of foreign trade and capital inflow in Latin America underwent rapid acceleration after the turn of the century.⁴ Spurred by rising prices of primary products, and facilitated by the cumulative effect of the technological developments referred to earlier, the volume of production and export of food-stuffs and raw materials increased rapidly. Perhaps the most rapid expansion occurred in the River Plate area, but Brazil and Chile also attracted large amounts of capital and joined with Argentina and Uruguay as the major centres of growth. In Central America and the Caribbean area foreign capital was attracted mainly to Mexico and Cuba after the turn of the century. The latter two countries were the only significant outlets for United States investments in the region before the First World War.

In the pattern of trade and investment that emerged about 1900, Latin American countries fell into two groups. The exports of the tropical countries and Chile—countries which produced mineral and tropical agricultural goods—found their main market in the United States, but these countries depended largely on Europe (particularly the United Kingdom) for manufactured goods. On the other hand, the agricultural countries in the temperate zone, particularly Argentina, which engaged in agricultural production very similar to that of the United States, disposed of their exports largely in Europe but depended heavily on the United States for their imports of agricultural machinery, transport equipment and similar manufactured goods. While the countries of the former group tended to develop export balances with the United States and import balances with the United Kingdom, the latter group tended to have an import balance with the United States and an export balance with the United Kingdom (and Europe in general). The Latin American countries accordingly became dependent upon triangular trade, and their balances of trade with the United States and Europe merged into a wider system of settlement comprising all the principal trading countries of the world.⁵

In recent decades, the system referred to has been undermined by obstacles to the multilateral settlement of accounts. Trade has become increasingly bilateral;

⁴ For details see United Nations, *A Study of Trade between Latin America and Europe* (sales number 1952.II.G.2).

⁵ For a detailed analysis, see League of Nations, *Network of World Trade* (Geneva, 1942).

in addition, a heavy increase has taken place in two-way trade with the United States. Nevertheless, the factors determining the tendencies of bilateral trade balances referred to above are still at work and influence the payments position of the countries in question. Though the payments position of some of the tropical countries is far from strong, the large share of the United States in their merchandise exports is, by itself, a factor tending to facilitate the payment of foreign investment yields and hence to attract United States capital. The position of other countries in the region depends more heavily on a general improvement in the system of international payments.

The only available statistics indicating in a comprehensive manner the size and industrial composition of foreign investments in the region are those of the capital exporting countries. Their main features may be briefly reviewed.

United Kingdom investments

United Kingdom investments in Latin America are estimated to have grown from some £85 million in 1870 to about £750 million in 1914 (see appendix table I).⁶ United Kingdom foreign investment generally appears to have been fairly sustained from the 1850's onward, except for a sharp drop in the 1870's and a mild retardation in the decade after 1893.⁷ There was a rapid upsurge in the decade before 1914, when an increase of over 50 per cent occurred in the total value of British investments overseas. Latin America appears to have shared in this general trend; the inflow of United Kingdom capital into Argentina and Brazil alone is estimated to have totalled over £200 million between 1907 and 1914.⁸

In 1914 investments in Argentina and Brazil alone represented 60 per cent of total United Kingdom investments in Latin America (see appendix table I). In that year United Kingdom investments in Latin America comprised about 20 per cent of United Kingdom investments overseas.

As in the case of United Kingdom foreign investments generally, the bulk of the capital was invested in bonds, issued mainly by railway companies (most of which were privately organized, though often with government guarantee), and by governments. According to

one estimate, the distribution of the total in 1914 was as follows:⁹

	<i>Per cent</i>
Railway securities.....	46
Bonds of national, state and municipal governments	31
Banks and shipping.....	3
Miscellaneous industries.....	20

A large proportion of the proceeds of the government loans was employed directly for productive purposes, particularly in the field of transportation and public utilities. While railways were by far the major object of foreign investment in the region, mining ventures and various agricultural enterprises also attracted foreign capital. Reference may be made to mining investments in Mexico and other countries along the Pacific Coast, the development of the Chilean nitrate industry, petroleum in Mexico and meat packing in the River Plate region.

French investments

Among the early French investments in the region may be mentioned loans to the Governments of Haiti, Peru and Mexico. After 1870, French investments in mining expanded rapidly in Colombia, Mexico, Venezuela and elsewhere. But a really sustained flow of French capital to Latin America started only in the 1880's with the founding of French banks in several countries, loans to Argentina and Brazil, and some investments in railways. Among the ventures which attracted French capital was the unsuccessful attempt to construct a canal across Panama—then part of Colombia—which absorbed a nominal capital of over 2 billion francs (\$400 million at the then prevailing rate of exchange).

After the turn of the century the outflow of French capital to the region increased. It has been estimated that the nominal value of French investments in Latin America grew from 2 billion francs (\$400 million) in 1900 to three times this figure in 1914, when it represented 13 per cent of total French investments overseas.¹⁰

The distribution of French investments among countries is shown in appendix table II, which is based on a source giving a higher estimate of the value of such investments than just mentioned. It will be observed that between 1902 and 1913 the share of Argentina, Brazil and Mexico in the total increased; an absolute decrease in value appears to have occurred in several countries, including Colombia, Cuba, Peru, Uruguay and Venezuela.

Governmental obligations constituted about 30 per cent of the French investments in 1913. As in the case of United Kingdom investments, the largest single non-

⁶ See note to appendix table I for comment on these estimates. They represent nominal values of publicly issued securities and exclude certain investments not represented by such issues, as well as investment in shipping enterprises. The estimates presumably exclude holdings other than those of United Kingdom residents.

⁷ See A. E. Imlah, "British Balance of Payments and Export of Capital, 1816-1913", *Economic History Review* (London, 1952), pages 208 to 233; a similar estimate, indicating a somewhat smaller outflow of capital, is given by A. K. Cairncross, *Home and Foreign Investment, 1870-1913* (Cambridge, 1953), chapter VI.

⁸ H. Feis, *Europe, the World's Banker, 1870-1914* (New Haven, 1930), page 21. Feis' figures are based largely on estimates by Sir George Paish, *Journal of the Royal Statistical Society*, vol. LXXII (London, 1909) and the *Statist, Supplement*, vol. LXXIX, 14 February 1914 (London).

⁹ Based on data compiled by the *South American Journal*, 25 January 1941, page 57 (London). The total value of the securities given in this estimate is £1 billion, which is higher than other estimates and presumably includes sterling securities held outside the United Kingdom. There is no reason to assume, however, that the proportions indicated are not correct.

¹⁰ H. Feis, *op. cit.*, page 51.

governmental outlet was railways. Other investments in private enterprises, representing some 40 per cent of the total, were divided about equally among four groups: real estate, including agriculture; banking and finance; mining and commerce, manufacturing and public utilities.

German investments

The inflow of German capital to Latin America became sizable after 1900, though Argentina had obtained some capital from Germany at the end of the 1880's. Among the main outlets for funds were governmental obligations in Argentina, Brazil, Mexico, Chile and Venezuela. German capital was attracted to port works and public utilities, but not to railways to the same extent as United Kingdom and French capital. German mining activities were limited; on the other hand, business investments were significant in mortgage banks and plantations.

By 1914 German investments in the region were estimated at 3.8 billion marks (about \$900 million), or 16 per cent of total German investments overseas.¹¹ They were located chiefly in Argentina, Brazil, Chile and Mexico, with minor holdings in Guatemala, Peru, Venezuela and elsewhere.

United States investments

Before the late 1890's United States investments overseas were negligible, and those in Latin America were limited to gold-mining ventures and railways in Mexico and minor holdings elsewhere. Although the United States remained a net debtor on international capital account until the First World War, an increasing amount of funds from that country found its way into Latin America after the Spanish-American War in 1898. In contrast with European investments in the region, those of the United States were largely confined to equity investments in private business ventures, mainly public utilities and enterprises producing for export to the United States.

As appendix table III shows, the investments were concentrated in neighbouring countries, at first in Mexico and later in Cuba. By 1914 they amounted to \$1.6 billion or 45 per cent of estimated United Kingdom investments in the region. In that year direct investments are estimated to have comprised about 80 per cent of United States holdings in Latin America.¹²

¹¹ According to H. Feis, *op. cit.*, page 74. J. F. Rippey, in "German Investments in Latin America", *University of Chicago, Journal of Business*, April 1948, estimates the value of German investments in Latin America in 1918 at \$677 million, including those held by German residents in the region.

¹² In the present study, direct investments are defined as investments in enterprises in which foreign nationals or enterprises hold a "controlling" interest. For a more precise definition, reflecting official United States usage, see note to appendix table XV. It should be observed that equity investments in non-controlled enterprises are excluded; also that the total value of the foreign equity in controlled enterprises is included, whether held by a parent company or by other residents of the creditor country. Also included in the value of direct investments is long-term indebtedness payable to the parent company or to non-affiliated parties in the creditor country.

The distribution of these direct investments by industries is shown in appendix table IV. Many of the early investments in agriculture, mining and petroleum extraction represented an extension of the activities of existing United States enterprises producing the same commodities at home or seeking a source of materials for processing in the United States. The investments in agriculture were made mostly in sugar production in Cuba and the banana trade in the Caribbean area. For a time, gold and silver production, chiefly in Mexico, dominated the mining ventures, but in the years before the war industrial minerals, notably copper, became more important and accounted for larger investments in Chile and Mexico. Most of the investment in petroleum was located in Mexico; smaller amounts were devoted to exploration for petroleum in Colombia, Peru and Venezuela. Railway investments were significant in Cuba, Mexico and several other Central American countries. Investments in public utilities were concentrated in Cuba and Mexico. Investments in distribution (including, presumably, distribution of imported merchandise) were confined largely to a few of the more developed countries.

Other investments

Latin America also received significant amounts of capital from Belgium for investment in railways and utilities in Argentina and Brazil, from the Netherlands for governmental loans and petroleum investments in Mexico, from Portugal for investment in Brazilian government bonds, and smaller amounts from Switzerland and other European countries. If these are estimated at \$1 billion, the total (nominal) value of foreign investments in Latin America in 1914 may be put at about \$8.5 billion, or about one-fifth of world-wide long-term foreign investments, distributed as follows:¹³

	<i>Billions of dollars</i>
United Kingdom.....	3.7
United States.....	1.7
France	1.2
Germany	0.9
Other countries	1.0

Since the estimates of the holdings of the several creditor countries vary considerably in definition, it is evident that the total can be regarded only as a rough approximation. As to the distribution among debtor countries, it appears fairly certain that one-third of the total was located in Argentina, almost a fourth in Brazil, a similar amount in Mexico and the remainder largely in Cuba, Chile, Uruguay and Peru.

¹³ See United Nations, *International Capital Movements during the Inter-War Period* (sales number 1949.II.D.2), page 2. The estimate in the text is based largely on the same sources employed in the study referred to. The figures for continental European countries appear subject to a wider range of error than those for the United States and the United Kingdom.

The inter-war period

The First World War brought about a transformation in international creditor-debtor relations, but Latin America was less affected than most other regions. The inflow of capital from Europe practically ceased, but little reduction of European investments occurred in the course of the war—except through the sale or confiscation of German holdings or the acquisition of Latin American citizenship by their owners. In consequence, however, of the drop in Europe's exports during the war several countries, notably Argentina, accumulated an export surplus that was financed through short-term credits to European countries and continued to grow for several years after the war. The United Kingdom resumed lending to Latin America on a reduced scale in the 1920's—especially evidenced if allowance is made for the increase in prices—and little new capital entered from other western European countries.

An inflow of capital from the United States occurred during the war and paved the way for the major expansion of United States investments in the region during the 1920's. In a few countries the war-time reduction of imports from Europe provided an incentive to industrialization, and the resulting economic changes increased the scope for investments through branches and subsidiaries of manufacturing enterprises in the United States. Governments became eager to borrow abroad as domestic economic activities expanded, stimulated partly by high prices received for exports.

Conditions in the United States were likewise favourable to an increased outflow of capital. Savings in the United States were at a high level, and there had not yet developed the strong counter-attraction of yields on domestic investments which tended to divert interest from foreign securities towards the end of the 1920's. The quantum of exports from Latin America to the rest of the world rose by more than three-fourths between 1913 and 1928, increasing substantially the capacity of the region to meet the service of additional investments.

Between 1914 and 1919 the dollar value of United States investments in Latin America increased by about one-half and in the decade after 1919 it more than doubled (see appendix table V). In contrast with the shrinkage in value in the 1930's that reflected mainly financial adjustments, most of the growth from 1914 to 1929 was the counterpart of an inflow of capital.

Some idea of the significance of the capital inflow to the recipient countries may be derived from a comparison with imports. During 1925 to 1929 the average annual inflow to Latin America of long-term capital from the United States (after deduction of amortization and redemption payments but including reinvested earnings) was \$200 million, equivalent to 24 per cent of the merchandise imports (f.o.b.) from that country.¹⁴

¹⁴ United Nations, *A Study of Trade between Latin America and Europe* (sales number 1952.II.G.2), page 6.

Capital inflow from all sources was equivalent to 13 per cent of the region's total imports and 9 per cent of imports of goods and services, including net outward payments on account of interest and dividends on foreign capital.

Latin America absorbed 24 per cent of the new capital issues floated for foreign account in the United States during 1924 to 1928, the period of greatest outflow. The region's share in new United States direct investments abroad was considerably greater—44 per cent during the period 1925 to 1929. While direct evidence is lacking, the inflow of capital from the United States during this brief period appears to have exceeded that from the United Kingdom during the peak period of 1904 to 1914, even allowing for the rise in prices that had occurred.

*Flotation of securities in the United States*¹⁵

A very large part (perhaps as much as 80 per cent) of the increase in United States investments in Latin America between 1919 and 1930 was in the form of publicly floated bonds of governments and the bonds and stocks of private corporations (see appendix table VI). During the early part of the 1920's the chief governmental borrowers were Argentina, Brazil, Chile, Colombia and Cuba, countries in which this type of external financing had previously been undertaken by both United Kingdom and United States capital.¹⁶ As the foreign investment "boom" progressed, other countries entered the United States capital market, and by the end of the decade, fourteen of the twenty countries had floated new dollar bonds. Corporate issues of both bonds and stocks were substantial in Cuba, mainly by sugar enterprises, and Chile, mainly for the exploitation of copper and nitrate resources.

The net nominal capital obtained through securities floated in the United States amounted to \$2.2 billion in the decade 1920 to 1929 (appendix table VI). The flotation of new issues came to an end in 1930; during the remainder of the 1930's the only flotations were for the refunding of Argentine issues.

The only governments that did not enter the United States capital market were those of Ecuador, Honduras,

¹⁵ The term security refers here to (1) bonds and long-term notes of foreign governmental bodies, and (2) common and preferred stocks, bonds and long-term notes of foreign corporations, and also of United States corporations which, though incorporated in the United States, invest wholly or largely abroad. A portion of the corporate securities floated included issues of United States corporations for operations in Latin America or foreign equities representing a controlling interest (say more than 25 per cent) in the voting shares of the enterprise—which are regarded as direct investments in the present study. For details of security flotations during 1914 to 1929, see United States Department of Commerce, *Handbook on American Underwriting of Foreign Securities* (Washington, D.C., 1930).

¹⁶ Before the First World War, some \$400 million of Latin American securities had been floated in the United States; from 1914 to 1919, inclusive, underwriting of such securities (net of refunding) was \$316 million. *Ibid.*

Mexico, Nicaragua, Paraguay and Venezuela. The credit of Ecuador and Mexico was impaired by earlier defaults. Venezuela, with the aid of royalties on petroleum production, was retiring its external public debt, which was extinguished by the end of 1930.

The average yield (at prices offered to the public) of new Latin American dollar bonds ranged from 8.0 per cent in 1921 to 6.3 per cent in 1928 and remained consistently about 40 per cent above the yield on high-grade domestic bonds in the United States.¹⁷ On average, during the 1920's the price of bonds to the investor was 97 per cent of par, while the Latin American borrower received 93 per cent of the nominal value, the difference of 4 per cent representing the bankers' commission.¹⁸ Argentina, Cuba, the Dominican Republic and Uruguay received a higher percentage; others received less.

Of the proceeds of the governmental bond issues, a substantial amount financed the construction of productive public works, but part was used in ways that did not add directly or indirectly to the borrowing country's productive capacity. The laxity of the standards of United States lending abroad in the 1920's has been the subject of widespread investigation.¹⁹ It may be useful to distinguish between the question whether the proceeds of loans to Latin American countries were as efficiently used as they might have been and the question whether Latin America had the capacity to meet its foreign obligations in the face of events in the 1930's. Whether the countries of the region could have continued to meet their external debt service at the level of foreign exchange receipts prevailing on the eve of the depression of the 1930's—with or without a continued inflow of capital—became largely irrelevant in face of the drop in prices and volume of primary products exported and the simultaneous drying up of capital inflow from abroad.²⁰ It is estimated that in order to meet its external obligations during 1934 to 1938, Latin America would have had to reduce its 1925 to 1929 volume of imports by no less than 60 per cent.²¹ The countries chose the alternative of defaulting on their external debt; by the end of 1935, as shown in appendix table VII, 85 per cent of Latin

American dollar bonds were in default as compared with 52 per cent of European and 3 per cent of Canadian dollar bonds. The value of dollar bonds held in the United States was subsequently reduced sharply by repatriation (often at market prices well below nominal values) and by adjustments, which are discussed below.

United States direct investments

As shown in appendix table V, the growth of United States direct investments and of portfolio investments in Latin America proceeded in more or less parallel fashion. This was a reflection mainly of developments in South America; in the rest of the region the expansion was confined largely to direct investments. To a greater extent than in the case of the United Kingdom, the expansion of United States business investments abroad took the form of branches or wholly-owned subsidiaries of existing enterprises in the capital exporting country. Part of the expansion of such investments was financed by the public flotation of securities, but a considerable amount of the capital was obtained in the first instance from earnings of the parent enterprise in the United States. This was true particularly of investments in manufacturing and in the extractive industries.

During the first decade of the period 1914 to 1929 the bulk of the investments went into agriculture—especially sugar production—and minerals, including petroleum extraction (see appendix table VIII).²² The most significant development during 1924 to 1929 was the expansion of public utilities, largely electric power, and manufacturing. Investments in manufacturing were mainly limited to Argentina, Brazil, Cuba and Uruguay, and a large part consisted of processing of agricultural products for export. Petroleum investments expanded during the entire period, but the emphasis shifted from Mexico mainly to Colombia and Venezuela. The effect of these developments was an increasing concentration of direct investments in South America, particularly during the latter half of the 1920's (see appendix table IX).

Investments of other countries

The nominal value of United Kingdom investments in Latin America appears to have remained roughly unchanged during the 1920's (see appendix table X). In consequence of the international position of the United Kingdom, the outflow of capital to Latin America was much smaller than before the war and appears to have been counterbalanced by the amortization of bonds, the sale of assets to nationals in the region and outside, particularly in the United States, and the liquidation of unprofitable ventures.

New flotations in London of publicly offered Latin American securities from 1924 to 1930, inclusive, ab-

¹⁷ United States Department of Commerce, *Handbook on American Underwriting of Foreign Securities*, page 57.

¹⁸ Madden, Nadler and Sauvain, *America's Experience as a Creditor Nation* (New York, 1937), page 74.

¹⁹ Reference may be made to *Sale of Foreign Bonds or Securities in the United States*, Hearings before the Senate Committee on Finance (Washington, D.C., 1932); and Ilse Mintz, *Deterioration in the Quality of Foreign Bonds Issued in the United States*, National Bureau of Economic Research (New York, 1951).

²⁰ In general, a larger portion of dollar bonds floated during 1925 to 1929 went into default than of those floated during 1920 to 1924. So far as Latin America is concerned, this seems to be due mainly to the fact that Argentina, which had floated large issues in both periods, maintained full service on the external debt of the Federal Government, while dollar bonds of Argentine municipalities and provinces, floated mostly in the second period, went into default.

²¹ For details, see United Nations, *A Study of Trade between Latin America and Europe*, pages 5 and 6.

²² The investments classified under agriculture and mining activities in appendix table VIII include railways operated in conjunction with such activities.

sorbed about £132 million (\$650 million).²³ Among the uses made of the new sterling loans may be mentioned the funding of floating government debt and, particularly in Brazil, financing the storage of primary products with a view to preventing a drop in prices.

A shift occurred in the geographic distribution of United Kingdom holdings. There was a decline in the holdings in Mexico, reflecting the acknowledgment of long-defaulted governmental obligations and sale of some properties to United States enterprises, and in Chile, where United States firms became dominant in nitrate and copper production. United Kingdom investors shared in the expansion of petroleum production in Venezuela and increased their holdings in Argentina and Brazil slightly. While not absorbing any significant amount of new capital, railway securities (both shares and debentures) continued to be preponderant.

Railway investments together with governmental obligations and public utilities comprised 85 per cent of the total in South America, which was distributed in 1930 as follows:²⁴

	Per cent
Railways	55
Governmental obligations	21
Public utilities	8
Mines	1
Miscellaneous	15

If market, rather than nominal, values had been employed, the share of railways would probably appear lower; during the 1920's about one-fourth of the securities, including a large portion of railway securities, returned no yield to shareholders.²⁵

The extent of investments in Latin America owned by non-resident Germans both before and after the First World War is subject to considerable uncertainty, in the absence of any official estimates by either creditor or debtor countries. Some decline in such investments occurred as the result of the war, and the shift of the owners from non-resident to resident status no doubt continued during the 1920's and 1930's. Among the fields in which important German holdings remained were chemical and drug production and distribution, and other types of manufacturing (with much additional manufacturing activity controlled by German residents), as well as trade and aviation.

The depreciation of the French franc caused Latin American franc obligations to drop sharply in value and led to an accelerated repatriation of such securities. France ceased to be an important source of new funds and there was little change in French business invest-

ments in the region. Other European creditor countries maintained or slightly increased their holdings in Latin America during the inter-war period. Belgian investments, estimated at about \$350 million, were mainly in public utilities in Argentina.²⁶ Portuguese investments in Brazil, largely in sterling bonds of the Government, equalled about \$300 million. About two-thirds of the holdings of the Netherlands, totalling \$200 million, were absorbed by petroleum enterprises in the Netherlands West Indies, Mexico and Venezuela; minor amounts were in manufacturing and governmental obligations. Spanish and Swiss investments, located chiefly in Argentina, amounted to about \$60 million each and were concentrated in government obligations and utilities. Substantial investments were made by Italians in Argentina, Brazil, Chile, Peru and Uruguay, but the extent to which their owners remained non-resident is uncertain.

The investments of countries other than European countries and the United States were few and relatively small. Canadian investments amounted to at least \$200 million,²⁷ chiefly in the form of banking and insurance, mining, and utility enterprises in Brazil and Mexico. Several companies operating in Latin America and incorporated in Canada were largely Canadian in name only, the Canadian parent firm being owned mainly in the United States.

Governmental measures

During the 1920's there was little change in the policies of Latin American governments concerning foreign capital. Unrestricted entry remained the rule, full convertibility of currencies prevailed and, except for those operating under concessions, foreign enterprises were not subject to any special regime. Taxes and royalties remained low.

In the capital exporting countries, freedom of capital exports remained the dominant policy. Some restraint was exercised by the United States Government, mainly with a view to blocking the flow of funds to certain countries. In March 1922 issuers of foreign bonds to be sold to the public were requested to ascertain the attitude of the State Department towards the issue in question, but it was explicitly stated that the Government would not pass on the economic merits of foreign loans. The policy applied only to securities offered publicly and not to direct investments. The application of this policy resulted in the withholding of approval of a few issues of countries in the Caribbean area.²⁸ In the early 1930's this official scrutiny was abandoned. Another feature of United States policy during the inter-war period was embodied in treaties with Cuba, the Dominican Republic and Haiti, providing that new borrowing undertaken by the Governments of these

²³ According to a tabulation of new issues by the Midland Bank, as reproduced in League of Nations, *Balance of Payments, 1930* (Geneva, 1932), page 159. The estimate is based on issue prices and excludes issues for conversion or redemption of outstanding sterling securities. A large portion of the securities was bought by non-residents of the United Kingdom.

²⁴ See Sir Robert Kindersley, *Economic Journal* (London, June 1933). Data on the distribution in Mexico, Central America and Cuba are not available; in these areas a higher proportion than indicated in the table was probably invested in mines and miscellaneous enterprises.

²⁵ See *South American Journal*, 24 January 1951.

²⁶ The figures mentioned in this paragraph refer to the year 1938 and are taken from Cleona Lewis, *The United States and Foreign Investment Problems* (Washington, D.C., 1948).

²⁷ McKay and Rogers, *Canada Looks Ahead* (Toronto, 1938), page 145.

²⁸ See H. Feis, *The Diplomacy of the Dollar, First Era, 1919-1932* (Baltimore, 1950).

countries required the consent of the United States. This arrangement was a sequel to events which had led to the presence of United States troops in the latter two countries for the announced purpose of safeguarding United States interests.

The United Kingdom maintained control of capital exports during the First World War but relaxed its restrictions soon afterwards and abolished them in 1921. Official control over new public foreign security issues was reintroduced, however, in the 1930's.²⁹

The onset of the world depression in the 1930's led to several changes in the policies of the Latin American countries. Following widespread defaults on external government bonds, action was taken over a period which did not end until the early 1950's to adjust obligations through such steps as funding, reducing or cancelling arrears of interest, scaling down interest rates and extending the period of amortization. Some governments, as noted above, adopted the policy of repatriating their external debt at the low market prices prevailing.

The governments of the creditor countries, particularly the United Kingdom and the United States, played a limited role in connexion with the adjustment of defaulted obligations. The United States Government took the initiative in establishing a private body known as the Foreign Bondholders' Protective Council, Inc., a counterpart of which had existed in the United Kingdom since 1868 under the name of the Council of the

Corporation of Foreign Bondholders. The function of these bodies was to consult with foreign governments with a view to reaching a settlement that could be commended to investors, who remained free to assent or not. In the case of Argentina, the United Kingdom in the 1930's also negotiated certain trade and payments agreements which facilitated the servicing of sterling obligations.

The most important development affecting business investments in the region was the introduction of exchange control by many countries to alleviate the pressure on the balance of payments.³⁰ A related development that affected certain types of foreign enterprise was the increasing practice of licensing imports. Another trend was the tightening of restrictions on the entry of foreign nationals for gainful employment, partly in response to slackness in local labour markets.

So-called "saturation laws", limiting the expansion of investment in specified industries, also had their origin in several countries during the depression. Except in Brazil and Mexico, however, legislation excluding foreign investment as such from specific sectors of the economy was not generally adopted during the 1930's; nor was there substantial formal limitation on the extent of foreign participation in local enterprises. Furthermore, the outstanding action against foreign enterprises during this period, the expropriation of oil properties in Mexico in 1938, was not occasioned primarily by events related to the depression.

The period after the Second World War

During the post-war period, the almost complete absence of foreign private capital entering Latin America in the form of portfolio investment that characterized the 1930's has persisted. The nominal value of externally held governmental debt has been substantially reduced in many countries. In addition, the governments of several countries have repurchased important foreign business investments, notably United Kingdom holdings in Argentina.

The inflow of private capital has consisted largely of direct investments by United States enterprises, at first chiefly in petroleum, but since 1950 increasingly in manufacturing and the extraction of minerals other than petroleum. The growth of investments has resulted to a considerable extent from the reinvestment of earnings of existing enterprises. The inflow of private capital from western Europe has been small, but it has served to introduce new enterprise and technology in a few countries. Several countries have obtained substantial amounts of foreign capital from governmental sources, particularly the Export-Import Bank of Washington and the International Bank for Reconstruction and Development.

Repatriation of investments

By 1945, a large part of the external bonded debt of Latin American countries had been repatriated through purchases in the open market by individuals, and also by governments, with cash from sinking funds and other sources. During the post-war period this process continued, particularly with respect to sterling bonds. A further reduction in external debt resulted not only from normal amortization but also from the direct scaling down of the nominal value of external government bonds in several countries, notably Brazil and Mexico. In addition, a substantial amount of foreign-owned securities in business enterprises in Latin America was repurchased.

Between 1930 and 1945 the nominal value of publicly offered Latin American dollar bonds held by United States residents dropped by \$1.1 billion or 70 per cent (see appendix table XI). Following the war, repatriation continued at a slower pace, but a larger portion of the bonds was formally redeemed by the debtor governments. Of about \$2.1 billion of dollar

²⁹ See United Nations, *International Capital Movements during the Inter-War Period*, page 53.

³⁰ Countries which did not introduce exchange control during the 1930's were Cuba, the Dominican Republic, Guatemala, El Salvador, Haiti, Mexico, Panama and Peru. Most of the other countries introduced exchange control in 1931 or 1932.

bonds outstanding in 1930, only \$767 million remained at the end of 1952 (see appendix table XII).³¹ At the end of 1952, less than half of the Latin American dollar bonds outstanding were held in the United States, and their market value was below \$200 million. A similar reduction occurred in Latin American sterling bonds; by the end of 1951 the amount had dropped to about £111 million as compared with over £300 million in 1939 (see appendix table XIII). United Kingdom residents at the end of 1951 held only £57 million in the sterling bonds of Latin American governments and municipalities.

The pattern of debt reduction varied considerably among the countries concerned. The entire external debt of the Dominican Republic and Haiti was retired by regular amortization and redemption at par. Argentina repurchased a large part of its external debt at close to par and redeemed the rest at par. In many other cases the repurchase of external obligations was effected at a considerable discount from nominal value, ranging to as low as 10 per cent of par. In Brazil the principal of a number of bonds was scaled down by 20 to 50 per cent, and in Mexico a reduction of 80 per cent in the nominal value was effected by a debt settlement plan.

After 1945 a substantial repurchase of business investments in Latin America also occurred. This affected mainly United Kingdom investments in Argentina and Brazil.³² Including the repatriation of sterling bonds, the net withdrawal of investments in Latin America owned by United Kingdom residents involved cash payments from 1946 to 1951 inclusive, of about £227 million for securities with a nominal value of £353 million (see appendix table XIV). Net payment to the United States from 1946 to 1950 on account of amortization of privately held bonds and repurchase of dollar bonds and other private long-term assets is estimated at \$361 million.³³

³¹ The figure for 1952 includes Mexican securities amounting to \$200 million. Under debt adjustment plans of 1942 and 1946 to 1950, however, the Mexican Government had reduced the nominal value of its external debt in dollars, sterling and pesos from about \$440 million to \$81 million, all denominated in dollars. The difference between the two figures is accounted for by unassented securities, that is, securities whose owners did not accept settlements offered by governments.

³² The most important investments affected and the payments involved were as follows:

Argentina: 1946, French-owned railways, 5,500 million French francs; 1947, telephone and telegraph companies owned in the United States, \$99 million; 1948, railways owned in the United Kingdom, £150 million.

Brazil: 1948, railways owned in the United Kingdom, £15 million payment completed in 1951.

Mexico: 1946 to 1950, settlement for expropriation of oil properties owned in the United States, \$9 million; settlement for expropriation of landholdings owned in the United States, \$12.5 million.

Uruguay: Payment of \$41 million made in 1949 and 1950 on account of the following, owned in the United Kingdom: 1947, tramways; 1948, railways; 1949, waterworks.

³³ Mervyn L. Weiner and Romeo Dalla-Chiesa, "International Movements of Public Long-Term Capital and Grants, 1946-50", International Monetary Fund, *Staff Papers* (Washington, D.C., September 1954), page 174.

External debt settlements

By the end of 1952, the defaulted foreign obligations of Latin American governments had been reduced to a relatively small amount, affecting only a few countries (appendix table XII). Of the \$24 million of contractual interest falling due on dollar bonds in 1952 only \$9 million was unpaid, mostly obligations of Bolivia and Peru.³⁴

With respect to the termination of defaults, the countries in the region may be classified into three groups.³⁵ Argentina, the Dominican Republic and Haiti met most of their contractual debt service obligations and subsequently retired all publicly held external debt at or close to par.³⁶ A second group of countries offered settlements of defaulted obligations calling for interest rate reductions (ranging from 10 to 70 per cent of the nominal rate), and for longer maturities, but no change in the principal amount. In most cases a partial payment of accrued interest was offered, usually in the form of additional bonds. Most of the settlements were offered after negotiations with the United Kingdom and United States councils of bondholders and were recommended for acceptance by the councils.³⁷ A third group of settlements involved substantial reductions in both the nominal value of the bonds and in the interest rate. The most important example of this type was the settlement of Mexico's external debt. Brazil also offered holders of its dollar bonds a large reduction in principal with a partial cash settlement as an alternative to a reduction of interest rates and extension of maturities.

In several cases the International Bank for Reconstruction and Development has stressed the importance of eliminating remaining defaults in connexion

³⁴ No payment has been made on Bolivian dollar bonds since 1930. A settlement offered after negotiations in 1948 with the Foreign Bondholders' Protective Council, Inc. of New York was ratified by the Bolivian Congress in 1950, but the plan had not been put into effect by the end of 1953.

³⁵ A fourth group was made up of countries—Honduras, Nicaragua, Paraguay and Venezuela—with no dollar bonds and few or no sterling bonds outstanding by the end of the 1930's.

³⁶ Guatemala, which had defaulted on its obligations during the 1930's, was unable to secure the approval of the (United States) Foreign Bondholders' Protective Council, Inc., to a proposed settlement of dollar bonds, but in 1944 redeemed the bonds at par. A portion of sterling bonds was also redeemed, but £427,000 of unassented sterling bonds were cancelled in 1945.

³⁷ For details, see chapters relating to individual countries. Settlements of this type were put into effect by Brazil, Chile, Colombia, Cuba, Guatemala, El Salvador, Panama, Peru and Uruguay. Among proposed settlements not recommended by the bondholders' councils were a Colombian issue in which a 25 per cent reduction of principal and the cancellation of ten years' arrears of interest were proposed and a Costa Rican issue in which a 70 per cent cancellation of interest arrears was proposed. A settlement offered by Peru in 1947 was not recommended, but a revised offer in 1953 was considered acceptable, as was a later offer by Costa Rica. While Bolivia and Costa Rica may be placed formally in this group, their proposed plans of settlement had not been put into effect at the end of 1952. Ecuador offered a settlement to the holders of sterling bonds in mid-1953.

with the consideration of loans to the countries concerned.³⁸

United States direct investments

According to an official United States census, the value of United States direct investments in Latin America remained practically unchanged between 1936 and 1943 (see appendix table XV). In several countries a decline occurred, offset largely by a growth in Venezuela. Between 1943 and 1950, however, direct investments increased by about 70 per cent, reaching a total of \$4.7 billion. By the end of 1953 the total value of such investments had reached \$6.0 billion.³⁹ Much of this growth occurred during a period of sharply rising prices and the real increase may, therefore, have been less; on the other hand, it should be noted that the assets are computed at their book value (usually depreciated original cost), which in most cases is less than current replacement cost.⁴⁰

In 1950, 55 per cent of United States investments in the region were in subsidiaries, organized under the laws of the country of operation, and the remainder in branches.⁴¹ In all, some 2,000 separate business units were involved, of which about 600 were established between 1946 and 1950. The bulk of the investment was concentrated, however, in a relatively few large enterprises.

The countries experiencing the largest increases in the value of direct investments between 1943 and 1952 were, in the order of importance, Venezuela, Brazil, Chile, Panama, Mexico, Cuba, Peru and Colombia. The growth of investments in Panama, however, reflects mainly the registration in that country of foreign-owned tankers. The largest increase in investments occurred in petroleum production, including refining and distribution, followed by manufacturing

³⁸ The president of the Bank, when presenting the Bank's *Seventh Annual Report, 1951-1952*, made the following statement: "In some instances the Bank has been able to encourage its member governments to start negotiating settlements on their obligations as an essential means of encouraging the resumption of foreign investment." In connexion with the defaulted sterling debt of Ecuador, the British council of foreign bondholders made representations to the Bank and expressed "the hope that the Bank would not feel it right to extend credit facilities to the Ecuadorean Government until the latter enters into negotiations with the Council and gives assurances which the Council can consider adequate". (Council of the Corporation of Foreign Bondholders, *Seventy-fifth Annual Report*, London, 1948, page 34.)

³⁹ Preliminary estimate reported in United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), May 1954.

⁴⁰ See note to appendix table XV for further details on the nature of the estimates. Account should also be taken of the fact that certain items, such as exploration losses and depletion charges, are not included as capital investments in the books of the companies concerned. This appears to be particularly important in petroleum production and other extractive industries.

⁴¹ The use of branches or subsidiaries depends on a variety of managerial and legal considerations. An important factor has been the special tax advantages accruing to branch enterprises in the petroleum and mineral fields, owing to substantial depletion allowances in the computation of United States income tax liabilities of parent enterprises (see page 26).

and mining and smelting (see appendix table XVI). Public utilities, the second most important category of outstanding investments underwent little change and even declined in several countries. Large capital outlays were made by several foreign-owned public utility enterprises in Brazil and Mexico but were financed to a considerable extent by loans from the Export-Import Bank or the International Bank for Reconstruction and Development.⁴²

Total investment in manufacturing more than doubled between 1943 and 1950, equalling the rate of growth of the petroleum industry. The expansion was substantial, however, only in Brazil and Mexico, though a large relative increase occurred in manufacturing investments in Colombia and Venezuela.⁴³ At the end of 1950 chemical production absorbed the largest proportion of investments in manufacturing, followed by food processing, motor vehicles, electrical equipment and rubber products.

The book value of United States direct investments in Latin America as a whole increased on an average by about \$400 million annually between 1947 and 1952. Year-to-year fluctuations in the total were substantial, however, both in the capital outflow as recorded in the balance of payments and in reinvested earnings of subsidiaries. Part of these fluctuations were due to inter-company transactions and to temporary blockings of earnings awaiting transfer in certain countries. The increase reached a peak of \$580 million in 1952 and dropped to \$275 million in 1953. In 1950 and 1951 the rate of investment in the petroleum industry dropped off, but it recovered somewhat in 1952, though part of this represented undistributed earnings of tanker subsidiaries in Panama. A growth of investment in manufacturing and mining of \$552 million during the two-year period, 1950 and 1951, partly offset the decline in petroleum investments. In 1953, however, the inflow of capital for manufacturing in Brazil and Mexico, the two main recipients of such funds, dropped considerably.⁴⁴

A large part of the expansion of direct investments in recent years has been financed by retained earnings of the enterprises concerned (see appendix tables XVII and XVIII). Thus, during 1949 to 1952 about 60 per cent of the increase in United States direct investments in Latin American enterprises was financed from reinvested earnings of subsidiaries. In the case of branches, the increase in investments is treated in the accounts as an inflow of fresh capital, whether or

⁴² Such loans are excluded from the statistics of direct investments.

⁴³ The estimates of investments in manufacturing exclude petroleum refining and processing and also the processing of ores by integrated enterprises classified under mining and smelting. Manufacturing investments in selected countries were as follows in 1943 and 1950, respectively (in millions of dollars): Argentina, 101 and 161; Brazil, 66 and 285; Colombia, 6 and 25; Mexico, 22 and 133; Peru, 6 and 16; Venezuela, 1 and 24.

⁴⁴ According to a preliminary estimate by the United States Department of Commerce, *Survey of Current Business*, January 1954.

not the amount represents retained earnings. In recent years (1950 to 1953) branch earnings have substantially exceeded capital outflows to branches; the capital outlays of branches as a whole may thus be regarded as entirely financed from retained earnings. Taking this into account, it may be estimated that the proportion of total capital outlays financed from retained earnings was well above 60 per cent.

In a number of subsidiaries in Latin America controlled in the United States, non-residents of the latter have some financial participation. In 1950 this participation, mainly by residents of the countries concerned, represented 10 per cent of the investment in such subsidiaries.⁴⁵ Participation by capital not originating in the United States is found largely in manufacturing and public utilities (13 and 15 per cent of total investment, respectively) and is higher in the case of enterprises organized since 1945. It appears to be concentrated in Brazil and Mexico.

Capital from governmental sources

By the end of 1953 the International Bank for Reconstruction and Development had authorized loans of \$426 million to Latin American countries (see appendix table XIX). Most of the loans have been for the expansion of electric power facilities, transportation absorbing the next largest amount. In the two years, 1952 and 1953, loans to the area were about 30 per cent of the total authorized by the Bank. Disbursements from such loans were about \$60 million in 1952 and \$50 million in 1953.

Disbursements from grants and credits by the United States Government have thus far exceeded those by the International Bank for Reconstruction and Development. From 1934 to the end of 1953, the United States Export-Import Bank of Washington authorized credits to Latin American countries of \$1,603 million (after reduction of cancellations); \$1,296 million was disbursed of which \$438 million was repaid (see appendix table XVII). The largest disbursements were made in Brazil, followed by Mexico, Chile, Argentina and Colombia (see appendix table XX). A substantial part of the credits authorized for Argentina (\$97 million in 1950) and Brazil (\$300 million in 1953) served to finance commercial arrears on account of United States exports. Large amounts of Export-Import Bank loans have financed equipment for highway construction, transportation, electric power development and miscellaneous industrial activities. The range of projects financed by the Export-Import Bank has been broader than that of the International Bank for Reconstruction and Development.

Investment yields

The income earned on United States direct investments in Latin America during recent years has been much larger than during the late 1920's, the last previous period of comparable prosperity. In 1950, for

example, such income exceeded \$700 million; a roughly comparable figure for the period 1925 to 1929 is \$150 million to \$200 million per annum.⁴⁶ Part of the increase reflects growth in the value of the investments, but a more important factor is the increased rate of return in recent years, owing partly to a higher proportion of investment in mineral extraction and manufacturing. Earnings on total direct investments in Latin America ranged from 11.2 per cent of book value in 1945 to 21.0 per cent in 1948 and 20.5 per cent in 1951, the last year for which comprehensive figures are available (appendix table XXI.) In 1929 the estimated rate of return on all United States direct investments overseas was about 6 per cent of book value, and investments in Latin America appear to have yielded about the same rate of return.⁴⁷

During the post-war period, as in the past, the return on direct investments in Latin America has varied considerably according to the industry and country concerned (see appendix tables XXI and XXII). The highest yields have been earned in the petroleum industry (averaging 31.1 per cent during 1948 to 1951) and in distribution (an average of 28.1 per cent during 1948 to 1951). While public utilities have always yielded a relatively low rate of return, the rate during recent years (2.9 per cent on an average during 1948 to 1951) has been particularly depressed by the failure of rates to keep pace with rising costs.⁴⁸ It should be kept in mind that figures of this kind afford only a rough measure of the profitability of the investments in question, particularly since the return is computed as a percentage of book values which frequently have not been adequately adjusted to the replacement cost of fixed assets at the prevailing price level.

In view of the many factors that have reduced the incentive to invest abroad during the post-war period, particular interest is attached to a comparison between

⁴⁶ Earnings refer to all income accruing to the investor, net of Latin American taxes, but before United States taxes, including amounts reinvested or blocked by exchange restrictions. For definition of earnings and value of investment, see appendix table XXI.

⁴⁷ According to an estimate by the Department of Commerce relating to 1930, the return on direct investments in Latin America, excluding reinvested earnings, was \$121 million, or about 4 per cent of book value (United States Department of Commerce, *Trade Information Bulletin No. 761*, Washington, 1931). Excluded from this calculation were investments of about \$500 million in sugar production which yielded no return.

⁴⁸ The question of rates of return on foreign investments in electric power generation has been a subject of concern to the International Bank for Reconstruction and Development in connexion with loan negotiations in several countries, particularly Mexico. A loan to Mexico of \$26 million in 1950 for financing the expansion of facilities of the Mexican Light and Power Company, Limited, was made only after a reorganization of the company's financial structure and the approval by the Mexican authorities of power rates "affording reasonable earning prospects for the recapitalized company" (see International Bank for Reconstruction and Development, *Fifth Annual Report, 1949-1950*, page 20). It was reported in October 1953 that the Mexican Government had agreed to rates for this company until the end of 1956 that would ensure an annual net return of 8 per cent—after Mexican taxes—on the assessed value of the investment (see *New York Times*, 2 October 1953).

⁴⁵ See United States Department of Commerce, *Foreign Investments of the United States* (Washington, 1953), page 23.

yields on investments in Latin America and in the United States. Such a comparison is subject to many qualifications, but the data indicate that the spread between the return on United States investments at home and in Latin America has recently been relatively slight. The average yield on investments in Latin America as a whole has exceeded that in the United States in every year during the period 1948 to 1951 by a margin ranging from 4 to 9 percentage points (see appendix table XXIII). The rate of return on investments in Latin America, however, is weighted heavily by the profits of the petroleum industry, which accounted in 1950 for about half the income received and for about 30 per cent of total investments. A comparison of rates of return on investments in manufacturing in the two regions indicates a narrower spread, except in 1951; in 1950 the United States domestic rate of return, in fact, exceeded that on United States investments in Latin America, though by a narrow margin. While the spread between the rates of return may be regarded as narrow in view of the current risks attaching to investment abroad, it is of interest that in the late 1920's, when a substantial outflow of capital for direct investment occurred, the average rate of return on direct investments in Latin America appears to have been considerably below that on domestic investments in the United States. At that time, however, a much larger portion of foreign capital in Latin America was invested in public utilities, which, while less profitable, were considered less risky.

In the above comparisons, Latin American profits are measured net of Latin American taxes on business incomes, and United States profits net of corresponding United States taxes. Since income received in the United States from foreign investments is subject, roughly speaking, to a corporate income tax equivalent to the difference between United States tax liabilities and taxes on business income paid abroad (appendix table XXIV), the question arises whether this tax liability reduced the margin between the rate of return on foreign and domestic investment as shown in appendix table XXIII. It appears that net United States tax liability on account of income earned on foreign direct investments in Latin America is small in most instances.

This situation results from several features of United States laws relating to the taxation of income from overseas.⁴⁹ First, a credit is generally provided against income taxes paid abroad, which have been increasing in recent years. Second, reinvested earnings of foreign subsidiaries are not subject to United States taxes. Third, foreign income of enterprises operating through so-called Western Hemisphere corporations is taxed at a specially low rate. Finally, special depletion allowances reduce the United States tax liability of enterprises engaged in petroleum production and other ex-

tractive industries. Thus, in 1950 the net United States tax liability of United States enterprises on income of \$905 million from direct investments in Latin America is estimated to have been only \$16.4 million.⁵⁰ In that year \$251 million, or 28 per cent of the income received from such investments, was paid to Latin American countries as income taxes.⁵¹ There was considerable variation in the percentages among countries and industries, with mining and petroleum production recording the highest average rate. Furthermore, such calculations may conceal wide variations in the tax liabilities of individual firms.

A comparison of the effective yields of Latin American dollar bonds with yields of domestic bonds in the United States has limited significance in view of current inactivity in portfolio investments. The yields returned on Latin American dollar bonds, shown in appendix table XXV, cannot be taken as an indication of rates at which countries could borrow substantial fresh capital should they so desire. Nevertheless, it is of interest that since 1945 the market value of such securities has risen substantially as the result of the settlement of defaults and other factors. Yields on Latin American dollar bonds remain, however, about two to three times those of United States government securities of comparable maturity, and slightly less in relation to dollar bonds of the International Bank for Reconstruction and Development and of prime industrial corporations in the United States.

Foreign investment and the balance of payments

The relationship between foreign investments and the balance of payments is complex and often indirect. Nevertheless, some aspects of this relationship may be illuminated by statistics relating to the post-war period.

Given the reduction in external debt and the repurchase of certain foreign investments, on the one hand, and the post-war rise in prices, on the other, the portion of Latin America's receipts of foreign exchange from current transactions that is absorbed by transferred investment yields—which may be called the investment service ratio—would be expected to drop in most countries. This is confirmed in appendix tables XXVI and XXVII. In some countries the tendency has probably been reinforced by currency depreciation and multiple exchange rates.⁵² For Latin America as a whole, the ratio was 12 per cent in 1950

⁵⁰ See Harvard Law School, International Program in Taxation, *United States Tax Incentives to Direct Private Foreign Investment* (Cambridge, 1954). The estimate is based on data appearing in United States Department of Commerce, *Foreign Investments of the United States*. The estimate assumed the corporate income tax rate of 42 per cent prevailing in 1950. Since then the rate has risen to 52 per cent, but Latin American tax rates have also risen in several countries.

⁵¹ The income reported is net of royalties and taxes other than income taxes paid in Latin America. Since these taxes generally represent a larger portion of total taxes paid by business in Latin America than in the United States, it is difficult to make a significant comparison of tax liabilities in Latin American countries and the United States.

⁵² See section on exchange control in chapter 2.

⁴⁹ For further discussion, see chapter 2, section on international double taxation.

compared with 27 per cent from 1925 to 1929. Comparable figures for income transferred to the United States and exports to the United States were 19 per cent in 1952, 22 per cent in 1949 and 30 per cent in 1925 to 1929. The decline in the ratio with respect to the United States would have been much greater but for the large earnings on petroleum investments in Venezuela.

The drop in the investment service ratio was particularly sharp in Argentina, Bolivia, Cuba, Mexico and Peru. In Costa Rica, however, the ratio moved contrary to the general trend, and little change occurred in Venezuela, where both export proceeds and investment income increased substantially. Information is limited concerning the extent to which the ratio would have been higher in certain countries had the transfer of earnings not been restricted by exchange control and other restrictions, but this factor appears to have been important during a few years in several countries, particularly Argentina and Brazil.⁵³

During the second half of the 1920's, the annual investment income paid abroad by Latin America (\$660 million) was about three times as great as the capital inflow (see appendix table XXVI). Investment income paid to the United States was \$300 million, against a capital inflow from that country of \$200 million. A trade surplus served to meet the balance on these accounts and also on account of shipping and other invisible transactions.

The tendency of investment income paid abroad to exceed the inflow of capital has become more pronounced in recent years. In this respect, however, both

⁵³ According to a sample tabulation of United States subsidiaries in Argentina, net profits rose in 1947 and 1948; but in consequence of the tightening of exchange restrictions, dividends remitted dropped from \$11.3 million in the first half of 1947 to \$7.3 million in the second half of the year and \$0.1 million in the second half of 1948. (See United States Department of Commerce, *The Balance of International Payments of the United States, 1946-1948*, page 98).

The American and Foreign Power Company, Inc., according to its annual reports for 1948 to 1951, has had difficulties in remitting earnings from subsidiaries in several countries, including Argentina, Brazil and Chile. The backlog of earnings awaiting transfer has often been reduced in subsequent years, however.

In Brazil and several other countries where multiple exchange rates have prevailed, the situation has been characterized by transfer through the free market or otherwise at relatively unfavourable rates, rather than by blockage.

1949 and 1950 must be regarded as abnormal, in view of the large-scale repatriation of British investments, on the one hand, and the unusually large inflow of capital into the petroleum industry, on the other. In 1952, perhaps a more typical year, the margin between the inflow of private and public capital from the United States and the payment of investment income to that country was \$336 million, compared with an average of about \$100 million in 1925 to 1929. During 1946 to 1951, the margin was largest, in absolute terms, in Venezuela and Cuba and varied widely from year to year (see appendix table XXVIII).⁵⁴

Unless the rate of capital inflow increases substantially or the average yield on outstanding investments declines, the margin between investment income paid abroad and the receipt of foreign capital will, of course, increase with an increase in the stock of foreign capital. Comparisons of particular items in the balance of payments are of limited significance, however, in judging the effect of foreign investments on a country's balance of payments, on its capacity to meet the service of additional foreign investments or on its economic development generally. Even a more refined analysis of the net flow of foreign exchange due to the operations of foreign enterprises—taking into account exports by such enterprises or the reduction in imports due to their activities—would be inconclusive. The basic questions are how a given amount and composition of foreign investments affect the country's output and international payments position, and how at the same time other internal and external forces are influencing the country's economic situation.

It follows that a tolerable relation between outward payments on account of investment yields and receipts on current account may vary widely from country to country, and that the capacity to absorb additional capital from abroad for purposes of economic development will also vary, depending on many factors, of which the potential expansion of export proceeds may be considered particularly important.

⁵⁴ Appendix table XXVIII relates to direct investments only. However, the income paid abroad on account of other long-term United States investments (mostly dollar bonds) is currently small, amounting to about \$17 million per annum.

Chapter 2

GOVERNMENTAL POLICIES

The decline of private international lending since the 1930's has attracted increasing attention to the factors affecting the international flow of capital in the form of direct investments and, in particular, to the conditions in under-developed countries affecting such investments. In a broad sense, these conditions—frequently referred to as the “investment climate”—are determined by economic, legal, political and social factors which affect the opportunities for private business investment generally and foreign business investments in particular. A survey of the investment climate in such terms would require nothing less than a general review of the economy.

The present chapter, and the chapters on individual countries comprising part II of this study, deal with only a limited aspect of the investment climate, namely governmental measures and policies primarily concerned with foreign investment as such. While this limitation is required for analytical purposes, it is necessary to bear in mind that the influence of such measures—except where they create an absolute barrier to investment—cannot be judged except in relation to the entire set of conditions affecting the yield and security of foreign investments.

Attention is directed here primarily to the following questions: (i) What restrictions are maintained on the investment of foreign capital generally, and on foreign investment in particular sectors of the economy? (ii) What, if any, special conditions are imposed on foreign investments that are permitted? (iii) Is the transfer of the income and capital of foreign investments subject to limitation? (iv) Are foreign investments subject to special taxation? (v) What is the status of foreign investments in the event of expropriation?

The answers to these questions are found partly in constitutional provisions, laws and regulations that, in most countries, represent an unsystematic accretion rather than a set of co-ordinated measures. In certain countries international treaties also contribute to determining the status of private foreign investments, but in Latin America the treaties presently in force are of relatively limited scope. It is evident, however, that many types of governmental regulation not concerned exclusively with foreign investments may be of importance in determining the conditions under which such investments are made. This may apply, for exam-

ple, to the regulation of labour and to legal requirements for the establishment of business enterprises. Such rules, which are mainly outside the scope of the present study, have been dealt with in other official reports.¹ It may be useful to point out also that certain types of regulation, of which exchange restrictions are perhaps the most important, may be regarded largely as symptoms of underlying economic conditions rather than as positive policies directed towards foreign investment as such. Finally, many of the formal regulations concerning foreign investment leave considerable latitude for administrative discretion.

No attempt is made to consider in detail the reasons for the adoption of the policies described or to pass judgment on them. The policies have been influenced by past experience with foreign investment, by trends in the economic condition of particular countries, by current aims of economic policy, relating particularly to the promotion of economic development, and by other circumstances. Various factors contributing to the continued inadequacy of the flow of private capital to under-developed countries have been dealt with in other United Nations reports.² Widespread agreement on the desirability of expanding the international flow of private capital is reflected in resolutions of the General Assembly of the United Nations and the Economic and Social Council and its commissions, and recommendations to this end have been addressed to both capital exporting and capital importing countries by the Economic and Social Council.³

¹ With respect to Latin America reference may be made to the following:

Pan-American Union: Series under the title, *Statement of Laws of . . . in Matters Affecting Business*, initiated by the Inter-American Development Commission and continued by the Pan-American Union of the Organization of American States, Washington, D.C. Studies relating to nineteen countries of Latin America were published during 1946 to 1954.

United States Department of Commerce: *Factors Limiting United States Investment Abroad*, part 1 (Washington, D.C., 1953); *Investment in Venezuela* (1953); *Investment in Colombia* (1953); International Reference Service, series entitled, *Establishing a Business in . . .* (Washington, D.C.). Studies covering almost all countries in Latin America have been issued in the last-mentioned series since 1946.

International Labour Office: *Legislative Series* (Geneva), containing texts of the more important laws and regulations relating to labour and social security.

² See, in particular, *The International Flow of Private Capital, 1946-1952*, United Nations publication 1954.II.D.1.

³ Most recently by the Economic and Social Council in resolution 512 B (XVII) of 30 April 1954.

Entry and control of foreign enterprises

The extent to which entry of foreign capital for business investment is restricted varies widely among the countries of Latin America. As in many countries outside the region, foreign investment in certain sectors is prohibited in the interest of national security or for other non-economic reasons. Thus, many countries do not permit the acquisition of land in border areas or the participation of foreign capital in enterprises engaged in activities considered to be of public interest, as publishing, telecommunications, domestic aviation and coastwise shipping. Apart from regulations of this type, little formal restriction on the establishment of foreign business enterprises,⁴ appears to exist in the following countries: Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela. In these countries, however, as in others of the region, the granting of mineral concessions admits of considerable discretion on the part of the authorities. Certain features of the laws governing mineral concessions may be considered as primarily concerned with foreign investment in some of the countries named.

As regards the other countries of the region, it is useful to distinguish between comprehensive regulations on the entry of foreign capital, applying to all foreign investments, and those limiting investment in particular fields of activity.

Comprehensive regulation

Comprehensive regulation of new foreign business investment appears to exist in only a few countries of the region. In Mexico, where the establishment of foreign enterprises in most branches of activity is subject to the approval of the Government, the authorities may require that Mexican nationals own at least 51 per cent of the equity capital of an enterprise, and that the majority of directors or partners be Mexican. In practice, however, this requirement has usually been waived.

As is pointed out below, several countries maintaining exchange control accord special transfer privileges to foreign capital that meets certain requirements and is duly registered with the authorities. In the case of Argentina, a law of 1953 governing transfer privileges for approved investment authorizes the Government to exclude foreign investments that do not meet with the approval of the authorities.

In a few countries, for example Chile and Mexico, the establishment of a new enterprise, whether domestic or foreign, requires specific authorization in addition to compliance with the customary requirements of commercial law. In Chile, legislation to this effect was introduced as an anti-depression measure, but its

scope was widened by subsequent legislation that implies the necessity for protecting existing investments against "unfair" competition. A resolution adopted at the Tenth Inter-American Conference of the Organization of American States, held in Caracas in March 1954, also made reference to the protection of previously established enterprises. This resolution states: "That in order for new foreign investments to be an effective contribution to the economic development of the American countries, it is desirable to take into account, among other things, the situation with regard to previously established enterprises so as not to affect their normal development, provided it is in harmony with the national interest."⁵

Regulation according to industry

The most significant regulation of new foreign investments in Latin America is that limiting foreign investment in particular fields of activity. Such restriction is applied mainly to investment in mineral production, particularly the extraction of petroleum. There appears to be no significant instance of a statutory restriction of foreign investment in manufacturing. As noted above, however, foreign investment in manufacturing may be subject to special regulations in certain countries if it is considered that the new investment adversely affects previously established enterprises.

A few countries also formally restrict, or have in the past restricted, the investment of foreign capital in public utilities, banking and insurance, and certain types of trade, particularly the distribution of petroleum. Thus, Brazil, prior to the establishment of the Constitution of 1946, restricted foreign investment in mining, hydroelectric power generation, commercial banking and insurance. Most of these restrictions were eliminated, however, by the Brazilian Constitution of 1946 or subsequent legislation. In Argentina the constitution reserves two important sectors of activity to government enterprise—namely foreign trade (though in fact the government monopoly on foreign trade does not extend to all commodities) and public utilities. In conformity with this provision, steps have been taken to nationalize most of the public utilities, including transportation facilities, electric power plants and telephone, telegraph, gas and water supply systems. In addition, no new foreign banks may be chartered, and the scope of activity of foreign insurance companies has been curtailed.

Several countries in the region have adopted laws relating to land tenure, with a view primarily to eliminating large estates and redistributing such holdings. Such laws have in some cases affected foreign invest-

⁴ The definition of "foreign enterprise" used in the present study is given in chapter 1, footnote 2.

⁵ Resolution of 19 March 1954 (document 512). A similar clause was introduced in resolution 512 B (XVII), relating to private foreign investment, adopted by the Economic and Social Council of the United Nations in April 1954.

ments in agricultural enterprises, which typically involve large holdings.⁶

Regulation of extractive industries

In most countries of Latin America the extractive industries are subject to closer regulation, particularly with respect to foreign participation, than any other field of private economic activity, except public utilities. In addition to being concerned with the impact of mineral development on the economy, governments have sought to obtain what is considered an appropriate share of the gain resulting from the use of their natural resources. The fact that the extraction of minerals and petroleum involves large installations, often under the control of a single enterprise, contributes to the concern over regulation. The heavy dependence of the economy on the activities of one or two extractive industries in several countries also accounts for the tendency towards regulation.

In conformity with Spanish legal tradition, the constitutions or mining laws of practically all countries in the region establish the ownership of the subsoil by the State, and make the privilege of private exploitation contingent upon official permission, usually granted through a concession contract. Formerly, such concessions were frequently granted without reference to general legislation; more recently, in many countries special laws define conditions for awarding mineral concessions. Among such conditions are the area and duration of the concession, the extent of foreign ownership, the employment of domestic personnel and liability to taxation and other levies.

Practically all countries in the region in which significant deposits of petroleum have been discovered, or are believed to exist, have special legislation relating to the petroleum industry. The legislation of Colombia, Ecuador, Peru and Venezuela contains no significant barriers to the investment of foreign capital in any branch of the petroleum industry, including refining and distribution.

Certain features of special legislation may be illustrated by the law adopted by Peru in 1952, modelled largely on the Venezuelan petroleum law of 1943. Foreign-controlled corporations must offer Peruvian nationals at least 30 per cent of the voting shares of the enterprise for at least ninety days after registration.⁷ The authorities may give precedence to Peruvian nationals when awarding concessions in areas designated as "national petroleum reserves". As in most countries, concessions may not be granted to foreign governments or corporations controlled by such governments; otherwise, entry of foreign enterprise into the petroleum industry is limited only by administrative discretion involved in granting conces-

sions under the terms prescribed by law. Concessionaires in Peru are obliged to give preference to Peruvian nationals in employment and to supply petroleum products to the domestic market in amounts and at prices determined by the Government. The duration of concessions is limited to forty to fifty years, depending upon the location. Upon the termination of a concession, the wells and associated permanent equipment (but not pipelines, refineries, etc.) revert to the State without compensation.

While differing in detail, the Colombian and Venezuelan laws contain somewhat similar provisions, except that they do not refer to participation by nationals of the country. An important feature of the Venezuelan law of 1943 is a provision authorizing the Government to take appropriate measures to develop the domestic refining of petroleum. Pursuant to this provision, concessions granted after 1943 obligate holders to refine at least one-tenth of their production within the country and not to refine any part of their production in the Caribbean area outside of Venezuela. No similar provision exists in the Colombian or Peruvian law.

Peru and Venezuela (but not Colombia) have adopted the principle of sharing profits between the concessionaire and the Government according to a specific formula. The Venezuelan income tax law, which established a precedent in this respect for certain countries in the Middle East, applies the so-called "50-50" formula to the petroleum and mining industries. The law provides that the net profits of the concessionaire in any year shall be shared equally with the Government.⁸ Under this arrangement the concessionaire pays the Government a variable sum in addition to normal taxes, including import duties.⁹

Even though it may be anticipated that the major part of petroleum development in Peru will be undertaken by private concessionaires, largely foreign, the Government has established an agency, the State Petroleum Corporation, to promote Peruvian enterprises, a minority of whose share capital is to be supplied by the corporation. In Colombia, after the reversion of an important petroleum concession to the Government, the property continued to be operated by a foreign private enterprise under contract with the Government.

Restrictive policy towards foreign participation in the petroleum industry is exemplified by the legislation and practices of Argentina, Bolivia, Brazil, Chile, Guatemala and Mexico.

⁸ The definition of net profits subject to tax under such an arrangement may create difficulty, particularly as to the value placed on products exported to a parent enterprise abroad.

⁹ Certain minor exploration fees and other taxes are not allowed as credits against the amount due. The 50-50 split applies to income in excess of 15 per cent of "invested capital". Levies on enterprises earning net incomes between 10 and 15 per cent of their invested capital are confined to 25 per cent of their income before tax, and enterprises earning less than 10 per cent of the invested capital are subject only to normal tax and surtax. In practice, about half the governmental revenue from concessionaires is derived from royalties, one-quarter from income taxes and the balance from other taxes.

⁶ For a discussion of social and economic considerations underlying land reform measures affecting estates and plantations, see United Nations, *Land Reform* (sales number 1951.II.B.3), pages 18 to 25.

⁷ This does not apply to concessions granted before 1952.

Following the expropriation of the properties of the major foreign petroleum companies in 1938, Mexico in 1941 enacted a petroleum law excluding private enterprises from all branches of the petroleum industry. The production, refining and distribution of petroleum has been entrusted to a governmental agency, *Petróleos Mexicanos* (*Pemex*). Regulations under the petroleum law empower *Pemex* to conclude contracts with other parties for performing its functions, and this provision has been interpreted as permitting contracts to be made with foreign as well as domestic companies.¹⁰ Several such contracts with foreign enterprises have been concluded. The contract usually provides that the private operator will bear the risk of loss in exploration and exploitation. If the venture is successful, the private operator is entitled to 50 per cent of the output until the original investment is amortized, and to 15 to 18 per cent of the output thereafter, for twenty-five years.

In Brazil the Constitution of 1937 and a law of 1938 reserved production of petroleum to concerns owned exclusively by native Brazilians. The same limitation applied to refining. This policy was reversed by the Constitution of 1946, which rendered possible the granting of concessions to foreign enterprises for the exploration and exploitation of petroleum deposits. This policy was not given effect, and in 1953 a law was adopted providing for the exclusion of foreign participation in the industry, including new investments in refining, and establishing a governmental petroleum agency similar to that in Mexico.

For some years Argentina, Bolivia and Chile have excluded new foreign investment from petroleum production and distribution by legislative or administrative action.¹¹ In Argentina, Bolivia and Brazil, as in Mexico, government enterprises are active in various branches of the petroleum industry.

Most countries in Latin America do not exclude foreign enterprises as such from investment in extractive industries other than petroleum, nor is a limit imposed as a general rule on the extent of foreign participation in enterprises engaged in this branch of activity.¹² Conditions affecting ownership and control may be stipulated in concession contracts, and the sta-

tus of foreign enterprises may of course be determined by administrative policy in the granting or refusing of concessions. There are few cases, however, in which foreign participation in the extraction of minerals has been officially limited to a minority share.

Concession contracts

Prior to the widespread adoption of special laws relating to petroleum production and mining, special concession contracts played a much greater part than at present in determining the status of private foreign investments in Latin America. Currently, apart from contracts made pursuant to the terms of such legislation, concession contracts are less important, except in certain Central American and Caribbean countries. In a few such countries, for example, Nicaragua, the establishment of new business enterprises is frequently governed by a concession contract, and in several Central American countries concession contracts continue to govern the operations of enterprises engaged in producing certain agricultural products, particularly bananas.

Concession contracts have usually been concluded in connexion with investments involving heavy capital outlays, including, in many instances, the establishment of facilities of a public or quasi-public nature, such as ports, railways, roads and communication systems necessary for the operation of an enterprise. Typical contracts include guarantees of freedom from exchange control and export restrictions, against increased taxation or import duties, and, in some instances, against expropriation for the duration of the agreement. The contracts usually stipulate certain obligations on the part of the concessionaire, for example, to pay specified taxes and to produce a minimum quantity of the product concerned, sometimes at a price below the export price. In some cases, the concessionaire undertakes to provide hospitals, schools, housing for employees and other facilities.

Certain features of concession contracts have been the object of criticism and of legislative reform in recent years. Reference has already been made to the tendency to reduce the discretion of authorities in granting concessions by adopting legislation governing the awarding of concessions in particular industries, particularly petroleum and mining. There has also been a tendency to reduce the duration of concessions authorized under such legislation, thus rendering it more feasible for the government to renegotiate the terms of the contract if conditions change.

Public enterprise

The openings for foreign investment in particular fields may be reduced by the existence of public or quasi-public enterprises in the same fields. At the same time, of course, government-owned enterprises providing services of various kinds may substantially widen the field for private investments in general, both domestic and foreign.

¹⁰ In 1952 this interpretation was challenged by the chairman of the Petroleum Commission of the Mexican Chamber of Deputies, and an official investigation of the matter was initiated by the Government.

¹¹ In Argentina a considerable amount of foreign investment in petroleum extraction and refining remains, dating from the late 1920's, but no expansion has occurred in recent years. Prior to the enactment of the Chilean petroleum law, there had been no activity in the extraction of petroleum.

¹² In Brazil, policy regarding the exploitation of minerals other than petroleum has undergone several changes in recent years. Regulations under the Constitution of 1934 confined the granting of mineral concessions to Brazilian nationals. Some relaxation occurred in 1944 when a law was enacted permitting foreign nationals to own up to 50 per cent of the capital of domestic registered mining companies. The 50 per cent limit was removed by the Constitution of 1946, but the law of 1944 has not been repealed.

Since the 1930's there has been a trend in the region towards governmental enterprise in many fields which were formerly the province of private enterprise, frequently of foreign origin. This has particularly affected railways, urban transport, communications, electric power generation and distribution, shipping, internal air transport, banking and insurance (to a limited extent) and, in a few countries, the exploitation of minerals, particularly petroleum. In several countries public enterprise had entered some of these fields before the 1930's. In some instances, private and public enterprises continue to operate side by side, particularly in the electric power industry.

The trend towards expanded public activity has been particularly strong in the production of electric power, for which the demand has grown rapidly in most Latin American countries, particularly since the end of the war. While a substantial part of the demand has been met by an expansion of private facilities, the required investment outlays have been largely financed either from internal reserves or, to an increasing extent, by loans from the Export-Import Bank or the International Bank for Reconstruction and Development.¹³

Reliance on internal company reserves, however, has been limited by rising costs of operation. It has been pointed out that "the rates charged by existing public utility enterprises have frequently not been adjusted to the rise in operating costs caused by inflation, so that in some cases they have reached the point where reasonable profits cannot be made or indeed where capital is actually being lost".¹⁴ This situation also affects the ability of such enterprises to raise capital for expansion of facilities in private financial markets.

The expansion of governmental enterprises does not appear to have significantly affected foreign investment in manufacturing. The most important governmental ventures in this field have been in the steel industry in several countries, including Brazil, Chile, Colombia and Peru. In these cases, as in most others in the manufacturing field, governmental participation has usually been limited to supplying capital to enter-

prises in which a portion of the funds has been privately supplied and in which the management of the enterprise is largely in private hands. In some instances such enterprises have been formed with foreign private participation. In several countries it is the announced policy of the government to sell its share in joint enterprises to private interests when the success of the venture renders this possible.

Several countries in the region have traditionally maintained governmental monopolies for the production of alcoholic beverages, salt, tobacco, matches, explosives and certain other products. The primary object of these arrangements has been to provide revenue. Private activity in commerce has not been significantly affected by government enterprises, except for the distribution of petroleum products, which is a governmental monopoly in a few countries.

Several countries in Latin America maintain government monopolies of foreign trade in particular products, usually exports. One object in establishing such trading enterprises appears to be the increase of bargaining power in dealing with foreign commercial interests, some of which, as in the case of the meat packing industry in Argentina, have maintained substantial investments in processing facilities in the country. The most far-reaching trading arrangement in the region exists in Argentina, but, with the exception of meat, the exports concerned are mainly produced by domestic enterprises.

In Chile the foreign enterprises producing most of the nitrates are controlled by the Government through the Nitrate and Iodine Sales Corporation (*Corporación de Ventas de Salitre y Yodo de Chile*), which diverts to the Government part of the difference between the sales price and the cost of production. A similar arrangement applies to large copper mining companies in Chile. The Cuban Government maintains close control over the production and export of sugar; however, foreign participation in this industry has declined in recent years. Otherwise, in most countries of the region that maintain a substantial degree of government control over exports, the products concerned are not produced mainly by foreign-owned enterprises.

Labour regulation

The laws of most countries in Latin America require that a minimum percentage of domestic nationals be employed in a business establishment, whether or not foreign owned. This requirement is frequently coupled with the stipulation that a minimum portion of the payroll be received by such persons. The required minimum proportion of total wage and salary disbursements is usually lower than that for personnel.

Such requirements are established by law in all but four of the twenty countries in the region. In Haiti, Honduras and Uruguay a limit has been imposed in specific cases by administrative action, and in Hon-

¹³ See United Nations, *The International Flow of Private Capital, 1946-1952* (sales number 1954.II.D.1), pages 28 to 33, 42 to 44. An example of the trend cited by the study is the investment programme of the American and Foreign Power Company, the major privately owned utility enterprise in Latin America, with operations in many countries. The capital outlay of the company during the period 1946 to 1952 totalled \$214 million; the planned outlay during the period 1953 to 1956 is \$221 million. It is estimated that reliance upon "internal" resources of the company will fall from three-fourths of the capital outlay in the former period to a little over half in the latter, and upon loans from the Export-Import Bank will increase from 6 to 33 per cent. The remainder largely represents local sales of securities in the country of operation. While the use of retained earnings, it is stated, "has been essential under the circumstances, it has reduced the return available to [American and] Foreign Power's own security holders and made equity financing for [the company] impossible in the United States" (see American and Foreign Power Company, Inc., *The Foreign Power System*, New York, September 1953).

¹⁴ See United Nations, *International Co-operation in a Latin American Development Policy* (sales number 1954.II.G.2), page 29.

duras such a requirement appears in the country's mining law. The minimum percentage for personnel ranges from 50 per cent in Cuba to 90 per cent in several countries, including Mexico; practically all countries provide for exceptions in the case of technical and managerial personnel. In some instances it is reported that immigration regulations have caused difficulty in the recruitment of foreign personnel.¹⁵ In a few cases the foreign enterprise has had to assume the obligation of training domestic labour to replace foreign employees, particularly in the technical services. Thus, in Cuba technicians permitted to enter the country may remain for only one year and Cuban apprentices must be trained to replace them; permis-

sion may be renewed for two years if there are no replacements available. In a reduction of staff aliens must be discharged first. Colombia and Mexico are examples of other countries requiring the training of nationals to replace foreign technical personnel.

Regulations affecting the employment of labour, while not discriminating between domestic and foreign enterprises, have been cited as an obstacle by foreign enterprises in several Latin American countries. Reference has been made to the difficulty of discharging personnel for cause, as well as the obligation to make substantial severance payments.¹⁶ In general, however, regulation of this type does not appear to have had a significant effect upon investments.

Exchange control

Exchange control, established in many Latin American countries during the early 1930's when their balances of payments were exposed to pressure by the economic depression, has been maintained in various countries to meet continuing balance of payment difficulties.¹⁷ Controls involving strict regulation of external transactions have been confined largely to countries in the southern part of the region. The purpose of balancing external transactions has been linked in several countries with that of providing revenue to governments, since foreign exchange is usually acquired at a lower price, in terms of national currency, than that at which it is sold. Exchange restrictions, paralleled by quantitative restrictions on imports, have also served to limit non-essential imports and to protect domestic industry. The controls have also been used to carry out policies directly related to foreign investments; through controls, some countries have regulated the outward transfer of income and capital, the profits of foreign enterprises and the inflow of capital according to criteria established by the government.

The following discussion is confined to regulations affecting equity investments or fixed interest obligations of private enterprises. At present, countries in the region that maintain exchange control accord a high priority to remittances due on most long-term government obligations.

Formal exchange control existed in mid-1954 in all Latin American countries with the exception of El Salvador, Guatemala, Haiti, Honduras, Mexico and Panama.¹⁸ In certain countries, however, the balance

of payments has not been under serious pressure, and controls have been administered largely for fiscal purposes, as in Cuba¹⁹ and Venezuela,²⁰ or to secure information on foreign transactions, as in the Dominican Republic. The absence of exchange control is, of course, not necessarily an indication of lack of pressure on the balance of payments. Mexico, which has been exposed to such pressure on several occasions since the end of the war period, has twice depreciated its rate of exchange and has employed tariffs and quantitative restrictions on imports to deal with payments difficulties. On the other hand, the exchange rate of a number of countries maintaining exchange restrictions has also undergone depreciation.

Among the remaining countries, several impose no significant restrictions on payments related to foreign capital. In Peru, there has been a broad measure of freedom since 1949 on both current and capital transactions. Transfers of investment yields and of capital (regardless of origin) may be made without limit through the free market at a fluctuating rate.²¹ Uruguay (which licenses exchange for imports) maintains practically no restrictions on the transfer of capital or investment yields; but such transfers may be effected only at a fluctuating free rate, which has diverged considerably from the rate applicable to most imports.²²

¹⁹ A 2 per cent exchange tax on payments abroad is maintained by Cuba, but in 1952 this tax was waived in the case of approved investments registered with the authorities. Otherwise, exchange control is practically limited to payments with two European countries.

²⁰ Venezuela maintains a system of multiple rates as a device for obtaining revenue from foreign petroleum companies and also to subsidize the export of coffee and cacao.

²¹ In addition, there is a fluctuating "exchange certificate" rate at which the proceeds of exports must be delivered to the Central Bank. Payments for imports and certain invisibles are made at this rate. With the permission of the Ministry of Finance transfers of investment yields may be made at the "exchange certificate" rate which is slightly more favourable to investors than the free market rate.

²² At the end of 1953 the free market rate was 3.04 pesos per dollar as compared with the "special" rate of 2.45 pesos applicable to most imports. Imports, with minor exceptions, require licences.

¹⁵ See, for example, National Industrial Conference Board, *Obstacles to Direct Foreign Investment* (New York, 1951), pages 16 and 17.

¹⁶ See, for example, International Bank for Reconstruction and Development, *Report on Cuba* (Washington, D.C., 1951), chapter 16.

¹⁷ For an account of the post-war payments position of Latin America see United Nations, *A Study of Trade between Latin America and Europe* (sales number 1952.II.G.2), pages 8 to 13.

¹⁸ A summary of the restrictions in effect in each country appears in International Monetary Fund, *Fifth Annual Report on Exchange Restrictions* (Washington, D.C., 1954).

According to a law adopted in Colombia in 1951, foreign capital (which must be registered with the authorities) may be freely repatriated, together with any reinvested earnings, and investment yields may be freely transferred abroad at the official rate.

Thus, with respect to foreign investments, exchange control has continued to be of practical importance in Argentina, Bolivia, Brazil, Chile, Ecuador and Paraguay in South America and Costa Rica and Nicaragua in Central America. The restrictions on transfers of foreign capital and investment yields in these countries vary in their nature and severity. Remittances of dollars have generally been more strictly controlled than those of other currencies; in view of this fact and of the importance of dollar investments, the following discussion primarily concerns dollar transfers. Moreover, financial relations between certain countries of the group mentioned above and the United Kingdom and other countries of western Europe have been the subject of special payments agreements.

The exchange control system in all the countries concerned provides for multiple exchange rates for different transactions, combined, in most cases, with quantitative restrictions on the sale of foreign exchange in one or more of the categories of rates established. In addition to one or more official buying and selling rates (generally stabilized) there is usually a free exchange market with a fluctuating rate, mainly used for non-trade payments and primarily supplied by foreign exchange derived from such payments.

In several countries certain foreign enterprises producing for export are permitted to retain part or all of their export proceeds.²³ In effect, the transfer of investment yields remains outside the exchange control system. The amount of foreign exchange that may be retained abroad thus depends on the portion that must be surrendered and on the rate at which local currency required for current expenditures, such as wages, taxes and royalties, as well as for capital outlays, must be purchased. Usually this rate attributes a higher value to the local currency than that applied, for example, when foreign exchange is sold for financing essential imports.²⁴ For practical purposes such an arrangement has the effect of a tax on exports. It may also discourage purchase in the country of certain commodities required by the companies concerned, or may stimulate the introduction of labour-saving equipment in order to reduce wage expenditure. The application of a penalty rate to these transactions does not necessarily imply that the investor is worse off than under an alternative situation. Thus, if the alternative is a devaluation of the currency, the investor may conceivably fare better under a system of control. Offsetting this, however, is the possibility that the rate structure may

be changed or that quantitative restrictions on transfers may be tightened.

Examples of the arrangements described are found in foreign-controlled copper and iron ore mining enterprises in Chile, the tin mining companies in Bolivia (prior to their nationalization) and the United Fruit Company in Costa Rica. In the latter two cases the companies are permitted to retain only a specified portion of export proceeds.

In Colombia, foreign-owned petroleum companies are not required to surrender the proceeds of their exports except when the country is in serious balance of payments difficulty, in which case the companies may be required to sell 25 per cent of their foreign exchange earnings (presumably net of their local currency purchases) to the monetary authorities with the understanding that they will be reimbursed as soon as the country's payments position improves. This provision was used only once, in 1948, and the amounts advanced were later repaid.

Most of the countries under discussion provide for registration with the exchange control authorities of foreign capital entering the country.²⁵ If the main purpose of registration is to offer certain assurances to investors, particularly concerning facilities for remittances, registration is voluntary on the part of the investor but subject to approval by the authorities. In some cases, for example, in Argentina and Chile, registration is compulsory, and serves both to control the entry of new capital and to provide certain assurances to foreign investments which are approved by the authorities. One of the issues that arises is whether the privilege of registration to obtain certain remittance facilities will be extended also to old investments.

Registration is voluntary in Bolivia, Brazil, Costa Rica, Ecuador and Nicaragua, but is compulsory in Argentina, Chile and Colombia. The significance of registration in the three latter countries, however, varies considerably; in Argentina and Chile registration is a means of according preferential treatment to investments of certain types, while in Colombia registration of capital is open to all new investments without qualification.

In most countries, outward transfers of capital that is not eligible for registration or, though eligible, has not been registered, or transfers of capital and yields that exceed certain official limits, are generally made through the free market at a less favourable rate to the investor than that applied to registered capital. This is paralleled by the provision that registered incoming capital must be transferred at the official rate, while non-registered capital may enter at the free market rate, which is more favourable to the investor. In general, the system in effect in most countries acts through both application of different rates of exchange and quantitative limitation

²³ When the enterprises merely deliver a product to a parent concern abroad, there may be no export proceeds to transfer.

²⁴ See, for example, sections on Chile and Venezuela in part II.

²⁵ This applies to capital actually transferred and to capital equipment imported by foreign enterprises for their own installations. In most countries part or all of the reinvested earnings can also be registered.

on transfers. When the allocation of foreign exchange at the official rate is limited and the investor has the alternative of using the free market without limit for outward transfers, his position is affected by the spread between the official and the free rate and by the rate at which capital was originally transferred into the country (assuming that it does not represent reinvested earnings).

A specified limit on the transfer of investment yields that may be made at official or other relatively favourable rates is maintained by several countries, including Argentina, Bolivia (applied to investments other than in the tin industry), Brazil, Costa Rica, Ecuador and Nicaragua. The limit is defined as a percentage of registered capital. Such transfers, furthermore, are subject to the availability of exchange; hence a licence is required for each transfer.²⁶ The limit does not therefore represent a guarantee of transfer. Thus, for several years the transfer of earnings of United Kingdom and United States investments in Argentina was blocked because of a shortage of foreign exchange.

The limit on the income of registered capital that may be transferred at the official selling rate, expressed as a percentage of capital, is as follows: Argentina 5 or 8,²⁷ Bolivia 15, Brazil 8 or 10, Costa Rica 10, Ecuador 12 and Nicaragua 10 per cent.

Several countries authorizing transfers of yields at official rates within a specified limit do the same with respect to the withdrawal of capital at the official rate. Argentina, under a law of August 1953, authorizes the repatriation of registered capital, after ten years, in yearly quotas of 10 to 20 per cent of the registered capital, as established when the investment was approved. Bolivia maintains a ceiling which limits the repatriation of registered capital at the official rate of 30 per cent per annum. Foreign capital registered in Chile under a law of November 1953 can be repatriated after five years in yearly quotas of 20 per cent of the original investment. (No limit is imposed by the Chilean law of November 1953 on the income of approved investments that may be transferred.) Furthermore, the law provides (Article 11) that the Government shall set aside in its annual foreign exchange budget the amount of foreign exchange necessary to meet obligations of transfer assumed in respect of approved investments.

An important issue in the administration of these regulations is whether the capital may be defined to include reinvested earnings. The Colombian exchange law of July 1952 explicitly provides that reinvested earnings may be registered as imported capital. Such

capital may be withdrawn at any time subject to individual licensing.²⁸ Under the Argentine law of August 1953, referred to above, only that portion of earnings which would be eligible for transfer abroad in any one year can be added to the original registered capital. The Chilean law of November 1953 permits the registration of all undistributed profits; the ten-year period, however, after which capital can be repatriated, applies also to such reinvestments from the time they have been made. In Brazil, early in 1952, a decree provided that profits transferred abroad since 1946 in excess of 8 per cent of the original investment, per annum, would be considered as withdrawal of capital. Furthermore, reinvested earnings in excess of 8 per cent of registered capital were excluded from registered capital in computing the maximum yield that might be transferred at the official rate. These limits were replaced in 1953 by a provision that in most cases remittances were to be effected through the free market.

An appraisal of the significance of exchange restrictions applied to foreign investments must take account of the fact that such restrictions may suppress the symptoms of balance of payments pressure but do not eliminate its causes. Thus, the question is not only the nature of existing controls but whether conditions are such as to lead to a tightening of controls or a devaluation of the currency. It appears that the significance of such an eventuality may vary, depending on whether the foreign enterprise concerned is producing mainly for the domestic market or for export.

Industries producing for export are in some instances authorized to retain part of their export proceeds or to sell part of such proceeds at a relatively favourable rate of exchange. When the exported product is absorbed by the country from which the investment is derived, transfer difficulties for foreign enterprises are likely to be reduced. As indicated in the preceding chapter, much of United States direct investment in the extractive industries belongs to this category. Such investments are, furthermore, relatively insensitive to exchange depreciation since the price of the product is determined in the world market or in the importing country. Conceivably, such depreciation may even be favourable to the investor in the short run, if operating costs in the country do not increase in step with the depreciation. In practice, however, the application of export taxation or special rates under a multiple exchange system in some cases has tended to offset such gains from depreciation.

Enterprises linked with the domestic market, including public utilities, are in a different position. Exchange control is most easily applied to them, and, in general, they are also likely to be more directly affected by tightening of import restrictions on supplies needed for their operations. A broad distinction may be drawn,

²⁶ Colombia does not maintain a limit, and provides that transfers of yields of registered investments, though subject to licence, must be granted freely. This is qualified by providing that the authorities, should the need arise, may administer the provision "in a preferential manner".

²⁷ The latter percentage applies only to investment registered in accordance with a law adopted in August 1953. The status of previous investments is under consideration by the Government.

²⁸ As in the case of the transfer of yields, a qualification applies with regard to the balance of payments position. See footnote 26.

however, between manufacturing enterprises, on the one hand, and public utilities, on the other, when the source of the balance of payments difficulty is internal inflation. In these conditions, profits in certain lines of manufacturing may be increased while, as utility rates lag behind general increases in costs, earnings on investments in public utilities may decline. Manufacturing enterprises therefore may not be as adversely affected by exchange depreciation as utilities. This distinction may also prevail under a system of exchange control, since, as has been pointed out, such control may permit the transfer of yields in excess of a certain limit at a free rate.

It has been indicated above that, especially when multiple exchange rates are applied, exchange control is one of several ways of regulating the effective yield on foreign investment and that, within limits, similar

results may be achieved through other means, particularly taxation.

While exchange control may deter investment, in certain circumstances such control has created a sheltered market in the same way as tariffs or quantitative import restrictions and may thus have afforded an incentive to foreign investments in some enterprises producing for the domestic market. Foreign exporters, finding a market blocked by import restrictions or equivalent exchange restrictions, have sometimes been induced to establish local manufacturing plants. Occasionally, too, multiple exchange rates have been used to subsidize certain types of exports, including those produced by foreign enterprises. This does not necessarily imply, however, that the position of such enterprises is more favourable than if no exchange control existed.

Taxation

The tax systems of the countries of Latin America generally do not discriminate formally between foreign and domestic investments. In certain countries, however, they incorporate features of particular interest for foreign investment. One such feature is the availability of tax concessions to certain types of business enterprise. Another feature, in countries heavily dependent on the export of primary products, particularly minerals, is the establishment of a special fiscal system for this field of activity, in which foreign investments are often prominent.

Tax concessions

A number of countries in Latin America have special legislation authorizing tax concessions to business enterprises or have granted such concessions through special administrative action. Legislation usually authorizes the granting of tax concessions to both domestic and foreign business enterprises, provided they conform to certain requirements. A common form of concession is the exemption of approved enterprises from all or part of certain taxes for a specified period. Until recently such exemption was usually one feature of general concession contracts of the type referred to earlier.²⁹ In such cases, the tax liability of the enterprise was fixed in amount, or at least in scope, for the duration of the concession contract. Special arrangements of the latter type have become less common, but several countries have adopted broad legislation authorizing tax concessions on a selective basis. Such legislation has been enacted, for example, in Argentina, Chile, Costa Rica, Cuba, the Dominican Republic, El

Salvador, Guatemala, Mexico, Nicaragua, Panama and Uruguay.

Eligibility for tax concessions is usually determined by certain criteria, such as investment in industries considered to be in the national interest, for example, those engaged in the processing of domestic raw materials. Thus, in Mexico, under a law of February 1946, enterprises in industries deemed to be essential may be granted tax concessions for a period of ten years; for other categories of industry shorter periods of exemption are allowed. Exemptions may cover export and import duties, normal taxes on business income and other Federal taxes, but not the tax on excess profits. Each application for tax relief is judged on its merits. Similar legislation exists in the other countries mentioned.

An example of comprehensive authorization of tax exemption is found in a law of 1950 of the Dominican Republic, authorizing the President to grant exemption from all taxes, or from an increase in taxes, to approved investments in industries processing local raw materials.

A recently adopted law in Chile (Decree Law No. 427, November 1953) exempts from import duties, and certain other fees, equipment imported by foreign enterprises for approved investments devoted to the processing of domestic raw materials. It also provides that various assurances to approved new investments, including those relating to future taxation, will be contained in a contract between the State and the investor, to be recorded in an official decree. According to the law, the income from the investment "will be exempt from all new taxes or levies which might be established" during a period of ten years.

In Argentina, a decree of June 1944 authorizes the Government to extend to enterprises in industries deemed of national importance not only tax concessions and protection by tariffs or import quotas but also cash

²⁹ During the nineteenth century, in one or two countries, the Government not only extended tax exemptions but also guaranteed a minimum return on the capital invested by a foreign enterprise. This policy was limited mainly to investments in railways or other public utilities. In Brazil, however, it was also applied to certain manufacturing enterprises.

subsidies. Limited tax exemption is granted by a Colombian law of July 1952, which provides that foreign capital imported for the establishment of new industries and using 100 per cent domestic raw materials will be exempt from the "patrimony" (property) tax for a period of five years. Similarly, under the Peruvian mining code of 1950, concessionaires paying land and income taxes are exempt for a period of twenty-five years, beginning 1 January 1951, from all other present and future taxes on the concession or the products obtained from it.

A number of countries in the region authorize exemption of approved new enterprises from import duties on imported machinery and raw materials required for their operations. Tax concessions may be limited to investments in particular industries. Thus, the Peruvian mining code of 1950 contains provisions for exemption from various taxes, including import duties on machinery and other requirements of the mining industry. Under this type of arrangement all enterprises in the industry, new or old, are presumably eligible for exemption. In some instances, for example in Costa Rica, the law providing for tax exemptions appears designed to grant a sheltered position to individual enterprises. In other cases, as in El Salvador, the tax privileges accorded a particular enterprise are by law automatically extended to other enterprises in the same industry.

Other tax policies which may favour particular types of investment, but are not common in Latin America, include the allowance of accelerated depreciation of fixed assets in the calculation of net income subject to tax, and the granting of special depletion allowances to enterprises engaged in the extraction of minerals.

Several countries in Latin America have sought to encourage the reinvestment of earnings of enterprises in various industries by taxing such earnings at a specially low rate when reinvested. This policy usually applies to both domestic and foreign enterprises. Argentina, for example, offers a reduction in taxes on the incomes of manufacturing enterprises, ranging from 10 per cent (when the income reinvested in fixed assets is equivalent to 30 per cent of the taxable profit) to 80 per cent (when reinvestment equals 90 per cent or more of the profit). In Haiti, up to 25 per cent of the profit, if reinvested with government approval, is exempt from income tax. Venezuela provides a reduction of 2 to 4 per cent in the corporate income tax rate on earnings that are reinvested.

Taxation of dividends distributed by corporations—or of profits remitted by branches of foreign enterprises—may also stimulate the reinvestment of earnings. When paid by a foreign-owned subsidiary or branch, the tax on dividends amounts in effect to a tax on income received by the parent corporation. The reinvestment of earnings may be stimulated either by a reduction of the tax burden on undistributed profits or by increasing the tax on distributed profits. The former device, however, may involve a greater loss of revenue.

This consideration underlies a suggestion by the United Nations Mission of Technical Assistance to Bolivia that a 10 per cent tax on dividends be levied in that country to encourage reinvestment of earnings.³⁰

Except for certain concession contracts in the field of primary production, mainly negotiated some time ago, tax concessions generally appear to have been extended by Latin American countries to enterprises engaged in manufacturing. Accordingly, they have been of interest to foreign investors in only a few countries where fairly large-scale manufacturing has attracted foreign capital. Furthermore, such concessions have mainly applied to indirect taxes, including import duties. The absence of concessions in respect of income taxes may be partly explained by the limited role played until recently by this form of taxation in many countries of the region. It may also be attributed to the fact that the United States and United Kingdom tax income earned abroad while extending a foreign tax credit, and this, together with generally lower income tax rates in Latin America, nullifies the effect of a concession on the taxpayer's total liability for taxes on business incomes, except in the case of earnings reinvested by a foreign subsidiary.

Taxation of extractive industries

Foreign enterprises may be particularly affected by taxes or charges on foreign exchange transactions, or by taxation applicable to fields of activity in which foreign investments are concentrated. The former situation has been discussed earlier in connexion with multiple exchange rates; the latter is found most often in countries where foreign investments are predominant in an extractive industry.

In some measure, certain taxes levied on enterprises in particular industries may be regarded as alternative means by which the government appropriates a given portion of the income accruing to the enterprise. This is true of such arrangements as the Venezuelan "50-50" law, under which the proportion of the tax on earnings paid in the form of royalties, income taxes, export taxes or other levies, is largely immaterial.³¹ Account must be taken of the entire group of such levies to appraise the incidence of the tax structure on a foreign enterprise. The buying price fixed by a governmental export monopoly—such as that which operates for certain products in Argentina—and variations in exchange rates applicable to foreign remittances or to purchases of local currency requirements by foreign companies in a particular industry may also be important in determining profits.

The particular form of tax levied may have significant consequences for business operations. Taxes in the form of levies on gross production, sales, or the value or quantum of exports, make no distinction between low-

³⁰ See *Report of the United Nations Mission of Technical Assistance to Bolivia* (sales number 1951.II.B.5.), page 36.

³¹ This is subject to the qualification that certain types of tax payment may not be eligible for credits against tax liability in the investor's home country.

cost and high-cost operations. They may create an incentive to exploit relatively high-grade ores, for example, and leave lower grades unexploited. The incidence of indirect taxation depends on a complex set of factors and may affect different types of foreign enterprise in different ways, depending on the ability to shift such taxes. Considerable attention has been given by some countries in the region to the effect of their tax systems on economic activity, including the effect of taxes on foreign enterprises, particularly those engaged in mineral extraction. There has been some tendency of late for certain Latin American countries to shift from taxes that increase costs, or reduce receipts, to taxes on net income. In addition to the effect of such a shift on production, it may be noted that an income tax (or tax in lieu thereof) is eligible for credit against United Kingdom and United States tax liabilities, while indirect taxes are normally not eligible. Thus, the shift may prove advantageous to a foreign enterprise. It is possible, however, that in certain conditions a rise in income taxes may render operations in a country less attractive than elsewhere and may lead, in the long run, to shifts in the location of investments unless similar tax developments occur elsewhere.

International double taxation

The United States and many other countries have adopted legislation taxing the income of their residents (including resident business enterprises) originating abroad. Accordingly, appraisal of the full impact of taxation on foreign investments in a particular Latin American country requires consideration of the joint effect of applicable domestic and foreign taxes. This subject has been dealt with extensively in several United Nations reports.³²

In general, the capital exporting countries have adopted legislation which tends to reduce or eliminate international double taxation of income accruing to their residents, both individuals and corporations, from investments abroad or from other foreign economic activities. This is accomplished in the United States, for example, through a credit for income taxes (or taxes deemed to be in lieu of such taxes) paid abroad. The effect, subject to various technical qualifications, is that the investor may have to pay the equivalent of the United States or the foreign income tax, whichever is higher.

In view of the importance of United States investments in Latin America, mention is made of certain provisions of United States tax laws that may significantly affect the liability of United States parent enterprises in respect of taxes on income accruing to an overseas branch or subsidiary. There are limitations on the kind of foreign taxes that may be credited (chiefly income taxes imposed in lieu thereof) and on the

amount of the foreign tax which may be credited (usually the amount of the United States tax due on foreign income).³³ Enterprises that carry out foreign operations through subsidiaries abroad are liable to tax on the profits of such subsidiaries only to the extent to which they are repatriated in the form of dividends. On the other hand, losses accruing to foreign subsidiaries cannot be offset against profits of the parent enterprise, whereas losses in foreign branch operations reduce United States income taxes if domestic profits have been earned by the parent. Enterprises engaged in mineral extraction, provided they operate through a branch or through a corporation organized under the laws of the United States, are entitled to substantial deductions for depletion which are not based on the cost of the resources concerned.³⁴

Since 1942, Western Hemisphere trade corporations—corporations organized in the United States which derive substantially all their gross income from sources within the Western Hemisphere but outside the United States—have been eligible for partial exemption from corporate income taxes, being taxed at a rate fourteen percentage points below the regular corporate rate (52 per cent in 1953). In practice, this exemption has applied chiefly to enterprises engaged in export activities, owing primarily to two factors. First, when foreign income taxes approach or exceed United States taxes—as is the case in several important United States mineral enterprises in Latin America—there is no advantage in a Western Hemisphere trade corporation, since net tax liability to the United States is negligible. Second, enterprises planning to expand their operations abroad through reinvestment of earnings often prefer to organize foreign subsidiaries, which are not taxed on income unless remitted. Also, owing to technicalities in the computation of the tax credit, if a foreign country imposes an income tax in excess of 15 per cent, the advantage of a Western Hemisphere trade corporation over other forms never exceeds 4 per cent of total earnings.³⁵

³³ Under the so-called "per country" limitation, however, if the income tax in a foreign country exceeds the United States tax on the income from that source, the excess cannot be credited against tax due on income from another country. Under the "over-all" limitation, if the enterprise operates in more than one foreign country and incurs a loss in one of them, the foreign tax credit cannot exceed the United States tax due on net foreign income.

³⁴ This provision applies to both domestic and foreign operations of United States enterprises. The allowance for depletion varies from 5 to 27.5 per cent of the gross income, depending on the mineral, but cannot exceed 50 per cent of taxable income. Thus the effective rate of tax may be 26 per cent as against the 52 per cent normal rate of tax on incomes of corporations, or in the case of Western Hemisphere trade corporations, 19 per cent against 38 per cent.

³⁵ See *United States Income Taxation of Private United States Investment in Latin America*, page 22. Eligibility for the Western Hemisphere trade corporation exemption is also limited by the fact that the reduced rate is not available to corporations that have sizable business interests of any sort in the United States unless they organize a special United States subsidiary for the purpose. Further, income from a producing company abroad has been considered as income from sources within the United States if a large part of the company's production is sold in the United States.

³² See, in particular, *United States Income Taxation of Private United States Investment in Latin America* (sales number 1953.XVI.1). See also *The Effects of Taxation on Foreign Trade and Investment* (sales number 1950.XVI.1).

The President's budget message to Congress in January 1954 proposed to broaden the scope of tax concessions available to United States investors abroad by providing a reduction of fourteen percentage points in the tax rate applicable to income derived by United States corporations from foreign establishments anywhere. It was also proposed that foreign branches of United States enterprises might elect to be taxed as foreign subsidiaries, thus exempting from tax the non-remitted profits of such branches; and that the scope of the credit for foreign taxes might be extended.

Unilateral tax relief measures have been supplemented in certain countries by bilateral treaties defining income and establishing rules governing its allocation between the countries concerned, as well as defining taxes which may be credited.³⁶ Latin American countries, however, in common with most other under-developed countries, have remained outside the network of such treaties. Existence of tax-credit systems in several capital exporting countries has substantially reduced the incentive for negotiating such agreements on the part of capital importing countries desiring to ease the burden of double taxation of foreign investments.³⁷ Draft treaties proposed by capital exporting

countries tend to maintain the principle of residence as a basis of assessment, thus reducing the scope of tax incentives to investment through lower tax rates in under-developed countries. Furthermore, the countries of Latin America do not ordinarily tax the foreign income of their residents or business enterprises, which is relatively small, so there is little basis for reciprocity; they may in fact desire to discourage the export of capital.

In recent years, increasing attention has been given to the use of tax concessions by under-developed countries as a means of attracting foreign capital. It has been indicated that a concession made by a capital importing country on a tax that may be credited against a United States tax liability, for example, has the effect of shifting tax revenue from the capital importing country to the United States, rather than of reducing the taxpayer's net liability. However, in the case of a foreign subsidiary which is exempt from tax on income not remitted to the parent enterprise, a tax concession by the capital importing country would permit greater reinvestment of earnings. Furthermore, concessions on indirect taxes that may not be credited against United States tax liability would accrue in part to the taxpayer.

Expropriation and default

Expropriation

The most important instances of expropriation of foreign investments in Latin America are referred to in part II of the present study. The main features of defaults and subsequent adjustments of external governmental debt are similarly indicated. In this section, the policies adopted in these matters by certain governments in the region are considered.

The involuntary transfer of foreign-owned investments to domestic ownership has been effected without prior agreement on compensation by several of the countries. In a few instances, expropriation of foreign investments has been part of a broader movement affecting a particular sector of the economy, for example, the Mexican land reform measures which applied to foreign and domestic landowners alike. Typically, however, expropriation affecting foreign investments has been applied either to a particular foreign-owned enterprise or to enterprises engaged in a branch of activity in which comparable domestically owned enterprises did not exist. As an example of the former type, certain electric power companies, owned mainly in the United States, were nationalized in Argentina during 1945 to 1948 and in Colombia in 1947, while all locally owned and several foreign-owned enterprises in the same industry were not affected. The nationalization of foreign

petroleum companies in Mexico in 1938 and of large tin mining companies in Bolivia in 1952 illustrates the second type.³⁸

There have also been instances in Latin America of the sale of property by foreign investors to the government. In a number of cases such sales have involved public utility enterprises, including railways, which have for various reasons experienced financial difficulties. In certain instances, however, a sale may be an alternative to formal expropriation. Thus, in Argentina, following the promulgation of the March 1949 Constitution providing for the acquisition of privately owned public utilities by the State either by purchase or expropriation, the Government indicated a preference for purchasing such facilities. Pursuant to this policy, negotiations were begun in 1949 for the sale of certain electricity enterprises owned in the United States.

The expropriation of foreign-owned enterprises in Latin America has occurred largely in public utilities, including railways, and, to a smaller degree, in primary production, particularly the extraction of minerals. In some instances nationalization of public utility enterprises appears to have been hastened by the unfavour-

³⁶ See United Nations, *International Tax Agreements*, vols. I to III (sales numbers 1948.XVI.2, 1951.XVI.1 and 1951.XVI.5).

³⁷ *Ibid.*, vol. II, page xi.

³⁸ The Bolivian tin companies, though largely owned by Bolivian nationals, were considered foreign by the Government because they were registered under the laws of a foreign country, and the owners resided abroad and there retained a large part of the profits. This definition is consistent with the tabulation of statistics of foreign capital in creditor countries; these base ownership on the residence of physical persons or the place of registration of corporations or other juridical persons owning foreign assets.

able position of such enterprises in countries experiencing substantial inflation while utility rates remained fixed, or lagged behind the rise in the general price level.³⁹ In such cases the transfer to domestic ownership may not have been involuntary and may even have been preceded by a period of under-maintenance of facilities that represented in effect a repatriation of capital. In several instances the low earnings of such enterprises have been accompanied by difficulty in remitting profits abroad owing to exchange control regulations; in others, the yield on the investment has been reduced by exchange depreciation not offset by an increase in rates.⁴⁰ Nationalization may be facilitated in countries where an expanding government-owned sector exists side by side with the privately owned sector of the industry concerned.

The expropriation of foreign investments in primary production has occurred mainly in countries where such enterprises accounted for the bulk of production in a field of major economic importance.⁴¹ For this reason such investments may be an object of measures which reflect political and social as well as economic considerations. Furthermore, much primary production involves the exploitation of irreplaceable resources and is subject to fluctuations of demand in international markets having widespread domestic repercussions. Conflict may arise over sharing profits, particularly when taxation or other conditions have been established in a concession contract for a considerable period in advance. There is also fear of possible underestimating of the

³⁹ The countries in which important public utility enterprises have been nationalized include Argentina (generation of electric power, gas production, railways, tramways, telephone service, waterworks), Brazil (railways), Chile (railways), Colombia (generation of electric power, railways), Mexico (telegraph and radio, railways), Uruguay (railways, generation of electric power, tramways, gas production), Venezuela (railways, telephones).

In Cuba government officials (*interventores*) have been appointed from time to time to control enterprises that have been involved in labour disputes. The properties in question have usually been returned to their owners, however, rather than expropriated. An important example is the British-owned United Railways of Havana, under such control since June 1949. This enterprise, which has been the subject of receivership proceedings in the United Kingdom, owed arrears of interest of £14 million on its bonded debt on May 1950; its equipment and trackage are reported to have suffered substantially from deferred maintenance. The company has a claim against the Cuban Government for about \$8.5 million for expropriated land for which no compensation was paid (see International Bank for Reconstruction and Development, *Report on Cuba*, chapter 10). Details are given below, on page 80.

⁴⁰ The American and Foreign Power Company, Inc., which owns subsidiaries in several Latin American countries, has stated that in several cases where earnings of enterprises were unfavourable for reasons of the type indicated, ". . . we have made known our willingness to dispose of our investments to government bodies or other purchasers for a fair value". See American and Foreign Power Company, Inc., *Twenty-Seventh Annual Report, 1950* (New York).

⁴¹ The most significant examples are the expropriation of petroleum companies in Mexico in 1938, the expropriation of large tin mining companies in Bolivia in 1952 and proceedings started in Guatemala under a law of 1952 affecting a large portion of the landholdings of a subsidiary of the United Fruit Company.

yield of the investment when sales are made to a parent concern abroad.⁴²

The chief issues arising from the expropriation of foreign investments relate to the amount of compensation and whether compensation will be paid promptly and made available in the currency of the creditor country.⁴³ In addition, the investor is likely to attach some weight to the loss involved in transferring capital from one investment to another, even if full compensation is received. Some under-developed countries outside Latin America (for example, India) deal with this problem by specifying industries or sectors of the economy that are reserved to private enterprise and in which nationalization measures will not be introduced for a specified minimum period.

The constitutions of almost all countries of the region provide that prior compensation is to be paid for property taken from private owners. Determination of the amount and form of compensation is left to the executive branch of the government, subject to review by the courts. An exception to this is found in the Argentine Constitution (Article 40), which provides that compensation for expropriated public utility concessions shall be the original cost of the investment from which amounts amortized and amounts exceeding a "reasonable profit" shall be deducted; however, reasonable profit has not been officially defined. Another exception appears in the Guatemalan agrarian reform law of 1952, which provides that compensation paid for land expropriated under the law shall be based on the value set on the property for tax purposes by the owner. Compensation is to be effected in government bonds with a maturity of not more than twenty-five years, paying 3 per cent interest. The concept of counter-claims appears in the decree of October 1952 for the nationalization of Bolivian tin mines. Among the counter-claims referred to are taxes and other financial obligations determined by pre-existing laws and decrees, which, according to the decree, were unpaid as the result of action taken to establish the enterprises as foreign corporations.

An issue of importance, in view of the particularly high degree of inflation that has characterized many countries in the region (as well as countries from which imported equipment is obtained), is the extent to which the cost of replacement is to be taken into account in determining compensation. Particularly in the case of mineral concessions, the question arises whether the

⁴² If tax rates on business incomes are higher in the capital exporting country than in the host country—as is often the case—the parent enterprise purchasing raw materials from a foreign branch or subsidiary may in fact have an incentive to shift profits to the foreign concern in order to reduce the total tax burden. Indirect taxes in the host country on gross production, and similar items, however, would have the opposite tendency.

⁴³ When a concession contract exists, there may be a question of the legal right of the expropriating government to cancel the concession. This issue, which arose in the action of Iran in 1951 with respect to the Anglo-Iranian Oil Company, has not been of importance, however, in connexion with expropriations in Latin America.

value shall include more than the cost of physical installations.⁴⁴ Related to this is the question whether account is to be taken of any currency depreciation that has occurred since the investment was made.

In recent years the question of standards for compensation in the event of expropriation of foreign investments has been the subject of international negotiations in which most countries of Latin America have participated. In these negotiations, there has been a general acceptance of the exercise by a government of the right of expropriation over private property, including property owned by foreign nationals. Likewise, the obligation of the expropriating government to pay compensation has not generally been questioned. Constitutional safeguards to this effect in Latin American countries have already been referred to. Basic differences exist, however, regarding the principles by which compensation for expropriated property is to be determined. Creditor countries have sought the acceptance of provisions containing what is regarded as the minimum standard sanctioned by international law; this, it is held, provides that the property of foreign nationals may not be taken for public use without "prompt, adequate and effective" compensation and requires, among other things, that compensation be based on the value of the property at the time of the expropriation. Debtor countries have, in general, resisted a formula implying preferential treatment of foreign investors as compared with nationals in cases of "general and impersonal" expropriation affecting both nationals and foreigners, such as the Mexican agrarian expropriations.⁴⁵ In addition, many countries have objected to any obligation to abide by a standard other than that established by the expropriating country as to what constitutes equitable compensation, regardless of whether the expropriation is general and impersonal or specifically related to the property of foreign nationals.

Reference may be made in this connexion to the provisions of the economic agreement of Bogotá, signed at the Ninth International Conference of the Organization of American States at Bogotá, Colombia, 2 May 1948. Article 25 of this agreement reads as follows:

The States shall take no discriminatory action against investments by virtue of which foreign enterprises or capital may be deprived of legally acquired property rights, for reasons or under conditions different from those that the constitution or laws of each country provide for the expropriation of national property. Any expropriation shall be accompanied by payment of a fair price in a prompt, adequate and effective manner.

The agreement does not define a "fair price" or a "prompt, adequate and effective" manner of compensation, nor the procedure by which these standards may

be determined. It may be observed that several countries participating in the conference explicitly noted their reservation with respect to the article cited above. The nature of the reservation is indicated in the statement of the Mexican delegation that "the principle established [in the last part of article 25] should be subordinated to the constitutional laws of each country."⁴⁶

Policies affecting external debt

Questions related to those discussed above arise from the policies of governments affecting their external debt, particularly the part which is privately held. Among the significant issues are the terms of the loan contract, the legal remedies available to bondholders and the principles governing adjustment of external debt in the event of default.

A major consideration in the determination and appraisal of governmental policies in these matters is the cause of the default and, in particular, the question whether it has resulted from factors outside the control of the debtor. Broadly speaking, a distinction may be drawn between internal difficulties, non-economic as well as economic, and the difficulty, for reasons outside the country's control, of transferring amounts due.

The history of the external governmental debt of many countries in the region provides examples of both types of difficulty. As noted in the preceding chapter, the two main waves of defaults in Latin America during the nineteenth century were largely due to internal difficulties, account being taken of the part played by foreign brokers in pressing uneconomic credits upon the countries and of high discounts and interest rates. The large-scale defaults of the 1930's, on the other hand, were precipitated largely by disequilibrium in international payments originating outside Latin America—even if in some instances a more effective use of the loan would have improved the country's balance of payments position.

In consequence of the shrinkage of the privately held external governmental debt of most countries in the region since the 1930's, the main issues of policy connected with this form of private international investment are of little current concern.⁴⁷ This consideration is reinforced by the persistence of conditions which are unfavourable to an early resumption of the flotation of foreign bond issues on a significant scale, at least without governmental guarantees of the sort extended through the International Bank for Reconstruction and Development.

⁴⁶ Reservations or interpretations to this effect were entered in the agreement by the representatives of Argentina, Cuba, Ecuador, Guatemala, Honduras, Mexico, Uruguay and Venezuela.

⁴⁷ As previously mentioned the decline resulted both from adjustment following the formal defaults of the 1930's and from the voluntary retirement of external debt by several countries. A substantial portion of the repatriation of the external debt of several countries occurred during the period of default and prior to the final adjustment.

⁴⁴ In the expropriation of Bolivian tin mines, the Government excluded from the value of the enterprise for purposes of compensation the capitalized value of the concession itself, whereas an amount representing this item was included in the valuation of its assets by one of the companies.

⁴⁵ For a recent exchange of views on these and related questions see chapter on Guatemala in part II.

Treaties and international agreements

Since the end of the war increased attention has been given to international treaties and multilateral agreements as a device for defining in general terms the policies to be applied to foreign investments within the territory of the signatory governments. This development represents an effort to revise and extend the scope of earlier commercial treaties by including comprehensive "establishment" provisions relating to foreign persons and corporations.⁴⁸ Among the points covered are the right of entry and the right of a foreign enterprise, once established, to carry on its activities according to established rules and to receive equitable treatment in the event of expropriation.

In two countries of Latin America, Colombia and Uruguay, post-war negotiations with the United States on treaties concerning foreign investments reached an advanced stage.⁴⁹ Although the treaties have not thus far been ratified, it appears useful to indicate their chief provisions, since these deal with most aspects of policy discussed in the present chapter.

In general, the treaties provide that nationals and corporations of each signatory are to be accorded "national treatment" by the other in respect of the establishment of business enterprises engaged in commerce, manufacture, processing, finance (other than deposit banking), construction and publishing.⁵⁰ In the exploitation of mineral deposits and other activities not included in the above list, if national treatment is not granted, most-favoured-nation treatment is accorded. Nationals and corporations of the capital exporting country may organize subsidiary corporations under the laws of the host country in the industries specified above, including mineral exploitation, and are accorded the right to control and manage such enterprises and to receive national treatment with respect to their activities. In the industries in question it appears that requirement of a minimum percentage of domestic participation would be excluded, if such requirement interfered with the control and management of the enterprise. The major sectors of the economy not covered

by these provisions are public utilities, transportation and communications, deposit banking and agriculture. For investments in other fields, the host country waives the right to refuse entry to specific enterprises which conform to the laws and regulations applicable to nationals and domestic enterprises. The treaties also provide that each signatory undertakes not to deny opportunities and facilities for investments by nationals of the other without appropriate reason. Further, foreign enterprises are explicitly accorded the right to employ technical experts, executive personnel and other specialized employees regardless of nationality.

With respect to exchange control, the treaties provide that remittances arising from foreign investments (including compensation received in the event of expropriation) shall be free of restrictions, with the exception of periods of exchange stringency. A situation of stringency is defined as one in which the government is attempting to prevent monetary reserves from falling to a "very low" level or seeking to effect a "moderate" increase in very low monetary reserves.⁵¹ During such periods, according to the treaties, the government may apply restrictions to assure the availability of foreign exchange for payment of goods and services deemed essential to health and welfare.

In the event of an exchange stringency, the treaties provide that the capital importing country shall make "reasonable and specific" provision for transfers arising from foreign investments and shall consult with the government of the capital exporting country regarding these provisions. If multiple rates of exchange are in effect, the rate applied to transfers relating to foreign investments shall be "just and reasonable" and, like other provisions in the treaties, shall be based on the principle of national and most-favoured-nation treatment. The treaties stipulate that the provisions do not alter the obligations assumed by the parties as members of the International Monetary Fund.⁵²

The taxation of investments by the host country is governed by the principle of national treatment. The treaties provide that no taxes shall be levied on foreign enterprises except if reasonably allocable to the territory of the host country. The host country retains the right, however, to extend preferential tax treatment to nationals and companies of foreign countries on the basis

⁴⁸ The following Latin American countries are parties to earlier treaties of friendship, commerce and navigation with the United States: Bolivia (1858), Colombia (1846), Costa Rica (1851), El Salvador (1926), Honduras (1927) and Paraguay (1859).

⁴⁹ A draft treaty between the United States and Uruguay was signed on 23 November 1949, and approved by the United States Senate in 1950, but not yet by Uruguay. A draft treaty between the United States and Colombia, signed on 26 April 1951, has not been ratified by either party and has been withdrawn for further negotiation. By the end of 1953 treaties containing establishment provisions had been ratified by the United States and China (Taiwan), Ethiopia, Finland, Ireland, Israel, Italy and Japan.

⁵⁰ The treaties contain the following definition of national treatment: "The term 'national treatment' means treatment accorded within the territories of a High Contracting Party upon terms no less favourable than the treatment accorded therein, in like situations, to nationals, companies, products, vessels or other objects, as the case may be, of such Party."

⁵¹ The obligation is similar to one assumed with respect to quantitative restrictions on imports by Contracting Parties to the General Agreement on Tariffs and Trade.

⁵² In normal circumstances, members of the Fund are required to avoid restrictions on payments and transfers for current international transactions. These are defined to include "without limitation . . . payments due as interest on loans and as net income from other investments". This obligation may, however, be suspended with the approval of the Fund in certain circumstances of exchange stringency. On the other hand, the Fund leaves members free to exercise such controls as are necessary to regulate international capital movements, provided they do not "unduly delay transfers of funds in settlement of commitments".

of reciprocity, or through treaties for the avoidance of double taxation.

With respect to the security of foreign-owned property and the payment of compensation in the event of expropriation, the treaties provide that property shall not be expropriated "except for public purposes and reasons of social utility as defined by law". Compensation shall be prompt, "just" and in "an effectively realizable form". Such compensation shall represent the "full equivalent" of the property taken, and adequate provision shall have been made at or prior to the time of the expropriation for determining and effecting compensation. Foreign investors are to be accorded no less than national and most-favoured-nation treatment in the event of expropriation. These principles apply not only to enterprises wholly owned by a foreign interest but also to those in which such interest is substantial. Further, each party is pledged not to take "unreasonable or discriminatory measures that would impair the legally acquired rights or interests within its territories of nationals and companies of the other party in the enterprises which they have established or in the capital, skills, arts or technology which they have supplied".

An arbitration clause in the treaties provides that any dispute between the signatories over the interpretation or application of the treaty not satisfactorily adjusted by diplomacy shall be submitted to the International Court of Justice.

Most countries of Latin America have participated in the negotiation of two draft multilateral agreements containing provisions relating to private foreign investments, namely, the economic agreement of Bogotá⁵³ and the Havana Charter for an International Trade Organization.⁵⁴ However, neither of these agreements has entered into force. Attempts to negotiate both bilateral and multilateral agreements concerning foreign investments have confirmed the existence of a substantial area of conflict between the policies of capital exporting and capital importing countries. The emphasis of the former tends to fall on commitments by the host country relating to non-discriminatory treatment of foreign investments through assurance of national and

most-favoured-nation status, of facilities for the transfer of yields and capital, and of equitable compensation in the event of expropriation according to what are regarded as the minimum standards of international law. The capital importing countries tend to be concerned with maintaining control over the entry and operation of direct investments with a view to attaining various objectives, particularly in relation to economic development. As indicated above, such countries are also reluctant to enter into commitments concerning compensation in the event of expropriation of the type desired by creditor countries.

As an alternative or supplement to international treaties and agreements designed to safeguard private foreign investments, the United States in 1948 introduced a system of governmental guarantees against certain non-business risks of foreign investments.⁵⁵ Such guarantees are now available to private investors in the United States, for a fee, against two types of risk: (a) inability to convert foreign currencies derived from the investment into dollars, and (b) loss of capital through expropriation. It has recently been proposed by the executive branch of the Government that the scope of the guarantees be extended to include the risk of war, revolution and insurrection. The insurance is available only on new investments approved by the administering agency and the government of the country receiving the investment. The Mutual Security Act of 1953 authorizes the issuance of new guarantees until 30 June 1957 and provides that such guarantees may be effective up to twenty years from the date of issuance.

The guarantees may be extended to investments in all countries eligible for United States economic and technical assistance under the Mutual Security Act of 1951, as amended. The formula includes all countries in Latin America except Argentina. However, under existing United States policy the guarantees may be extended only if the country in question has entered into a special agreement with the United States Government. The main purpose of such agreements is to confirm recognition by the country in question of the title to currency, property or other claims acquired by the United States Government in the event that a guarantee has been invoked by the investor. This requirement has apparently created difficulty in securing adoption of the agreements by countries in Latin America, the only agreement concluded thus far being with the Government of Haiti.

⁵³ The economic agreement of Bogotá has thus far been ratified only by the Governments of Costa Rica, Honduras and Panama. It had previously been signed by the governments of all twenty Latin American countries and by the United States, twelve of the signatures being attached with reservations to specific provisions of the agreement. The provisions of the agreement relating specifically to private foreign capital and foreign enterprises generally are articles 22 to 26.

⁵⁴ The provisions of the Havana Charter for an International Trade Organization relating specifically to private foreign investments are articles 11 and 12.

⁵⁵ Details concerning the administration of such investment guarantees may be found in Mutual Security Agency, *Investment Guaranty Manual* (Washington, D.C., 1952).

Part II
COUNTRY STUDIES

ARGENTINA

EXTERNAL PUBLIC DEBT

The first foreign loan to Argentina was floated in London in 1824, but substantial borrowing abroad did not begin until the 1870's. Until the outbreak of the First World War most of the foreign borrowing by the Federal Government, the states (called provinces) and the municipalities was carried out in London, but some issues were floated in continental Europe, and sterling bonds issued in London were purchased by investors in continental Europe. The nominal value of outstanding Argentine government bonds (including those of states and municipalities) quoted on the London Stock Exchange, including gold peso bonds, reached £75 million in 1890 and £82 million in 1913. The last important flotation of bonds in the London market occurred in 1933, when short-term debts were converted into twenty-year bonds with a nominal value of £13.5 million.

The first issue of dollar bonds occurred in 1909, and the nominal amount of such bonds outstanding rose from \$25 million in 1914 to \$290 million in 1929. A substantial portion of these bonds was purchased by British and other investors outside the United States. Dollar bonds issued by the Federal, state and local governments during the period 1923 to 1929 amounted to \$519 million; this sum, however, includes some conversion of earlier long-term obligations. Conversion and refunding operations were carried out particularly in periods of financial stringency, as an alternative to default and involved some reduction in nominal interest rates. Some defaults occurred during the few years preceding the financial crisis of 1890; the arrears were subsequently funded. Some of the refunding operations represented a conversion of floating short-term debt into funding debt, and a few loans served to repay outstanding domestic debt. A considerable proportion of the loans was devoted to construction of railways, ports, roads, sanitation works and other public facilities. This is also true of part of the loans raised by provincial governments and municipalities.

During 1935 to 1937 a substantial reduction in the Federal Government's external dollar debt was effected by a series of redemption and conversion operations, but much of the debt redeemed was restored by a new dollar loan floated in 1938. In 1942 the Argentine Government embarked on a policy of large-scale debt retirement with a view to eliminating its external debt, with the aid of dollar and sterling balances accumulated during the war. During 1940 to 1947 a total of 1,485 million pesos was used by the Government for this purpose. At the end of 1946, only a relatively small amount in sterling was outstanding (see table 1). The dollar bonds of the Federal Government, the provincial governments and the municipalities, amounting to \$184 million at the end of 1945, were retired in 1946 and 1947. The Swiss franc bonds were completely redeemed in 1946. All sterling bonds were retired except two small issues with a nominal value of £5.7 million at the end of 1949, which cannot be liquidated until 1955 and 1972, respectively, under the terms of the original loan contracts. Substantial repurchases of dollar and sterling bonds were made in the 1930's by Argentine banks and other Argentine investors, so that the amount actually held abroad was well below the nominal amount outstanding.¹

In 1914, loans raised abroad accounted for 51 per cent of the Federal Government's total debt. Increasing reliance on domestic borrowing after the First World War reduced the proportion of foreign loans to 38 per cent in 1928 and 23 per cent in 1938. Debt service absorbed about 9 per cent of the Government's budget in 1928 and 8 per cent in 1937.

¹ The nominal value of Argentine dollar bonds held in the United States at the end of 1945 was \$51 million compared with an amount outstanding of \$140 million. Part of the difference, however, may have included bonds held in third countries.

By mid-1953 the outstanding foreign indebtedness of the Federal Government had been reduced to £0.4 million. Also there was a provincial loan outstanding of 6.8 million Swiss francs and two municipal loans totalling £1.5 million. The Federal debt bonds were called for redemption in October 1953.

Table 1. External funded debt of the Argentine Federal Government, selected years

(Millions of indicated currency, at end of years shown)

<i>Loans in</i>	1929	1934	1939	1943	1946
Pounds sterling	27.7	36.2	45.6	38.4	9.2
United States dollars	277.9	267.5	177.9	154.1	—
Spanish pesetas	97.3	90.6	79.5	—	—
Swiss francs	—	100.2	89.9	72.7	—
Italian lire	—	38.9	—	—	—
Argentine gold pesos	24.5	17.1	—	—	—

Source: United Nations, *Public Debt, 1914-1946* (sales number: 1948.XVI.1).

Despite the severe reduction in the value of exports during the world depression of the 1930's, the Federal Government fully maintained the service on its external debt. Most external bonds of the provinces and municipalities, however, went into default in 1932 and 1933 in respect of both interest and amortization. The responsibility for the service of many of these obligations was assumed by the Federal Government in the late 1930's, following an adjustment by which the nominal amount of the debt was reduced from \$95 to \$81 million and interest rates from an average of about 6 per cent to about 4 per cent. Since then the service on all provincial issues has been met in full.

After the end of the Second World War Argentina extended a considerable amount of short-term and medium-term credits to other countries. At the same time a large balance of payments deficit, on account of goods and services, was experienced with the United States. This fact, together with payments on account of retirement of the dollar debt and the repatriation of United States investments in Argentina, caused large arrears of payments due the United States. In May 1950 the Export-Import Bank of Washington, D.C. extended to a consortium of Argentine banks a line of credit of \$125 million, of which \$96.5 million was actually drawn for the purpose of paying United States exporters amounts in arrears. It is to be repaid in twenty semi-annual instalments beginning in June 1954. The Export-Import Bank in 1951 also lent \$5 million to a private United States enterprise for the development of tungsten and sulphur production in Argentina.

FOREIGN BUSINESS INVESTMENTS

According to an estimate contained in an official publication, foreign capital invested in the country, exclusive of the external public debt, amounted in 1940 to 7,304 million pesos (\$2,430 million at the official buying rate in that year). In table 2 the distribution of these investments by industry and by the country of origin is shown, together with the external public debt.

British investments (mainly railways) constituted more than 60 per cent of the total, and United States investments about 15 per cent. The great bulk of the amount attributed to Belgium represents shares in the Argentine Electric Company (*Compañía Argentina de Electricidad*). This is a successor to a Spanish corporation formerly controlled by a holding company (*Sofina*) incorporated in Belgium. The company's present ownership is distributed among several countries, including Spain and the United States.

Table 2 does not include the large investments owned by foreign residents in Argentina. One estimate, including such investments, placed German holdings at the equivalent of \$540 million in 1940.² The Argentine Government seized assets of German and Japanese enterprises—including some assets held by German residents in Argentina—amounting to about 550 million pesos (\$134 million) at the end of 1945.³

² J. F. Rippey, "German Investments in Latin America", *The Journal of Business of the University of Chicago* (Chicago, April 1948).

³ United Nations, *Balances of Payments, 1939-1945*, sales number: 1947.II.1 (Geneva, 1948), page 25.

Table 2. Foreign capital invested in Argentina, 1940

(in millions of pesos)

<i>Field of investment</i>	<i>British</i>	<i>United States</i>	<i>French</i>	<i>Belgian</i>	<i>Other^a</i>	<i>Total</i>
Railways	3,323	—	400	—	—	3,723
Port installations.....	30	—	46	—	—	76
Tramways	242	31	—	—	40	313
Telephone, radio.....	—	338	—	—	32	370
Electric power, gas, waterworks, sanitation	119	197	—	959 ^b	—	1,255
Packing houses ^c	150	146	—	—	—	296
Other "industry" ^d	292	258	7	8	23	588
Agriculture and livestock.....	62	—	1	4	—	67
Commerce	210	73	3	3	25	314
Real estate.....	68	—	1	30	—	99
Banking	33	8	21	5	68	135
Insurance	38	1	2	—	2	43
Miscellaneous	3	2	—	—	—	5
Total, above investments	4,570	1,504	481	1,009	190	7,304
Public debt.....	872	717	—	—	163	1,752
TOTAL	5,442	1,771	481	1,009	353	9,056

Source: *Diario de Sesiones de la Cámara de Diputados de la Nación*. 5 September 1941 (Buenos Aires).

^a Including Swiss, Italian, Netherlands, German, Spanish, Uruguayan, Paraguayan and Brazilian investments.

^b This figure represents mainly the capital of the Argentine Electric Company (*Compañía Argentina de Electricidad CADE*), mentioned in the text.

^c "Frigoríficos".

^d Presumably manufacturing.

Acquisition by the Argentine Government of the British-owned and French-owned railways and the repatriation of some of the foreign investments in public utilities have recently greatly reduced the volume of direct investments in Argentina and at the same time increased the relative importance of United States investments.⁴ In December 1946 three French-owned railways, totalling 2,500 miles in length, were acquired by the Argentine Government for 5,500 million French francs (\$46 million at the prevailing rate of exchange). In March 1948 the British-owned railways, representing over 15,000 miles of track, were acquired by the Government for £150 million. Payment was made by the transfer of £40 million of Argentina's sterling balances and a commitment to ship to the United Kingdom during 1948 products valued at £110 million. As the result of the repatriation of sterling debt and the sale of the British-owned railways, the nominal value of Argentine securities traded on the London Stock Exchange dropped from £368 million at the end of 1938 to £38 million at the end of 1951.⁵

United States direct investments in Argentina, which were very small during the First World War, expanded greatly during the 1920's. By 1929 the book value of such investments had reached \$332 million (see table 3). Unlike British investments, United States direct investments continued to grow slightly in the 1930's. Part of the growth represented reinvestment of earnings which could not be remitted after the introduction of exchange control in 1931. Investments in public utilities and transportation increased by 50 per cent between 1929 and 1940, but declined by \$40 million between 1940 and 1943, and by an additional \$105 million between 1943 and 1950. This decline occurred mainly in 1946, when the International Telephone and Telegraph Corporation sold its major subsidiary in Argentina, the United River Plate Telephone Company, Ltd., to the Argentine Government for about \$95 million.

The liquidation of investments in telephone services in 1946 more than offset the additions to United States direct investment that resulted mainly from the reinvestment of profits in manufacturing and petroleum distribution. The value of such investments remained virtually unchanged between 1947 and 1950 but rose from \$356 million to \$393 million between the end of 1950 and the end of 1952. Practically all the increase was due to reinvested earnings.

INDUSTRIAL DISTRIBUTION OF INVESTMENTS

Railways

More foreign capital was invested in railways than in any other sector of the Argentine economy. At the

⁴ It has been estimated that by 1950 the nominal value of foreign investments as estimated for 1940 had been reduced to one-third (Emilio Llorens, "Radicación de Capitales Extranjeros", *Revista de Economía Argentina*, Buenos Aires, January-March 1952).

⁵ Bank of England, *United Kingdom Overseas Investments, 1938 to 1948* (London, 1950) and later issues.

Table 3. United States direct investments in Argentina, 1929, 1943 and 1950

(Millions of dollars)

<i>Field of investment</i>	1929	1943	1950
Manufacturing	82	101	161
Commerce	53	27	35
Petroleum (including distribution) ..	30	39	^a
Public utilities and transportation ..	148	182	77
Various groups ^b	19	31	83
TOTAL	332	380	356

^a Included in "various groups".

^b The figure for 1943 includes \$12 million in mining and smelting and \$12 million in financial services. The figure for 1950 includes \$8 million in financial services.

end of 1949 the length of track was 43,000 kilometres, of which the former British and French investments accounted for three-fourths. The rest of the lines were government-owned, but the building of the government lines had been financed by foreign loans. With the repurchase of the British and French lines in 1946, the entire railway system passed into the hands of the Government.

Public utilities

Several formerly foreign-owned public utility enterprises have now been transferred to Argentine ownership, but until recently foreign enterprises were dominant in the electric power industry, the telephone system and urban transportation. Some of these enterprises were originally established by Argentine interests and acquired by foreign investors following the economic collapse of 1890.

German investments, which were important in the early development of the electric power industry, were largely taken over during the First World War by a Spanish corporation predecessor of the *Compañía Argentina de Electricidad* (CADE) which now accounts for about 60 per cent of the output of electrical energy. As was pointed out above, the ownership of this enterprise is dispersed among investors in several countries. An enterprise largely Swiss-owned accounts for about 14 per cent of the output of electrical energy, and subsidiaries of a United States-owned company account for 12 per cent. Several subsidiaries of the United States enterprise, with assets of 58 million pesos, were expropriated by the Government during the years 1945 to 1948, and the question of compensation is being litigated in the Argentine courts.

Telephone service was established in 1882 by a British enterprise, the major part of which was purchased in 1929 by a subsidiary of the International Telephone and Telegraph Corporation, a United States enterprise. As mentioned above, this concern was purchased in 1946 by the Government, which established the Argentine Mixed Telephone Company, with a view to securing participation of Argentine private capital. The effort was unsuccessful, however. The "mixed" company was liquidated in 1948, and the Government

assumed exclusive ownership of the country's telephone system.

The first tramway line was established in Buenos Aires by British capital in 1863. Soon thereafter several foreign-owned tramway companies were formed, which were subsequently merged into a British-controlled enterprise. This enterprise also operates one of the Buenos Aires subway lines. In 1936 the Government established a "mixed" transportation company with which the British concern was merged, and in 1952 the company was nationalized.

The Government also purchased in 1945 a British-owned concern engaged in producing and distributing gas in Buenos Aires and the British-owned waterworks in the province of Santiago del Estero.

Meat-packing

The first modern meat-packing plant was established in Argentina in 1882, and shortly thereafter foreign capital became a decisive factor in this important industry. Two leading United States meat-packing concerns entered the industry in the early part of the present century. Only five of the fifteen major meat-packing plants are owned by Argentine interests, including one acquired from a British concern in 1947.

Other manufacturing

The expansion of industrial production that has occurred in Argentina in recent decades has been carried out largely by domestic enterprise, but foreign concerns have played an important part in several industries. Apart from meat-packing, foreign enterprises have been predominant in the manufacture of tires, rayon, pharmaceuticals, electrical equipment and certain types of metal products, and have been important in the textile, sugar, tobacco and paper industries.

United States and British interests account for almost the entire production of rayon goods and are also represented in the cotton textile industry. Branches of United States companies account for most of the large-scale output of pharmaceuticals and soap. Subsidiaries of several leading German chemical concerns were important before and during the Second World War. A United States enterprise accounts for an important part of the production of cement. United States and French enterprises are predominant in the production of automobile tires and other rubber products. Most of the production of quebracho extract is controlled by British enterprises. Branches of various United States enterprises, producing automobiles, agricultural machinery and other manufactured goods, were established in the inter-war period. In most cases, the branches assemble imported parts. Before 1939 about 80 per cent of the new automobiles sold in the country were assembled locally, mainly in United States-owned branch plants. Import restrictions in recent years, however, have caused the temporary closing down of these plants. During the 1940's several new United States enterprises

were established, for the manufacture or assembly of such products as radios, pharmaceuticals and firebrick, and several firms previously established expanded their operations. In certain of these enterprises, Argentine capital participates jointly with foreign capital, particularly in rayon weaving, the assembly of automobiles and the production of chemicals, plastics, glass and electrical equipment.

No quantitative estimate of the relative importance of foreign and domestic enterprises at present is available, but in view of the growth of industrial production during the past several years, the proportion of such production accounted for by foreign enterprises must have declined substantially.

Extractive industries and agriculture

Mining is relatively little developed in Argentina, and the investment of foreign capital in extractive industries has been confined largely to production of petroleum. Until 1915 extraction of petroleum was a government monopoly. British and United States companies entered the field shortly thereafter and by 1922 accounted for an investment estimated at about 110 million pesos. The relative proportion of production by the governmental agency, Yacimientos Petrolíferos Fiscales (YPF) and the private companies, which are largely foreign-owned, has varied. During the 1930's the private companies were responsible for the bulk of the production, but the YPF surpassed the private companies in the 1940's and has recently accounted for about three-fourths of the production.

Petroleum refining, developed mainly in the late 1920's, is being carried out both by foreign companies (American and British) and by the YPF, which in 1953 accounted for over 80 per cent of the output. The foreign-owned companies have not increased their capacity since 1945; and in 1951 one foreign refinery was sold to the YPF, which, moreover, is carrying out new plant construction.

In an effort to stimulate the production of lead, zinc and other non-ferrous metals, the Government has recently established so-called "mixed" companies financed jointly by governmental and private capital, but foreign enterprises have not participated to an appreciable extent, except in lead production. A number of "mixed" companies have been established by enterprises sponsored by the military authorities, under legislation adopted in 1941.

Foreign investment in land has chiefly been British. At their peak, during the 1920's, British holdings, consisting mainly of large livestock ranches and timber lands, were estimated at about 9 million acres. Together with urban properties British investments in real estate have been estimated at £13 million in 1913 and £11 million in 1949.⁶

⁶ J. F. Rippy, "Argentina: Late Major Field of British Overseas Investment", *Inter-American Economic Affairs* (Washington, D.C.), winter issue, 1952, page 6.

Banking and insurance

Branches of foreign banks have played an important part in Argentina's financial system. British banks had a pioneering role in establishing the commercial banking system in the late nineteenth century. Italian banks have also been of importance. In 1946 eleven of the total of about ninety banks operating in Argentina were foreign-owned. Two of these were German-owned; they subsequently liquidated. At the end of 1946 the nine remaining foreign-owned banks accounted for about 16 per cent of deposits of all banks, approximately the same percentage as at the beginning of the Second World War. The status of both domestic and foreign banks was greatly affected by the nationalization of the Central Bank and related legislation in 1946 which greatly curtailed the independence of operation of commercial banks. Under the present government policy no new foreign banks may be chartered, but existing foreign banks are permitted to continue operations with the same rights as domestic institutions.

It is estimated that about one-fourth of the insurance companies operating in Argentina in recent years are foreign-owned. Argentine companies accounted, however, for about 80 per cent of the premiums paid. Formerly almost all life reinsurance was placed with foreign companies, but in recent years this practice has almost ceased. The decline in foreign insurance activities is the result of special legislation introduced in 1947, which prohibits the insurance of persons and properties in Argentina with foreign companies and, with certain exceptions, reserves for Argentine companies all insurance of exports and imports undertaken at the risk of Argentine enterprises. The same legislation established the Argentine Mixed Reinsurance Institute (*Instituto Mixto de Reaseguros*), half the capital of which was subscribed by the Government and half by Argentine insurance companies until its nationalization in 1953. Argentine insurance companies were given more favourable rates than foreign companies on reinsurance placed with the Institute and were accorded preferential tax treatment.

FOREIGN INVESTMENTS AND THE BALANCE OF PAYMENTS

Since the last decade of the nineteenth century, Argentina has usually had a surplus of exports over imports. Before the 1930's the outward payments on account of interest and dividends had long tended to exceed the export surplus, and there was normally a considerable capital inflow. Capital had been exported, however, on balance, during the First World War and the few years immediately after. The depression of the early 1930's caused the discontinuance of capital inflow, and there was a net capital export during the 1930's, financed in large part by the liquidation of gold holdings. In the depth of the depression, interest and dividends absorbed about 40 per cent of the proceeds of merchandise exports. With recovery of trade towards the end of the decade, the pressure on external pay-

ments was reduced, and foreign capital again began to enter the country on a limited scale.

The extremely favourable conditions for Argentine exports after 1941 and the earnings of the Argentine merchant marine during the war years further eased the payments position. A heavy surplus on current account reflected the large outflow of capital involved in the almost complete repatriation of Argentina's foreign public debt and the repurchase of the foreign investments in railways and of an appreciable portion of the public utilities.

Concurrently with the liquidation of the external public debt and the repatriation of other investments, Argentina temporarily assumed the role of a creditor country for a brief period after the Second World War, largely as the result of balance of payments difficulties encountered by its trading partners. Short-term and medium-term credits were extended to several European and Latin American countries. During the period 1946 to 1950 such credits granted to Italy, Spain, Belgium and Finland totalled \$210 million. The Argentine Government granted credits of a similar nature to several Latin American countries.

The period of debt repatriation and nationalization of foreign-owned public utilities continued till 1948; by that time Argentina's war-time prosperity had come to an end and the domestic economy had been adversely affected, in particular by the decline of agricultural exports. Superficially the payments position was supported by the decline in net outward payments on account of interest and dividends, from \$134 million in 1946 to a fraction of that amount in 1949 and 1950,⁷ resulting at once from the reduction in debt and the decline in income earned by foreign equity investments. The dollar value of imports during the years 1949 to 1951, however, was at a high level (about twice as large as in 1946) in spite of import restrictions. The transition which the Argentine economy has undergone during the past few years and the heavy decline in investment yields payable abroad accordingly have not had the favourable effect on the external payments generally that might have been expected. To some extent the strain on the payments position is due to Argentina's inability to use actual or potential net earnings of sterling and other soft currencies for payments in dollars.

ENTRY AND STATUS OF FOREIGN CAPITAL

The status of foreign business investment is affected by several provisions of the Constitution adopted on 16 March 1949. Article 40 of the Constitution provides that "the State, through a law, may intervene in the economy and monopolize any given activity as a safeguard to the general interest and within the

⁷ Cf. International Monetary Fund, *Balance of Payments Yearbook, 1950-1951*, pages 25 and 26, which shows the net outward payments on investment income at \$10 million in 1949 and \$3 million in 1950. These figures, which, it is stated, "may also include some capital movement", appear to overstate the decline in investment income.

limits fixed by the fundamental rights assured by the Constitution". Two sectors, foreign trade and "public services", are specifically reserved for State enterprise, but the activities coming under the head of public services are not specified.

The policy of reserving a large portion of the export and import trade to the Government was inaugurated in 1946 with the establishment of the Argentine Trade Promotion Institute (Instituto Argentino de Promoción del Intercambio, commonly referred to as IAPI). This governmental agency has become the sole purchaser and exporter of wheat, corn, oats, other grains, meat, hides and other agricultural products comprising the bulk of Argentina's exports. The scope of its import functions is more limited, but it acts as the chief governmental procurement agency abroad and as a channel for some imports destined to private consumers. In 1953 IAPI handled 61 per cent of Argentina's exports and 20 per cent of the imports.

With regard to "public services", the Constitution (Article 40) contains the following provision:

"Public services belong originally to the State, and in no event may they be alienated or conceded for operation. Those which are in private possession shall be transferred to the State, by means of purchase or expropriation with prior indemnity, when such is determined by a national law."

As has been indicated above, steps were taken prior to the promulgation of the 1949 Constitution to nationalize the railways, the telephone system and some enterprises generating electric power, as well as several other utilities.

In his annual message to Congress in May 1949 the President of the Republic stated that the administration would continue the policy of nationalizing all public utilities, including transportation facilities, electric power plants, and telephone, telegraph and water systems. He stated that until the process of nationalization was completed, concession contracts governing the operations of the remaining foreign enterprises in these fields would be revised to avoid excessive profits, to facilitate participation by Argentine capital and to provide certain facilities. With the exception of electric power generation, most of the industries mentioned have already been nationalized.

The Constitution (Article 40) vests the title to resources of minerals, waterfalls, deposits of petroleum, coal and gas, and other natural sources of energy in the State, but does not exclude foreign participation in their exploitation. Rights for the extraction of petroleum may not be acquired, however, by foreign States, companies not organized in Argentina or foreigners who have no "domicile" in Argentina (law of 26 March 1935). The Government has pursued a policy of not granting new concessions to foreign enterprises for the extraction of petroleum, and the output of the YPF, the Government's agency, as was previously observed, accounts for about 80 per cent of the total production. There are no legal restrictions on the refining of oil by foreign enterprises, but the Govern-

ment's refineries have recently been expanded, while the operation of foreign-owned refineries has been hampered by limitation on imports of crude oil for balance of payments reasons. At the end of 1953 the President of the Republic stated that, with a view to achieving self-sufficiency in petroleum production, the Government was considering bringing "foreign experience, capital and equipment" into the country under the 1953 law for the investment of foreign capital, which is discussed below.⁸

Another indication of government policy in the extractive industries is the fact that the discovery of coal deposits in the Río Turbio area in 1949 was followed by a governmental decree providing for their expropriation. The exploitation of iron deposits and natural gas has also been reserved to the Government by administrative action.

The nationalization policy referred to does not exclude foreign enterprise as such but rather all private enterprises, domestic and foreign. There are, however, instances of specific exclusion of foreign enterprise from participating in some branches of insurance and from establishing new commercial banks, as mentioned in the previous section.

Prior to 1950 the entry of capital into Argentina from abroad required approval by the Central Bank. This requirement facilitated administration of the exchange control, while at the same time entry of foreign capital was regulated by the criteria established for approval of each particular investment. Thus, in 1947, a regulation was introduced which provided for participation of Argentine capital as a condition for the admission of foreign capital for long-term investments; the extent of such participation was not specified, however. The regulation of inward capital movements through exchange control was abandoned in 1950.

As regards the status of foreign enterprises once admitted to operate in Argentina, whether as branches or as locally incorporated concerns, there appears to be no formal legal discrimination against them in the Constitution or in any general legislation.⁹ In this connexion it may be noted that the 1949 Constitution (Article 68, paragraph 16) confers on the Congress the power "to provide for . . . the importation of foreign capital . . . through temporary concessions of franchises and rewards . . .".

There is no general requirement in Argentine legislation that any fixed percentage of Argentine nationals must be employed by an enterprise, whether domestic or foreign. The only important specific exception is contained in regulations affecting telecommunication services, which require that 80 per cent of the technical

⁸ Address by the President, 13 December 1953.

⁹ Article 31 of the Constitution of 1949 provides that "foreigners" who are permitted to enter the country shall enjoy all the civil rights of Argentine nationals. It may be presumed that "foreigners" include juridical as well as natural persons. As a minor exception foreign equity capital is excluded from the manufacture of armaments.

and administrative personnel and 50 per cent of the subordinate employees must be Argentine nationals. Further, "mixed" enterprises in which the Government participates jointly with private investors must employ a specified minimum percentage of Argentine nationals that is set out in the special charters needed by such enterprises. During the 1930's the Government pursued a restrictive immigration policy in order to encourage the employment of Argentine nationals, but this policy was discontinued and is not applied at present.¹⁰

In view of the Government's programme of nationalization of public utilities, particular interest attaches to the provisions of the Constitution concerning compensation in the event of expropriation and to the manner in which these provisions are to be applied in practice. If nationalization cannot be effected by voluntary agreement with the owners of the enterprise and the Government resorts to expropriation, the Constitution provides that payment shall be made before expropriation occurs. The criterion for determining compensation is stated in Article 40 of the Constitution as follows:

"The price for the expropriation of public service concessions shall be the original cost of the property pertaining to the enterprise, less amounts that have been amortized during the time elapsed since the granting of the concession, and excesses over a reasonable profit, which shall also be regarded as repayment of the invested capital."

The definition of what constitutes a "reasonable profit" has not been officially stated. In the case of real estate, legislation provides that, when compensation is determined by mutual agreement, it may not be higher than the assessed valuation for payment of the land tax plus 30 per cent (law of 17 September 1948).

Most of the recent measures of nationalization have been effected through voluntary agreement with the owners of the property in question. In the case of the British railways the purchase price, though considerably below the nominal value of the securities, was higher than their market value. The latter had been depressed for some years prior to nationalization owing to the unsatisfactory situation of the enterprises.

EXCHANGE CONTROL

The exchange control introduced by Argentina in the early 1930's has affected foreign investment in several ways. Under the multiple exchange rate system employed the outward transfer of investment yields has to be made at a rate giving a lower value to the peso than that applied when paying exporters the peso equivalent of foreign exchange proceeds from exports, a fact which has tended to reduce the income (in terms of foreign currency) from business investments made before the introduction of exchange control. The margin between the rates at

which foreign currency was bought from exporters and sold to investors widened in 1949. The "free" selling rate at which financial transfers were made rose from 4.81 pesos to the dollar to about 14 pesos, while the buying rates applicable to all except marginal exports increased by only about 50 per cent. The consequent reduction in the foreign exchange equivalent of amounts in pesos earned by foreign equity investments is likely appreciably to have reduced the profits of some investments.

Exchange control has also placed certain quantitative restrictions on transactions arising from foreign capital. The restrictions applied have undergone several changes during recent years. Under a regulation of June 1948 capital which had entered Argentina after the beginning of that year enjoyed certain privileges: income earned as well as capital withdrawn could be transferred without prescribed limit at the "free" rate, subject, however, to the important qualification of "availability of foreign exchange". Earlier investments were accorded less favourable treatment.

A new system was introduced in August 1950 and maintained until August 1953. The requirement for special authorization of capital imports was abandoned. As earlier, capital imports were transferable at the free rate. Capital withdrawals, also at the free rate, were subject to permission, which, however, was seldom granted. Income from foreign investments could be transferred through the "free" market but only up to a maximum of 5 per cent per annum of the registered amount of the capital, subject to individual authorization. In fact, few transfers on dollar investments were authorized. At the end of 1951 accumulated unremitted earnings of United States investments awaiting transfer were estimated at 765 million pesos (equivalent to \$55 million at the "free" rate of 14 pesos per dollar).¹¹

In August 1953 a law (No. 14,222) was enacted for the "entry, transfer and withdrawal of foreign capital and profits" which is intended to stimulate foreign investment in "industry" and mining in Argentina. A decree (No. 19,111) issued in October 1953 set forth in greater detail the provisions of this law. In order to become eligible for the privileges contained in the law such investments must be granted the prior approval of the Inter-Ministerial Commission on Foreign Investments and be inscribed in the "National Register" which has been established for that purpose. The contemplated investment must "contribute to economic development as provided for in government plans and directly or indirectly to obtain and preserve foreign currency". The investment may take the form of capital transferred as funds or imported in kind; a decree of January 1954 extended the coverage to the capitalized value of patents. Two years

¹⁰ According to an investigation made in 1935, less than one per cent of the employees of the major United States-owned enterprises were United States nationals (George Wythe, *Industry in Latin America* (New York, 1949), page 98).

¹¹ See *Study of Latin American Countries*, Interim Report of the Senate Committee on Banking and Currency, 82nd Congress, 2nd Session, Report No. 1082 (Washington, D.C., March 1954), page 48. This document is sometimes referred to as the "Capehart report".

after registration profits may be transferred up to 8 per cent annually of the registered capital. Except for additions of new capital from abroad, registered capital can be increased only by reinvestment of profits which are eligible for transfer abroad, that is, amounts not exceeding 8 per cent of registered capital. Repatriation of registered capital will be authorized after ten years from the time it was registered, in yearly quotas of 10 to 20 per cent of the total, as established when the investment was approved. The exchange rate for transfers under this law is the "free" rate prevailing at the time of the transaction. For transfer of profits within the prescribed limits no prior authorization of the exchange control authorities is required. The status of transfers of earnings on investments made prior to the law of August 1953 is under study by the Government. Technically, such capital remains subject to the provisions of the law of August 1950 referred to above.

Early in 1954 the Government published a list of activities in the fields of mining and manufacturing which it was desired to stimulate under the new legislation.

TAXATION

With certain exceptions, foreigners and foreign-owned enterprises in Argentina are subject to the same taxes as Argentine nationals or corporations. The chief levies, in addition to import and export duties, are the income tax, the excess profits tax, the capital gains tax, and sales and excise taxes.

The income tax, based on laws of 1950 and 1951, is levied on income from real estate, such as rent; income from movable capital, such as dividends or interest, or from the leasing of rights, such as patents or trademarks; business income; and income from labour, such as wages and salaries. Only net income, determined for each category separately, is subject to tax.

The income tax of natural persons includes a basic tax (7 per cent of the taxable income), a graduated surtax (from 2 to 33 per cent) and, where applicable, an absenteeism surcharge of 30 per cent of the basic tax and of the graduated surtax.

The net income of a corporation organized in Argentina is taxed at the rate of 24 per cent; in addition, a tax of 6 per cent is levied on corporate dividends paid. The latter amount is credited against the income tax liability of individuals or corporations receiving such dividends.

Enterprises doing business in Argentina but registered elsewhere are subject to income tax at the rate of 30 per cent on net income from Argentine sources. Share companies registered abroad which obtain income

from farming, stockraising or real estate are subject to a 30 per cent absentee surcharge on the normal tax payable on that income (making the total tax rate 39 per cent).

To encourage the reinvestment of earnings in manufacturing enterprises, special reductions in taxes on business income are offered. The reduction ranges from 10 per cent (when the income reinvested in fixed assets is equivalent to 30 per cent of taxable profits) to 80 per cent (when the reinvestment equals 90 per cent or more of taxable profits).

Capital gains, in excess of 6,000 pesos, of individuals resident in Argentina are subject to taxation, usually at the rate of 20 per cent.

An excess profits tax is levied on the profits of business organizations, domestic or foreign, that exceed 12 per cent of their capital and free reserves. The first 20,000 pesos of excess profits are exempted; for additional amounts the tax rate ranges from 20 per cent (on profits between 12 and 15 per cent of capital and reserves) to 30 per cent (on profits exceeding 20 per cent of capital and reserves).

Foreign insurance companies are subject to a special tax on premiums received, in addition to their normal tax liabilities.

According to a law of 1944, manufacturing enterprises which are deemed of "national importance" may be encouraged by an increase of customs duties on competing imports or by the introduction of import quotas on such imports. The same law provides that a product contributing to national defence may also be subsidized. Enterprises established under Law No. 14,222 may be declared of "national importance".

GOVERNMENT PARTICIPATION IN INDUSTRY

It may be concluded from the foregoing discussion that, as the result of direct governmental participation in industry, several important sectors of the Argentine economy are closed, in varying degrees, to private enterprise, both domestic and foreign. Among the industries so affected are railways, telegraph lines, telephone systems and most other public utilities. In the field of electric power there has been an expansion of governmental ownership, but the precise extent of future governmental participation is undefined. Official declarations of policy in recent years have been critical of what has been regarded as excessive foreign capital investment in public utilities and commercial enterprises, and have stressed the Government's desire to attract foreign investment primarily to manufacturing and, more recently, also to the petroleum industry. The scope for foreign enterprise in banking and insurance has also been reduced.

BOLIVIA

EXTERNAL PUBLIC DEBT

Bolivia's first foreign loan, amounting to £1.7 million, was floated in London in 1872 for railway construction. It went into default in 1875 and was scaled down in 1877 to about 47 per cent of the original nominal value. Three sterling loans totalling £3 million were issued in Paris during the period 1908 to 1913 and used for carrying out a currency reform, establishing a governmental bank (Banco de la Nación Boliviana) and constructing railways. These loans were subsequently either redeemed or refunded by the issuance of dollar bonds.

During the period 1917 to 1928 Bolivia raised four loans in the United States, totalling \$68.4 million, and carrying interest of 6 to 8 per cent, for railway construction, public works and the liquidation of short-term debt. In addition, \$2 million was borrowed from a Belgian enterprise (a subsidiary of a Swedish concern), which was granted a monopoly to import, manufacture and sell matches in the country.

Public finance in Bolivia depends closely on conditions in the tin mining industry. Tin concentrates account for the great bulk of Bolivia's exports, and governmental revenue is derived largely from levies on the tin industry. During the economic depression of the early 1930's the heavy decline in the price of tin and in the volume of tin exports was largely responsible for the decline of total exports from \$36.6 million in 1929 to \$17.0 million in 1931. During the same period the revenue of the Central Government declined from 50 million bolivianos to 28 million. In December 1930 Bolivia failed to meet the sinking fund requirements of its publicly issued dollar bonds. Subsequently, interest payments, which had been met since 1877, were also discontinued. The country's ability to meet its contractual payments was further reduced by the outbreak of a war with Paraguay (the Chaco war) in 1932.

Until 1948 no steps were taken to resume payment on Bolivia's foreign debt. That year a plan was announced for the settlement of the four outstanding dollar issues that had been publicly offered, following negotiations between the Bolivian Government and the Foreign Bondholders' Protective Council, Inc. Outstanding bonds were to be exchanged at par for new bonds carrying interest at a rate increasing from one per cent during the first two years to 3 per cent from the seventh year of the plan. Arrears of interest would be settled by the issue to the bondholders of an additional \$100 bond for each \$1,000 bond. It was not

until October 1950 that the Bolivian Congress authorized settlement according to the plan. However, at the beginning of 1954, final arrangements for implementing the plan had not yet been made.

At the end of 1951 the principal outstanding on the four dollar issues publicly held was \$56.3 million.¹ Together with the bonds to be issued in compensation of interest arrears, the total outstanding would be \$61.9 million. According to the plan, the Government was to use \$1.5 million annually during six years to pay interest and repurchase bonds in the United States market; thereafter, interest and amortization payments were to amount to about \$2.3 million annually.

The Export-Import Bank of Washington, D.C., has made three loans to an agency of the Bolivian Government (Corporación Boliviana de Fomento) for petroleum extraction and highway construction equipment and for services in these two fields. By the end of 1953, \$34.8 million had been drawn upon, and about \$2.1 million had been repaid.²

In 1948 and 1949 two banks in the United States granted credits totalling \$9.3 million to the Bolivian Central Bank, for the benefit of the government petroleum enterprise (Yacimientos Petrolíferos Fiscales Bolivianos) against gold collateral in the United States.

In 1947 the Argentine Government agreed to lend 100 million pesos to a joint Argentine-Bolivian development corporation and to purchase for 600 million pesos 25-year Bolivian internal bonds for public works. It appears, however, that this agreement was not carried out.

FOREIGN BUSINESS INVESTMENTS

Total "foreign" capital investments in business enterprises in Bolivia at the end of 1946 were estimated at about \$102 million. Of this amount \$78.2 million was reported as British capital, \$11 million as United

¹ Principal and interest arrears on the loan from the match monopoly totalled about \$0.4 million (Banco Central de Bolivia, *Memoria Anual*, 1951, page 51).

² In addition, the Export-Import Bank had authorized credits totalling \$1.3 million (net of cancellations and expirations) to three Bolivian mining enterprises of which \$0.4 million had been drawn upon and subsequently repaid. Another mining enterprise had obtained a loan of \$2.1 million from an agency of the United States Government; of this amount it had repaid about \$0.2 million, about \$0.8 million had been written off and the rest was in default. Since none of these loans had been guaranteed by the Bolivian Government, they were not part of that country's public debt.

States capital and \$6.6 million each as Canadian and Swiss capital, respectively.³

Investments in three groups of large tin mining enterprises, known by the names of the principal investors — Patiño, Hochschild and Aramayo — represented a capital (excluding reserves) of \$46.8 million in 1946. This amount, included in the total given in the preceding paragraph, should be considered apart from other foreign investments.

The tin mining enterprises in question were founded by Bolivian nationals, and the majority of the shares were owned by their families, who retained control until 1952, when the assets of the enterprises were expropriated by the Bolivian Government. Minority holdings are known to be in the hands of foreign nationals, particularly of the United States and the United Kingdom.

The main concerns in the three groups of enterprises were incorporated in foreign countries during the 1920's. Thus, the Patiño Mines and Enterprises, Consolidated, Inc., was registered in the United States, and its capital was expressed in United States dollars. The corporations of the Hochschild group (Compañía Minera de Oruro and Mauricio Hochschild S.A.M.I.) were incorporated in Chile and Argentina; their capital, however, was expressed in pounds sterling. La Compagnie Aramayo de Mines en Bolivie was incorporated in Switzerland and its capital was stated in Swiss francs. The Bolivian majority holders of the enterprises in question generally resided abroad, and dividend payments due them were paid abroad. Thus, the enterprises were nominally considered foreign-owned and were treated as such under the Bolivian exchange control regulations.

American capital was not invested in Bolivian enterprises until the First World War, when the demand for tin rose far above previous levels. Various American corporations invested in mines which in the 1920's accounted for about a tenth of Bolivian output of tin ore. In subsequent years several of these enterprises were not successful and were liquidated. At present the two main United States concerns engaged in mining in Bolivia (not counting the Patiño Mines and Enterprises referred to above) are the American Smelting and Refining Company and W. R. Grace and Company. In 1952 the former company terminated operations at a copper mine it was exploiting and leased the property to the Bolivian Government. This mine (at Corocoro) accounted for almost the entire copper ore production of Bolivia.

American investments have contributed to the development of Bolivia's petroleum resources. A subsidiary of Standard Oil Company of New Jersey, upon obtaining a concession in 1922, made investments which

³ United States Department of Commerce, International Reference Service, *Living and Office-Operating Costs in Bolivia* (Washington, D.C., April 1948), page 2. For similar figures relating to each of the years from 1937 to 1940, see United Nations, *Balances of Payments, 1939-1945*, sales number: 1947.II.1 (Geneva, 1948), page 11.

by 1937 had reached a book value of about \$16 million. The subsidiary was expropriated in that year⁴ by the Bolivian Government, and no further United States capital has since participated directly in the development of the country's petroleum resources. In 1953 a 35-year lease of nearly one million acres was granted to a small United States firm for the extraction of petroleum, presumably for the account of the Bolivian Government's petroleum monopoly.

The value of United States direct investments in Bolivia, as recorded officially, are given in table 4.

Table 4. United States direct investments in Bolivia, selected years

(Millions of dollars)

<i>Field of investment</i>	1929	1936	1943	1950
Mining and smelting.....	40.7	...	10.4	6.1
Other investments.....	20.9	...	2.8 ^a	4.7 ^b
TOTAL	61.6	18.3	13.2	10.8

^a Including \$0.5 million in manufacturing and \$2.0 million in trade.

^b Including \$2.4 million in transportation, communication and public utilities and \$1.6 million in trade.

The figures for 1943 represented the holdings—practically all of them in branches—of fourteen corporations. They included those of Patiño Mines and Enterprises.⁵

No official statistics are available with respect to British-owned investments in Bolivia. British capital has been invested in mining as well as in other activities, particularly railways. At the end of 1943 the capital stock quoted on the London Stock Exchange, of companies operating in Bolivia, had a nominal value of about £4.4 million.⁶

Canadian capital in Bolivia was estimated in 1946 at \$6.6 million and is accounted for almost exclusively by a public utility company. No significant capital of Swiss origin is invested in Bolivia; the \$6.6 million reported as Swiss investments in 1946 (see above) is accounted for by the Aramayo tin mining enterprise registered in Switzerland.

INDUSTRIAL DISTRIBUTION OF BUSINESS INVESTMENTS

Extractive industries

Silver was long Bolivia's principal export product. When the price of silver fell greatly during the nineteenth century, tin mining became more important. During the past twenty years Bolivia has accounted for about a fifth of the world's output of tin in tin

⁴ See section on entry and status of foreign capital.

⁵ In the United States census of foreign-owned assets in the United States as of 14 June 1941 it was reported that residents of Bolivia owned a controlling interest in United States enterprises amounting to \$14.2 million. The bulk of this investment, it appears, represented foreign ownership of shares of Patiño Mines and Enterprises, Consolidated, Inc.

⁶ *The South American Journal* (London), 22 January 1944, page 37.

concentrates (metal content); during the Second World War its share was appreciably higher.

Tin mining in Bolivia is less advantageous than mining in Malaya and Indonesia, since the metal content of Bolivian ores is lower. Furthermore, transportation of the tin concentrates is costly since high mountain ranges separate the mines from the ports on the Pacific Ocean from which they are exported to smelters in Europe and the United States.

Foreign and domestic capital (excluding reserves) invested in large and medium-sized tin mines has not changed substantially since 1940. In 1947, excluding reserves, such capital was as follows:

	<i>Millions of United States dollars</i>
Large mines:	
Patiño group.....	19.9
Hochschild group.....	22.2
Aramayo group.....	4.7
Medium-sized mines ^a	13.8
TOTAL	60.6

Source: Central Bank of Bolivia, *Memoria Anual, 1947* (La Paz, 1948), page 68.

^a The United States-controlled enterprises engaged in tin mining are included among the "medium-sized" mines.

These figures do not include the relatively small amount of capital (chiefly Bolivian) invested in the "small" mines, which account for about one-tenth of tin ore output.

Minerals other than tin ore constitute approximately a fourth of all exports and thus contribute substantially to the inflow of foreign exchange. Lead, zinc and silver ores are mined both by foreign and domestic enterprises; lead is usually obtained in conjunction with other minerals. Other minerals of some importance are antimony, copper and wolfram ores.

Even though Bolivia has large petroleum resources that are found in a belt extending along the eastern rim of the Andes, no foreign private capital has been directly invested in their exploitation since 1937. At that time, as stated above, the major producing enterprise, controlled by a United States company, was expropriated by the Government and its assets were entrusted to a State-owned monopoly, the Bolivian State Petroleum Deposits (Yacimiento Petroliferos Fiscales Bolivianos).

Transportation and public utilities

The building of railways has been costly owing to the mountainous nature of the country. They were financed largely by foreign capital. Much of the early construction was for the transport of minerals from the Bolivian plateau to ports on the Pacific; the connecting lines were built later. In 1951 privately owned railways included 905 miles of track out of the country's total of 1,730 miles.

A line owned by a British-owned company (Antofagasta (Chile) and Bolivia Railway Company, Ltd.) connects the Bolivian plateau with the Chilean port of Antofagasta. A line operated by a subsidiary of the

British-owned Peruvian Corporation⁷ connects other Bolivian railways with the Peruvian port of Mollendo. An American-controlled enterprise (Bolivian Railway Company) operates a line which connects those of the two British companies. A local line was owned by the Patiño Mines and Enterprises prior to expropriation of its assets.

A third railway link with the Pacific, connecting La Paz with the Chilean port of Arica, is owned by the Bolivian and Chilean Governments in their respective territories. Foreign capital borrowed by the Bolivian Government contributed to the building of the Bolivian section of this railway.

An existing government-owned railway connecting Bolivia and Argentina will be supplemented by another—from the city of Santa Cruz in south-eastern Bolivia to the Argentine border—that is being built with the financial assistance of the Argentine Government under the terms of a treaty concluded in 1940. The first railway between Bolivia and Brazil (from Santa Cruz to the Brazilian border) has been built under a treaty between the two countries signed in 1938. The construction has been financed with sterling owed by the Brazilian Government to Bolivia and with funds advanced by the former. This line was completed in January 1954, but a considerable length of track will have to be added before Santa Cruz is connected with the railways on the plateau.

A subsidiary of the Canadian-owned International Power Company, Ltd., accounts for about nine-tenths of the electric energy generated in Bolivia. This company operates the electric light, power, street car and telephone systems in La Paz, the light and power system in Viacha and the electric and telephone service of Oruro.

The building of some major highways has also involved the use of capital from abroad. Credits granted in 1942 and 1949 by the Export-Import Bank of Washington, D.C., to the Bolivian Development Corporation were utilized largely for the construction of a road between the cities of Cochabamba and Santa Cruz.

Commerce and manufacturing

Prior to the First World War the major commercial enterprises in Bolivia were largely controlled by German nationals, many of them residing in Bolivia. In December 1941 the assets of German nationals were frozen and their enterprises subjected to control. Since then the German owners of the enterprises concerned appear in most cases to have acquired Bolivian citizenship. About \$1.6 million is invested in American-controlled commercial enterprises in Bolivia.

Little foreign capital is invested in other branches of the economy. Mention may be made, however, of participation of some American capital in cement production and of the operation of branches of the Banco Popular del Perú and Banco de la Nación Argentina.

⁷ See section on Peru.

ENTRY AND STATUS OF FOREIGN CAPITAL

Foreign capital may enter the country freely; but if special guarantees with respect to the transfer of dividends and repatriation of principal are requested by the investor, capital entering the country will, under a law of 17 October 1945, have to be "registered with the Ministry of the Treasury and must be either in the form of exchange sold to the Central Bank at the official rate or in the form of machinery or materials for stipulated purposes". The mining companies were not affected by the law just referred to, their exchange transactions being subject to special legislation.

Foreign capital in Bolivia enjoys almost complete legal equality with domestic capital. Foreign nationals residing in Bolivia have the right to work and engage in any legitimate industry. However, the Constitution stipulates that all business enterprises established will be considered as "national" and are subject only to the laws of Bolivia. The only existing formal discrimination is a stipulation in the Constitution prohibiting foreigners and foreign enterprises from acquiring or owning property within fifty kilometres of the Bolivian border.

The Constitution empowers the Government to regulate by law commercial and industrial activities required for public need or security, and to assume general direction of such activities through assistance or direct action. Until the end of 1951 the Government had established only two specific monopolies, relating to petroleum and matches. With respect to the first, laws of 1921, 1936 and especially a decree law of 5 November 1937 stipulate that all petroleum deposits in the country belong to the public domain and that their exploitation and the distribution of petroleum products is assigned to the Yacimientos Petrolíferos Fiscales Bolivianos. With regard to the second, the manufacture and sale of matches in Bolivia was made a monopoly in 1930, when the Government awarded an exclusive contract to a Belgian firm.

Mention may be made of a few other government regulations that may influence investment conditions. Tin ore derived from the "small" mines, and antimony ore, must be turned over to the government-owned Mining Bank (Banco Minero). The same principle applies to rubber and sulphate of quinine, which have to be turned over to the government-owned Agricultural Bank (Banco Agrícola). In addition there are some controls over the export of wool and gold and the distribution of cotton, cotton textiles and salt.

A decree of 2 February 1937 stipulates that 85 per cent of the employees of any enterprise must be Bolivians and that at least 85 per cent of the wages paid must go to Bolivians. On the other hand, no restrictions exist with respect to the composition of the board of directors of any enterprise.

Private ownership of property is guaranteed by Article 17 of the Constitution, provided "it performs a

social function"; expropriation for reasons of public utility is permissible if done according to law and if "a fair indemnity is paid in advance".

Until recently, the most important case of expropriation in Bolivia was one that had occurred in 1937; as indicated previously, it was directed against a subsidiary of the Standard Oil Company of New Jersey. The legal history of this case is complicated and has assumed political significance. The action was based on alleged illegal export of petroleum products by the company. Though the Standard Oil Company valued its Bolivian holdings at \$17 million, it accepted in 1942 an indemnification of \$1.5 million and 3 per cent interest for the period from March 1939 to 1942 in full settlement of its claim.

In 1951 the Government was considering a revision of its policy with respect to exploitation of petroleum by foreign enterprises.⁸ It contemplated establishment of a limited area in the southern part of the country in respect of which the Government would negotiate with foreign companies for full exploitation rights. Another area would be open to foreign enterprises on the basis of leasing arrangements with the Government's oil agency. An agreement with the Brazilian Government concluded in 1938 and revised in 1953 provided that the former would assist the Bolivian Government's oil agency in financing its activities in exchange for a share in the output. This agreement has not yet been implemented.

The Government which came into power in April 1952 established a Commission on the Nationalization of Mines. On the basis of a report by the Commission, the Government decreed in October 1952 the nationalization of the assets of the Patiño, Aramayo and Hochschild mining companies operating in Bolivia. A governmental agency, the Mining Corporation of Bolivia (Corporación Minera de Bolivia) was established and instructed to seize these assets.

The decree ordered the reversion to the State without compensation of the concessions held by the companies. The installations and other property belonging to the companies expropriated would be compensated for by payment of a sum provisionally set by the Government at \$21.7 million.⁹ From the amount to be paid as compensation, sums which the enterprises owed the State would be deducted and the balance, if any, disbursed to them. Among the sums referred to in the decree are taxes and other financial obligations which the Government claims were unpaid as the result of the incorporation of the enterprises outside of Bolivia. Until payment is made the amount to be set as compensation is to carry interest at 3 per cent.

⁸ Report of a statement by the director of Yacimientos Petrolíferos Fiscales Bolivianos, *New York Times*, 15 April 1951. See also United States Department of Commerce, *Foreign Commerce Weekly* (Washington, D.C.), 22 January 1951, page 11.

⁹ The capital and reserves of the expropriated enterprises had a book value of \$60.5 million at the end of 1951.

In June 1953 it was reported that an agreement had been reached between the Bolivian Government and representatives of Patiño Mines and Enterprises, according to which a percentage of the proceeds of tin exports of the Mining Corporation of Bolivia would be applied to compensate the stockholders for their expropriated assets, the percentage varying according to the price of tin. The amount to be paid to the stockholders, however, has not yet been negotiated. Simultaneously it was reported that similar arrangements would be concluded by the Government on the one side and the Aramayo and Hochschild enterprises on the other.¹⁰

Since nationalization of the large tin mining companies the Mining Corporation of Bolivia has been disposing of half of its output to the United Kingdom under a three-year contract concluded in January 1953 with a British firm. The balance was purchased by the (United States) Reconstruction Finance Corporation under individual sales contracts and since September 1953 under a one-year contract.

In August 1953 legislation was adopted introducing a land reform programme in Bolivia. Among other provisions, landholdings in excess of a maximum established by law are to be expropriated against compensation in long-term government bonds. This legislation is not likely to affect directly foreign investments in Bolivia since such investments in agriculture are negligible.

EXCHANGE CONTROL

Since 1939 Bolivia has applied a system of multiple exchange rates. Between December 1951 and May 1953 the selling rates—that is, rates at which dollars were sold against bolivianos—varied between the “official” rate of 60.6 bolivianos to the dollar, applicable to the import of “essential” goods, and 190 bolivianos applicable to certain luxury imports; the buying rates varied between the “official” rate at 60 bolivianos per dollar and the “special” rate of 130 bolivianos. In May 1953 a devaluation of the currency was combined with a simplification of the system. Instead of several selling and buying rates, there are only an official rate and a free market rate. In the former, applicable to merchandise transactions, government payments, the transfer of registered capital (see below) and certain specified “invisible” transactions, the rate is 190 bolivianos to the dollar; the rate in the free market, which applies to all other transactions, fluctuates.¹¹ At the time these changes were introduced, the exchange taxes, retention quotas and certain other arrangements previously in force were abolished, the import duties on certain goods were raised and an export tax equivalent to thirty-five bolivianos per dollar was introduced on the

exports of the government-owned Mining Corporation of Bolivia.

Foreign capital entering Bolivia and registered with the authorities has to be surrendered at the official rate, and the earnings of such capital up to 15 per cent annually as well as capital withdrawals up to 30 per cent annually may be transferred abroad at the same rate, subject to the availability of foreign exchange.

Until their nationalization the large and medium-sized tin mining enterprises enjoyed a special status with respect to exchange control. They were permitted to retain abroad a considerable percentage of the foreign exchange proceeds of their exports. The percentage that could be thus retained was frequently changed and was often subject to dispute between the mining companies and the Government. That part of their foreign exchange earnings which the companies were not allowed to retain had to be sold to the exchange control authorities at a rate generally less favourable than that applied to other Bolivian exports. The exchange profit made by the Government, which represented an appreciable part of the budgetary receipts, was derived largely from the exports of the large and medium-sized tin mining enterprises.

Local production costs, taxes and exchange levies absorbed the great bulk of the proceeds of the mining companies' exports. According to official balance of payments statements prepared by the Central Bank of Bolivia, exports of the mining companies during the period 1947 to 1951 amounted to \$435 million while profits retained abroad and capital movements represented an outflow of \$47 million, equivalent to about 11 per cent of the export value.

Even though most of the shares of the three large mining companies were held, as indicated earlier, by Bolivian nationals, no dividend payments appear to have returned to the country. The fact that these shareholders generally resided abroad and also that they invested in the tin mining and smelting industry in other countries probably accounted for the outflow indicated above.

TAXATION

With minor exceptions, foreigners and foreign-owned corporations in Bolivia are subject to the same taxes as Bolivian nationals and corporations. The main taxes, in addition to import and export duties, are income taxes, municipal and provincial property taxes, a general sales tax and various production taxes. During the few years preceding nationalization of the large tin mining enterprises, taxes on exports provided about two-fifths of the ordinary receipts of the national Government.

Before the nationalization of the tin mines the tax on the export of tin ore (concentrates) varied with the metal content and with the price of tin on the New York and London markets. The export duties paid by the large tin mining enterprises formerly

¹⁰ *New York Times*, 13 June 1953. As of the end of 1953 no further progress in this matter had occurred (*New York Times*, 24 December 1953).

¹¹ In July 1954 it was 1,480 bolivianos to the dollar.

amounted to about one-fourth of the value of output at the mine. Since the export taxes are levied irrespective of the profitability of the mining enterprises, they may have acted at times as a deterrent to the working of low-grade ores and to new investments in the mining industry.

The different rates which applied to profits of enterprises (both incorporated and unincorporated) engaged in "industry" and commerce on the one hand and of mining enterprises on the other were eliminated in 1953, when such profits became subject to a uniform rate of 25 per cent. It is not clear whether the privileged position of the small mining enterprises with respect to taxation of profits, according to which the rate varied from 8 to 12 per cent, has been maintained.

Income of individuals above 450,000 bolivianos is subject to a progressive "global" tax, ranging from 2 to 44 per cent. Incomes of different types—but not dividends received—are subject to a schedular tax at rates varying with the source of income. Dividends are included in the stockholder's income subject to "global" complementary tax. However, in the case of

dividends paid to holders of bearer shares, a tax of 44 per cent is retained by the companies for payment of the "global" tax, subject to adjustment according to the amount declared as dividends by the shareholders. Dividends on shares held in the name of foreign residents are subject to a deduction of 20 per cent by way of payment of the "global" tax.

Use of multiple exchange rates has in the past contributed large amounts to the government revenue. During the period 1937 to 1939, for example, exchange profits resulting from official purchases of exchange at rates well below those at which exchange was sold by the authorities to importers constituted between 30 per cent and 40 per cent of total revenue.

According to a law of 1942, newly established manufacturing enterprises with capital over 500,000 bolivianos may be exempt for a period of five years from all national, departmental and municipal taxes other than land taxes. The condition is that the manufacture in question be an article or commodity not hitherto manufactured in the country and that the enterprise be certified by the appropriate ministry as being of benefit to the country.

BRAZIL

EXTERNAL GOVERNMENT DEBT

Brazil's external indebtedness began early in the nineteenth century with loans by English private banks for the account of Portugal's Brazilian colony. A portion of this debt was assumed by the Brazilian Empire upon the liberation of the Portuguese colony in 1822. After the founding of the Republic in 1889, the external debt of the Federal Government, states and municipalities grew ninefold, to a peak of £277 million in 1931 (table 5). In 1930, 61 per cent of the total public debt was external; in 1931 the service of the external debt absorbed 34 per cent of all Federal Government expenditure. The amount of the bonds issued between 1889 and 1934 was £343 million, but a considerable proportion of this sum represented refunding issues to which resort was had in periods of financial difficulty. Since 1931 the debt has shrunk, largely as a result of a series of adjustments negotiated with bondholders following defaults in the 1930's. Despite the increase in dollar obligations during the 1920's, sterling bonds represented 56 per cent of the external debt in the hands of the public in 1931; they declined to 47 per cent in 1952 (see table 6).

Table 5. External public debt of Brazil,^a selected years

(Millions of pounds sterling)

End of year	Amount outstanding	End of year	Amount outstanding
1825.....	1.5	1920.....	151.3
1831.....	5.1	1925.....	184.0
1850.....	4.6	1930.....	267.2
1860.....	5.6	1931.....	277.0
1870.....	12.3	1935.....	259.8
1880.....	12.5	1940.....	242.3
1890.....	30.9	1945.....	174.2
1900.....	45.6	1948.....	147.0
1910.....	129.3	1952.....	89.7
1915.....	162.9		

Source: For 1825 to 1900, Brazilian Ministry of Foreign Affairs, *Brazil—1943* (Rio de Janeiro, 1944); for subsequent years, Brazilian Ministry of Finance, reports of the Conselho Técnico de Economia e Finanças. Amounts not due in sterling have been converted at the average exchange rates prevailing during each year specified. Loans from the Export-Import Bank of Washington, D.C., and from the International Bank for Reconstruction and Development are excluded.

^a Federal Government, states and municipalities.

Before 1905 the external debt was almost entirely in the form of sterling bonds, of which small amounts were held by Portuguese, French, United States and other non-British nationals. Between 1905 and 1915 French franc bond issues were floated. The great bulk of United States lending occurred in the years 1920

to 1931, a period during which Brazil's external debt increased by about 80 per cent. Several sterling and franc loans were floated during the 1920's and one Netherlands loan in 1921, but apart from a few small loans to states and municipalities, these issues were for refunding. The last issue of foreign bonds was sold in 1931, ending over a century of continuous expansion of external indebtedness. During the 1930's additional governmental debts of an emergency nature were incurred when arrears of mercantile credits were funded in the form of medium-term loans.

The nominal purpose of Federal bond issues, other than refunding issues, was usually the financing of railway construction and the establishment of port facilities, waterworks and other public utilities. A portion was devoted, however, to repayment of floating debts arising from service due on previous loans or from recurring budgetary deficits. A large part of the external borrowing during the period 1920 to 1929 was by states and municipalities with little co-ordination by the Central Government.

Brazil experienced recurrent difficulties in servicing its external government obligations. No amortization was paid during the period 1830 to 1850, but there does not appear to have been any large-scale technical default on external public debt during the last half of the nineteenth century. In 1924 and 1925 two Brazilian states were unable to meet their interest payments promptly on loans amounting to \$4.9 million issued two years earlier; by 1929 these loans were in complete default. Otherwise the debt service was substantially maintained until October 1931, but often through additional borrowing and refunding operations.

Table 6. Composition of the external public debt of Brazil,^a 1931, 1940 and 1952

(Millions of currencies indicated)

End of year	Pounds sterling	Dollars	French francs	Gold francs	Florins	Total (dollar equivalent)
1931.....	166.1	392.7	573.2	229.2	8.9	1,310.1
1940.....	152.6	334.7	519.6	229.2	6.5	985.4
1952.....	41.9	131.6	107.1	22.0	6.0	251.3 ^b

Source: Ministry of Finance, Conselho Técnico de Economia e Finanças, *Boletim*, September 1951 (for 1931 and 1940 figures) and *Revista de Finanças Publicas*, March-April 1953 (for 1952 figures). Excludes loans by the United States Government (mainly from the Export-Import Bank of Washington) and by the International Bank for Reconstruction and Development.

^a Federal Government, states and municipalities.

^b The composition of this total was as follows: Federal Government \$139.5 million, states \$77.7 million, municipalities \$18 million and autonomous agencies \$16.1 million.

Following the cessation of lending by the United States and other factors leading to severe pressure on the Brazilian balance of payments during the world depression, a period of defaults and adjustments of the external debt began in 1931. Debt service payments declined sharply, to about 20 to 30 per cent of the amount due in most years until 1943, except for complete default in 1938 and 1939.

In 1943, a settlement was negotiated with representatives of the sterling and dollar bondholders. A small portion of the debt, with a nominal value of £7.2 million in sterling and \$2.0 million in dollars, was retired against cash payments of 12 per cent of the face value. As to the remainder of the debt two options were offered, known as plan A and plan B. In the case of dollar bonds coming under plan A, the nominal value of the outstanding bonds remained unchanged, interest rates between 5 and 8 per cent were scaled down to $1\frac{7}{8}$ per cent to $3\frac{1}{2}$ per cent, and the maturity dates were extended by twenty-two to eighty-four years. Payment of interest and principal remained the responsibility of the original issuers, states and municipalities as well as the Federal Government. Plan B provided for reductions of from 20 to 50 per cent of the nominal value of each issue, repayment in cash of from 7.5 to 15 per cent of that value as partial compensation for the loss incurred, and the issuance of new twenty-three-year bonds carrying interest at $3\frac{3}{4}$ per cent. The new securities became the direct obligation of the Brazilian Government, which assumed responsibility for previous state and municipal obligations.¹ Similar adjustments were offered to holders of sterling bonds. In December 1953 an issue of Brazilian dollar bonds due in 1979 and bearing the adjusted interest rate of $3\frac{3}{8}$ per cent was quoted at a market price of $59\frac{1}{2}$, yielding 6.6 per cent.

It has been estimated that of some £156 million of sterling bonds outstanding in 1938, £72 million were held by United Kingdom nationals.² Some of the sterling bonds were believed to be in Portuguese hands, and some of the remainder in Brazilian hands. A comparison of the nominal value of dollar bonds outstanding with official United States estimates of the dollar bonds held by United States residents indicates that in recent years a considerable amount of dollar bonds has been repatriated. Thus, at the end of 1950 United States holdings of Brazilian dollar bonds had a nominal value of \$69 million, while total dollar bonds outstanding in mid-1950 were \$146 million. Some of the bonds were no doubt held in third countries.

¹ The (United States) Foreign Bondholders' Protective Council, Inc., described the settlement as "the maximum which could have been secured" and recommended it to the favourable consideration of the bondholders. The United States Secretary of State characterized the proposal as a "manifestation of Brazil's earnest desire to meet its foreign obligations within the limit of its capacity". The settlement of 1943 ended over a decade of negotiations.

² Sir Robert Kindersley, "British Overseas Investments, 1938", *Economic Journal* (London), December 1939.

By the adjustment of 1943, the nominal value of the external sterling and dollar bonds was reduced by about 26 per cent (the proportion was slightly higher for dollar than for sterling bonds). Annual debt service, which had been \$100 million in 1929, was reduced \$32 million in 1943 and in 1953 was equivalent to less than 2 per cent of the budgeted expenditure of the Federal Government.

In 1946 and 1951 the Brazilian Government negotiated a settlement with the French creditors which involved a substantial reduction of the amounts outstanding. Moreover, the dollar equivalent of the amount not protected by the gold clause had already declined drastically with the depreciation of the franc.

From 1935 to 1940 credits were extended by the Export-Import Bank of Washington, D.C., to United States exporters to Brazil for short periods, carrying the guarantee of the Brazilian Government and absolving the United States exporter of any liability in event of non-payment by the Brazilian agency purchasing the supplies. Beginning in 1940 loans by the Export-Import Bank to Brazil were of longer maturity than the earlier exporter credits and were generally made to governmental agencies for specific development projects. The two largest loans were one of \$45 million in 1940 to the Companhia Siderurgica Nacional for equipment for the new Volta Redonda steel works and another of \$38 million to Lloyd Brasileiro in 1945 for the purchase of cargo steamers. Of a later loan to the Companhia Siderurgica of \$25 million the borrower had drawn \$20.3 million by the end of 1953. Loans totalling \$48.7 million had at that time been authorized for development of electric power generation and \$35.5 million for the rehabilitation of railways. Other main categories of credits were: \$20 million to a government-controlled mining enterprise (Companhia Vale do Rio Doce) and \$82.5 million to two other mining companies; \$14.1 million to various manufacturing enterprises, \$18 million for agricultural equipment; and \$10.7 million for transportation equipment. Out of a total of \$341.4 million raised with the Export-Import Bank as of the end of 1953, \$180.5 million had been drawn upon, but repayments had reduced Brazil's liability to \$118 million.³

Brazil also received United States Government long-term credits for the purchase of war surplus property totalling \$16.2 million. In addition, Lend-Lease aid to Brazil during the Second World War was valued at \$331.1 million, of which \$23.7 million was on account of commodities not directly of military character.⁴ The Lend-Lease obligations were settled in 1948 for \$35 million.

In 1949 the International Bank for Reconstruction and Development granted a loan of \$75 million (in 1951 increased by a further \$15 million) to the Canadian-controlled Brazilian Traction, Light and Power Com-

³ These figures exclude a \$300 million short-term loan granted in 1953 for the liquidation of commercial indebtedness.

⁴ United States Department of Commerce, *Foreign Transactions of the United States Government* (Washington, D.C.), 31 December 1946, part 2, page 138.

pany, Ltd., subject to the guarantee of the Government of Brazil, for the expansion of hydroelectric power facilities and telephone installations. The total cost of the company's expansion programme over five years is estimated to be the equivalent of about \$194 million, of which about \$120 million, almost entirely for local expenditure, is being financed with the company's own resources. The programme provides for increases of more than 50 per cent in power-generating capacity in the Rio de Janeiro and São Paulo areas and is expected to increase the country's hydroelectric output by about 25 per cent. Four other loans totalling \$57.3 million have been made by the International Bank for Reconstruction and Development, beginning in 1950, to state-controlled enterprises for electric power development. The Bank lent \$25 million to the Brazilian Government for purchase of rolling-stock and equipment to rehabilitate the Central do Brasil railway and \$3 million for highway maintenance and improvement. By the end of 1953 the Bank had authorized loans totalling \$175.3 million, of which \$103.4 million had been disbursed.

FOREIGN BUSINESS INVESTMENTS

Until the late 1920's foreign business investments in Brazil were predominantly British. Following the rapid increase in United States direct investments during the 1920's, the liquidation of some British interests during the Second World War and the post-war expansion of American investments, the latter have come to exceed the British. The industrial distribution of the direct investments from these two sources has tended to be complementary. United States investments have been largely in manufacturing, public utilities, petroleum distribution and trade, while British investments have been concentrated in railways and the production of raw materials.

The value of direct investments in Brazil held by United States residents in 1929, 1943 and 1950 is shown in table 7. By the end of 1952 the total had increased to \$1,013 million. Though most United States direct investments were made after the First World War, United States interests were represented as early as 1890. Around the turn of the century several large United States firms opened branches to provide service and repair of equipment used in transport and

Table 7. United States direct investments in Brazil, 1929, 1943 and 1950

(Millions of dollars)

Field of investment	1929	1943	1950
Manufacturing	46	66	285
Petroleum (including distribution) ..	23	30	112
Trade	16	29	73
Public utilities, transportation.....	97	88	138
Other groups ^a	12	20	36
TOTAL	194	233	644

^a In 1950, finance and insurance accounted for \$21.7 million of the total.

public utilities. After the First World War a large number of branch plants were set up to engage in the assembly or production of manufactured goods. At present manufacturing represents the most important category, accounting for 47 per cent of the total in 1952. Between 1943 and 1950 over half of the increase in United States direct investments took place in this field.

In recent years, partly as a consequence of Brazilian economic policies, there has been a relatively greater increase in United States participation in Brazilian-controlled concerns for the manufacture of products under Brazilian trade names, compared with investment in branch plants and subsidiaries. In one instance, a United States manufacturer contributed used machinery and technical assistance to a Brazilian rayon plant in return for a 40 per cent interest in that concern. In another instance, an American tire manufacturing firm agreed to supply technical direction for a Brazilian-owned plant in exchange for a portion of the profits. Special legislation led to the transfer in 1948 of majority ownership (52 per cent) of Panair do Brasil, a United States-controlled air-transport company, to Brazilian nationals following passage of a law reserving air service between points within Brazil to Brazilian aircraft.

British direct investments began in the 1820's in mining and became important during the railway boom of the 1850's. Railways continue to be the largest single category of British investments.⁵ Investments in port facilities, tramways and other public utilities were also prominent. The peak in British investments in Brazil was reached about 1930, when they had a nominal value of nearly £120 million.⁶ A survey of British investments in 1939 revealed interests in thirteen railways, the major electric utilities of the country, port facilities, five mining companies and a number of manufacturing concerns. Some of these investments, however, did not involve a controlling interest in the enterprise.

According to estimates of the Bank of England, British investment in companies operating in Brazil declined between 1938 and 1950 from £80.5 million to £48.9 million:

	1938	1950
	(Millions of pounds sterling)	
Companies registered in the United Kingdom.....	50.8	29.7
Companies registered elsewhere	29.7	19.2
TOTAL	80.5	48.9

Since the end of the Second World War, the repatriation of British investments in Brazil has been financed by liquidation of sterling balances accumulated mainly during the war, the total of which was estimated at £61.6 million in March 1947. Pursuant to an agreement with the Government of the United Kingdom in May 1948, Brazil was authorized to utilize the ac-

⁵ According to the *South American Journal* (London), 4 February 1950, page 55, 40 per cent of British investments other than government bonds were in railways in 1931 and 33 per cent in 1949.

⁶ J. F. Rippey, "A Century and a Quarter of British Investment in Brazil", *Inter-American Economic Affairs* (Washington, D.C.), summer 1952, page 83.

cumulated sterling balances for purchase of imports from the United Kingdom at the rate of £10 million annually during the following four years and to use the remainder to purchase outstanding sterling bonds and business investments.

One source of information on foreign direct investments is the Bank of Brazil, with which such investments are registered. As noted in table 8, part of the total investment of each of nine countries is registered in the currency of the creditor country while another part, presumably reinvested earnings, is registered in cruzeiros. The small amount of investments belonging to nationals of other countries is registered only in cruzeiros.

Canadian direct investments in Brazil are almost entirely in public utilities, particularly in the Brazilian Traction, Light and Power Company, Ltd., the largest utility in Brazil. The book value of this enterprise was

Table 8. Foreign capital invested in commercial firms and incorporated business enterprises registered with the Bank of Brazil, 31 December 1950
(Millions of currencies indicated)

Creditor country and unit of currency	Amounts registered	Total	
		Cruzeiros	Equivalent in dollars ^a
<i>United States:</i>			
Dollars ^b	389.6}	17,792.0	950.4
Cruzeiros	10,497.7}		
<i>United Kingdom:</i>			
Pounds sterling.....	38.4}	4,368.4	233.3
Cruzeiros	2,353.8}		
<i>France:</i>			
French francs.....	173.4}	815.4	43.5
Cruzeiros	806.1}		
<i>Belgium:</i>			
Belgian francs.....	64.7}	810.4	43.3
Cruzeiros	785.9}		
<i>Uruguay:^c</i>			
Uruguayan pesos.....	0.6}	727.2	38.8
Cruzeiros	721.3}		
<i>Switzerland:</i>			
Swiss francs.....	11.1}	250.3	13.4
Cruzeiros	201.5}		
<i>Portugal:</i>			
Escudos	13.1}	126.0	6.7
Cruzeiros	117.4}		
<i>Sweden:</i>			
Swedish kronor.....	2.9}	65.0	3.4
Cruzeiros	54.5}		
<i>Argentina:</i>			
Argentine pesos.....	1.0}	63.1	3.2
Cruzeiros	61.7}		
<i>Netherlands:</i>			
Cruzeiros	46.5	46.5	2.4
<i>Others:</i>			
Cruzeiros	72.1	72.1	3.8
TOTAL	^a	25,136.2	1,342.7

Source: Banco do Brasil, *Relatorio de 1950* (Rio de Janeiro), page 162.

^a Conversion rate: 18.72 cruzeiros per dollar.

^b It appears that Canadian investments, having been registered in dollars, are included with United States investments.

^c May include some European and Argentine investments.

^d Total amount registered in cruzeiros was 15,718.5 million.

\$420 million in 1946, of which the Canadian share represented 40 per cent or \$170 million. Other Canadian direct investments, including substantial banking interests, bring the total to about \$200 million.

French, Belgian, German and Portuguese investments have been important in Brazil, particularly before 1914. French capital was invested in railways, port facilities, electric utilities, banking and finance, and agriculture. One estimate placed the total value of such investments in 1913 at 2,620 million francs—\$503 million at the 1913 rate of exchange—including 1,390 million francs, or \$267 million, in railways.⁷ By 1938 the French investments are estimated to have shrunk to the equivalent of \$40 million.⁸

German investments, estimated to have been about \$40 million in 1938,⁹ were sequestered during the war and have been transferred to Brazilian ownership. Portuguese investments other than in government bonds were estimated by one source at \$75 million in the early 1930's but are now negligible¹⁰.

INDUSTRIAL DISTRIBUTION OF BUSINESS INVESTMENTS

Public utilities and transportation

Transportation, communications and other public utilities have absorbed the major part of foreign investments in Brazil. This is even more notable if consideration is given to the large portion of the external public debt which has been incurred for the financing of public utilities and railway development.

The Brazilian Traction, Light and Power Co., Ltd. is the largest public utility enterprise in the country, supplying about two-thirds of the electric energy produced and about three-quarters of the telephone service. Its operations also include tramways and gas and water services. Ownership is predominantly Canadian—40 per cent—with significant British and American participation. The Brazilian Electric Power Company, a subsidiary of the American and Foreign Power Company (United States) supplies about one-fourth of the electrical energy produced and is also engaged in the telephone service. International Telephone and Telegraph Corporation (United States) supplies about one-tenth of the telephone service.

Foreign capital, almost entirely British, controls about one-fourth of the total railway mileage. The recent sale to the Brazilian Government of two British-owned railways has been referred to. The two railways concerned are small, the larger being only 153 miles

⁷ J. F. Rippey, "French Investments in Latin America", *Inter-American Economic Affairs*, autumn 1948. The author states that "it is likely that most of the French capital invested in Latin America yielded scant returns after 1920 and especially after 1929", and cites three investments in Brazil to illustrate this statement: the Brazilian Railway Company, port facilities in Pará, and port facilities in Bahia.

⁸ Cleona Lewis, *The United States and Foreign Investment Problems* (Washington, D.C., 1948).

⁹ *Ibid.* The estimate is based on the 1938 rate of exchange.

¹⁰ United Kingdom Department of Overseas Trade, *Brazil* (London, July 1932).

in length. It was reported in 1949 that discussions had been initiated regarding purchase of the two largest British-owned railways, with about 3,000 miles of lines. French and Belgian investments in railways were important before the First World War but are now negligible.

In air transport, Germany and the United States have played a significant part in the past, though the amount invested has been small. The German-owned Condor Company, a subsidiary of Lufthansa, was sequestered in 1942. United States capital invested in Panair do Brasil has been required by a law affecting all aviation operations to divest itself of majority ownership and now retains a 48 per cent interest in the company. More recently the Braniff International Airways (United States-owned) have been licensed to service a substantial length of routes in Brazil. Foreign capital, however, is no longer a controlling factor in air transport.

Manufacturing

According to an official Brazilian source, foreign nationals and enterprises in 1941 accounted for about 18 per cent of the investments in manufacturing, of which "resident" (presumably locally incorporated) foreign enterprises represented about 11 per cent.¹¹ According to an estimate of the United States Tariff Commission, foreign capital before the Second World War represented 30 per cent of total investment in manufacturing in the state of São Paulo, which accounted for about two-fifths of Brazil's industrial production.¹²

The number of manufacturing establishments and the value of industrial production have undergone a rapid increase in Brazil in recent years. Foreign capital has played a smaller role in this expansion than previously, and it may be assumed that the proportion of foreign capital in manufacturing has declined. The sequestering of German investments and the repatriation of British-owned investments have contributed to this trend. Another factor operating in the same direction is the establishment of government manufacturing enterprises during the war, particularly the Volta Redonda Steel Works and the National Motor Engine Factory.

United States enterprises predominate among foreign investments in manufacturing, having undergone a four-fold expansion between 1943 and 1950. Leading American producers in many major branches of manufacturing are represented, including meat-packing, the assembly of automobiles and refrigerators and the production of automobile tires, chemicals, pharmaceuticals, electric supplies and radios. American concerns have also participated jointly with Brazilian interests in the manufacture of rayon, rubber goods and electric light bulbs.¹³

¹¹ *Relatório do Serviço de Estatística e Previdência do Trabalho* (1944), pages 82 and 83, as cited by Conselho Inter-Americano de Comércio e Produção, *Inquerito Continental sobre Fomento e Coordenação de Industrias* (Montevideo, 1946).

¹² United States Tariff Commission, *Mining and Manufacturing Industries in Brazil* (Washington, D.C., 1945).

Foreign employees in these operations are few, except in managerial and technical positions.

The products of British manufacturing interests include tobacco, matches, paper, soap, cement, aluminium, chemicals and plastics, refined sugar, flour, woolen goods, shoes and industrial machinery.

French and Belgian investors formerly controlled Belgo-Mineira, the largest private iron and steel mill, representing about 60 per cent of the total privately owned production. Brazilian interests have recently acquired 52 per cent of the voting stock of this enterprise. French interests own the largest tannery in São Paulo, the largest printing-ink concern in Brazil, a large linen mill, and important chemical, rayon, perfumery and pharmaceutical enterprises.

Much of the German manufacturing capital was scattered in small amounts; the more important products included chemicals, beer and pencils.

Several other foreign countries are represented in manufacturing. Swiss nationals own a large tannery and a condensed milk factory. Argentine capital is invested in flour and cotton-seed oil mills, cotton gins, a cement plant, a chocolate factory and a variety of smaller enterprises. Netherlands investors own a vegetable oil plant erected in 1935. Canada is represented by a large cement plant. Before 1939 Italy was represented by the Pirelli Company, producing cables, tires and other rubber goods.

Trade and petroleum distribution

United States, British, French and German interests have been prominent in the wholesale and retail trade. To the United States investments in trade, valued at \$73 million in 1950, there should be added a portion of United States investments in petroleum—\$112 million—which represent mainly distribution operations. Two large retail establishments have recently been opened in Brazil by Sears, Roebuck and Company, a United States enterprise. Owing to import restrictions, much of their merchandise is being manufactured locally. The distribution of many leading American manufactured products, particularly durable consumer goods and machinery, is handled largely through selling branches or subsidiaries of manufacturing concerns in the United States.

British interests control two of the main mercantile establishments in the country. German interests were extensive before the war, particularly in the form of sales agencies of leading German manufacturers of chemicals, drugs, optical and other precision instruments.

¹³ A somewhat different type of joint enterprise is illustrated by the conclusion of a long-term licensing agreement in 1949 between Western Electric International Company, a United States concern, and Eletromar, a Brazilian-owned enterprise. The former corporation was to provide patents and technical assistance in the construction and operation of plants in Brazil and to train Brazilian personnel in the United States. No investment of funds by the United States enterprise was involved, however.

In general, however, it appears that the part played by foreign investments in trade has decreased in recent years. In any case, the investment other than in stocks of merchandise is relatively small. There has been a tendency in Brazil to regard foreign investments in trade somewhat critically, in view of the large profits which have been earned in recent years and remitted abroad and in view of the competition they give to local trade investments.

Agriculture and extractive industries

Foreign investments in agriculture and extractive industries are relatively small. Foreign banks and other lending institutions have played an important part, however, in financing agricultural production by domestic Brazilian interests.

British interests appear to have been the most important in this sector of the economy. Among the principal British concerns in agriculture is the Cambuhy Coffee and Cotton Estates, Ltd., which owns about 135,000 acres. Several million acres held by the British-owned Brazil Land, Cattle and Packing Company were sold to the Brazilian Government in 1940. During 1944 a large project, Paraná Plantations, Limited, involving resettlement of agricultural labourers, was taken over by a group of Brazilians with the financial assistance of the Government. British interests connected with agriculture include flour milling and the financing of coffee and cotton growing.

United States interests in agriculture, except for livestock raising, have become negligible, following the sale to the Brazilian Government in 1946 by the Ford Motor Company, for the cruzeiro equivalent of \$250,000, of rubber plantations in Pará valued in 1943 at \$10 million. United States subsidiaries operate in coffee and cotton growing to a limited extent and in processing and packing agricultural products. Subsidiaries of the International Basic Economy Corporation own and operate storage and transportation facilities for agricultural and fisheries products. The corporation is a privately owned company designed to promote enterprises contributing to economic development; its policy is to offer the assets of its subsidiaries for sale to local investors after they have become well established.

Mining has attracted primarily British and French capital to Brazil, especially during the nineteenth century. The rise and decline of British mining investments are shown in the following tabulation.¹⁴

	<i>Number of enterprises</i>	<i>Capital paid up (thousands of pounds sterling)</i>
1890.....	6	770
1900.....	11	1,510
1911.....	18	3,120
1913.....	16	2,510
1929.....	10	3,620
1945.....	3	850

¹⁴ J. F. Rippy, "The British Investment 'Boom' of the 1880's in Latin American Mines", *Inter-American Economic Affairs* (Washington, D.C., March 1948).

United States investments in mining have never been large, amounting to only \$2.5 million in 1943. In post-war years, however, important minority investments have been made by United States capital in manganese and iron ore mining.

Banking and insurance

The importance of foreign banks has declined sharply in recent years, the number, including branches, dropping from 80 to 42 between 1941 and 1950. In the same period the number of domestic banks and branches rose from 1,566 to 2,554.¹⁵ By the end of 1950 foreign banks accounted for only about 7 per cent of all bank deposits in Brazil. Both the rapid growth of domestic banking facilities and the liquidation of German, Italian and Japanese banks contributed to reduce the importance of foreign banks. French banking investments were large before the First World War but are now negligible.¹⁶ American capital invested in banking and insurance was \$3.5 million in 1943 and \$21.7 million in 1950. British capital in banking was estimated at £6.3 million (\$25.2 million) in 1939.¹⁷

For some years foreign banks have been subject to a measure of opposition. The principal objection has been that foreign banking, like foreign investments in trade, does not involve substantial capital imports but operates largely with Brazilian capital and remits profits abroad. The Constitutions of 1934 and 1937 (Article 117) envisaged the progressive elimination of foreign banks, and in April 1941 a law was enacted providing for liquidation of all of them within five years. This law, however, was in effect superseded by the Constitution of 1946, which does not provide for any "naturalization" of banking institutions. Since 1946 both the National City Bank of New York and the First National Bank of Boston have established branches in Brazil, and the operations of several European-owned banks have expanded. In 1951, however, a bill was introduced in the legislature which, if enacted, would deprive foreign banks of the right to accept deposits.

In insurance, as in banking, the role of foreign enterprise tended to decline during the 1940's. In 1940 foreign insurance companies accounted for about 25 per cent of the subscribed capital of all insurance companies in Brazil while in 1950 their share had declined to 10 per cent.¹⁸

FOREIGN INVESTMENTS AND ECONOMIC DEVELOPMENT

While from the middle of the nineteenth century the amount of foreign capital invested appears to have

¹⁵ Instituto Brasileiro de Geografia e Estatística, *Anuário Estatístico do Brasil 1951* (Rio de Janeiro, 1952), page 221.

¹⁶ J. F. Rippy, "French Investments in Latin America", *op. cit.* French investments in Latin American banks are given at 11 million francs in 1902 and 900 million in 1913.

¹⁷ J. F. Rippy, "British Investments in Latin America, 1939", *Journal of Political Economy* (Chicago, February 1948). The figures refer to paid-up capital stock excluding reserves, and hence are minimum estimates.

¹⁸ *Anuário Estatístico do Brasil 1951*, pages 375 and 376.

increased in absolute terms, at least up to the end of the 1920's, the relative importance of such capital in the economy of Brazil has tended gradually to decline. This trend is connected with the passage of Brazil's economy through three successive phases involving a shift to economic activities in which there was an increasing dependence on domestic capital.

There can be no doubt that foreign capital played a substantial part in the development of railways, port facilities and public utilities as well as the establishment of commercial and financial links with the outside world—trends which characterized the period from about 1850 to the establishment of the Republic in 1889. In fact, such activities have absorbed the major part of the foreign capital which has entered Brazil either as equity investment or in the form of governmental loans. Foreign investment has thus been important in preparing the way for an increase in domestic production.

The establishment of the Republic in 1889 initiated a period of rapid economic growth in which foreign investments were important, partly through reinvestment of earnings. Once the transportation network and other facilities aiding the export of agricultural and other primary products had been established, Brazil's resources were absorbed to an increasing extent in the production of primary goods. The development of the economy was dependent in turn on different export crops—sugar, cacao, rubber, coffee and cotton.¹⁹ Foreign capital was invested in plantations, but the amounts involved were relatively small, and the capital was frequently brought in by immigrants, thus not constituting foreign investment in the usual sense. It was in the ancillary facilities—financing, transporting, processing and selling the staple crops—that foreign investment continued to find significant outlet.

The third stage of economic development in Brazil was characterized by growth of manufacturing industry, working in large part for domestic consumption. Manufacturing, which began to grow in the latter part of the nineteenth century, expanded particularly during the two world wars and is estimated to have accounted for about 20 per cent of the national income in recent years. The extent to which foreign capital has been engaged in this development has varied. The rapid expansion during the two world wars depended largely on domestic financing. The greatest contributions of foreign capital in this field were made during the prosperous periods 1906 to 1912, 1926 to 1930 and the period since the end of the Second World War. Some non-transferable earnings of foreign capital during the depression of the 1930's undoubtedly found their way into the manufacturing industry. On the whole, however,

¹⁹ In recent years exports have become more diversified, including rice, fresh fruits, meats, vegetable oils, lumber, manganese and iron ore; increased prices of coffee, however, have re-established the predominance of that commodity in the value of exports.

the role of foreign direct investments in manufacturing has been limited.

Though tending to decline, the role of foreign capital even in recent decades has not been insignificant. In manufacturing, in particular, such capital represents only a small percentage of the amount invested. Foreign capital and enterprise have introduced new types of processing, transmitted technical knowledge and trained personnel, the ultimate importance of which is not necessarily proportionate to the amount of capital involved.

FOREIGN INVESTMENTS AND THE BALANCE OF PAYMENTS

During the last few decades of the nineteenth century and throughout most of the present century Brazil has had a surplus of exports over imports, even when foreign capital was flowing in at a substantial rate. Thus, large payments appear to have been made abroad on account of invisible items in the balance of payments, principally for earnings on foreign capital, particularly in the earlier decades.

In an average year during the 1920's Brazil financed only part of its large net payments due abroad on account of debt service, yields of direct investment and services proper by a surplus in merchandise trade. More than half of the debit balance on account of invisible items was met from other sources, primarily government borrowing and the inflow of capital for direct investment. Accurate information on the magnitude of the capital inflow during the period 1920 to 1931 is not available, but it appears to have averaged about \$65 million to \$75 million annually.²⁰

The situation improved greatly during the Second World War: the export surplus became sufficient to meet the deficit on account of investment income and services and, in addition, to permit accumulation of a substantial reserve of gold and foreign exchange.

In recent years, Brazil has again been exposed to strain in its external payments. In one respect, however, the situation differs from that prevalent during the 1930's. Export prices, particularly of coffee, are on a high average level, and the quantum of coffee exports has been well maintained. Exports have risen greatly in value since before the war, and the country's terms of trade are much more favourable than at that time. At the same time the burden of the service on external debt and the transfer of yields on other foreign investments have declined sharply; in 1929 this may be

²⁰ Net receipts from the sale of dollar bonds during 1920 to 1931 were \$373 million. Outstanding direct United States investments were valued at \$194 million in 1929, a large part of which represented inflow of capital during the period 1919 to 1931. All other foreign investments may have accounted for \$250 to \$300 million. Another estimate (J. F. Normano, *Brazil*, University of North Carolina Press, Chapel Hill, North Carolina, 1935, page 215) put the "yearly increase in foreign capital" for 1916 to 1930 at \$68 million, of which \$36 million is attributed to the United States. A Brazilian source estimated the average annual increase during the period 1908 to 1914 at \$131 million. (J. P. Calogeras, *Relatorio do Ministerio da Fazenda 1915*, Rio de Janeiro, 1915, cited by Normano, *op. cit.*, page 215).

estimated to have represented about 35 per cent of the value of exports as compared with an average of about 10 per cent in 1947 to 1951. The strain on foreign payments is accordingly due largely to the heavy demand for foreign products. The quantum of imports during the years 1947 to 1950 was over 50 per cent higher, and in 1951 about 150 per cent higher, than in the years 1937 to 1939. The trade balance turned passive in 1951, and the deficit increased greatly during 1952.

The net inflow of capital for direct investments from the United States has recently varied considerably, from \$23 million in 1946 to \$96 million in 1951. The latter figure, however, presumably includes accumulated profits that could not be transferred to the United States owing to a shortage of foreign exchange that developed during 1951.

ENTRY AND STATUS OF FOREIGN CAPITAL

Prior to the 1930's foreign enterprises were generally subject to the same legal treatment as domestic ones. In certain cases foreign enterprises were even encouraged through such measures as subsidies, loans of local funds at low interest rates, guaranteed minimum return on invested capital (as in the case of the British-owned railways for a time) or specific exemption from taxes and import duties on certain products.

Following the revolution of 1930, the so-called "Estado Novo" (New State) programme inaugurated a changed policy, reflected in the Constitutions of 1934 and 1937 and specifically in various laws and administrative measures having the effect of limiting direct foreign investments in particular branches of industry. This trend was reversed by the more liberal provisions of the Constitution of 1946 and subsequent legislation. The legal status of future foreign investments in several fields of activity is rendered somewhat ambiguous, however, by the fact that some restrictive legislation, enacted under the Constitution of 1937, remains formally in force. This relates particularly to foreign investments in mining, commercial banking and insurance, though in the case of mining and banking, administrative action has been taken to secure conformity with the principles of the Constitution of 1946, which eliminated discrimination between domestic and foreign nationals as regards entry into these fields.

Although the entry of foreign capital into a few fields of activity is restricted, there are no significant restrictions limiting foreign participation to minority interests or otherwise restricting ownership of concerns operating in Brazil or rights of shareholders of Brazilian corporations in respect of nationality.²¹ One such rule, based on security rather than economic considerations, is the prohibition of acquisition by foreigners of land within 150 kilometres of the country's frontiers.

The Constitution of 1946 (Article 141) establishes the principle that Brazilians and foreigners (including corporations) residing in the country shall be equal before the law; in practice, this equality also applies to non-resident foreigners engaged in business activities in Brazil. However, all foreign corporations (those not established under the laws of Brazil) must obtain permission to operate. The exchange control legislation requires registration of foreign capital upon entry as a prerequisite for eligibility for future remittances abroad at the official rate of exchange (see below).

The Constitution of 1946 assures foreign individuals and corporations resident in Brazil inviolable property rights on the same basis as Brazilian nationals. In the event of expropriation for "public necessity" or "social interest" the Constitution provides that prior and just compensation shall be paid in money (Article 141). Managers of companies not incorporated in Brazil must have legal residence in Brazil, and foreign enterprises must also assign administrative power (power of attorney) to a Brazilian national.

Two-thirds of the salaried or wage-earning employees of all commercial and industrial concerns operating in Brazil must be Brazilian nationals, or aliens who have resided more than ten years in the country and are married to Brazilians. Similarly, at least two-thirds of the payroll must be paid to Brazilians. Branch plants are considered as separate units for purposes of these requirements. An exception is made for foreign "technicians", provided the Government determines that there is a shortage of eligible Brazilians; and in special circumstances the Government may authorize exceptions to the two-thirds rule for other reasons.

Wage rates paid to Brazilians must equal those paid to foreign nationals for similar work, allowance being made for seniority. A provision in the 1937 Constitution restricted the professions to Brazilian citizens, but the 1946 Constitution provides that the practice of any profession is open to all nationalities, subject to regulation by specific legislation (Article 141).

CONTROL OF INVESTMENTS IN PARTICULAR INDUSTRIES

The most significant controls over foreign investment in Brazil have applied to particular industries, the most important being mining, petroleum, hydroelectric power, banking and insurance, shipping and air transportation. The Constitution of 1937 (Article 144) provided that the "law will regulate the progressive nationalization of mines, mineral deposits and waterfalls or other sources of power, as well as those industries considered basic or essential to the economic or military defence of the Nation". No general measures were taken to carry this article into effect, however, and it has no counterpart in the Constitution of 1946.

Mining

Under the 1934 Constitution government authorization was required to engage in mineral production,

²¹ A major exception is Petrobras, the petroleum monopoly, in which foreign individuals or corporations cannot acquire shares.

and regulations promulgated under this general rule provided that authorization would be granted only to Brazilian nationals, though companies in existence before 1934 were exempted from this provision. Some relaxation of this policy occurred in 1944, when a law was enacted permitting foreign nationals to own up to 50 per cent of the capital of mining companies incorporated in Brazil, provided specific authorization was granted.

Further relaxation of the 1944 regulations was embodied in the Constitution of 1946, which provides that authorization for the exploitation of mineral resources may be granted to foreign-controlled concerns incorporated in Brazil (Article 153), thus removing the previous constitutional limit on the extent of foreign ownership. Pending revision of the mining law, the authorities have granted authorization for foreign-controlled mining companies to operate so long as the companies are organized under Brazilian law and have the headquarters of their principal establishment in Brazil.²² Such authorization is subject to a series of conditions specified in the Mining Code of 1940, and authorization once given can be terminated in case of failure to comply. The Mining Code does not state what right the concessionaire possesses in case the authorization is declared void, but some authorities believe that it implies a right to receive "just compensation".²³ The Mining Code of 1940 also provides that mineral deposits not exploited before November 1937 belong to the Government and not to the owner of the land's surface as had been provided for in the first Constitution of the Republic (1892 to 1934).

Petroleum

The Constitution of 1937 and a law of 1938 reserved production of petroleum from domestic oil reserves to concerns owned exclusively by native-born Brazilian nationals. Ownership of refineries was also restricted to Brazilians and a government licence was required for the importing and transporting of petroleum and its derivatives. The 1946 Constitution, as in the case of mining, rendered possible the granting of concessions to explore and exploit petroleum deposits to foreign-controlled corporations organized under the laws of Brazil.

A Brazilian sub-commission of the Joint Brazil-United States Technical Commission expressed the view in 1949 that foreign participation, both by technicians and by foreign capital, would be valuable for the development of the industry.²⁴ It also stated that the hiring of foreign technicians for specialized services and borrowing of capital required (rather than attracting equity investments by foreign enterprises) would be undesirable in view of the resulting burden on the budget

of the Federal Government and the risk involved in investments in the petroleum industry. After extended parliamentary debate a law was adopted in October 1953 setting up a government petroleum monopoly called *Petróleo Brasileiro* (Petrobras) for drilling, extracting, refining, transporting and selling petroleum and its products. Petrobras is to act under the general direction of the National Petroleum Council, a governmental agency which has been in existence for some time. At least 51 per cent of the shares of Petrobras are to be owned by the Government, and ownership of the remaining shares is restricted to Brazilian-owned corporations or to certain Brazilian nationals;²⁵ consequently, foreign equity participation in Petrobras is excluded. The initial capital of Petrobras, 4 billion cruzeiros (\$216 million at the official par value), is to be increased to 10 billion cruzeiros by 1957. This increase is to be financed from the proceeds of various taxes and by compulsory contributions (to be exchanged for shares) from owners of motor vehicles. The monopoly is not to include privately owned refineries, pipelines and tankers at present in operation; likewise, refineries whose installation was authorized before 30 June 1953 are not included.

Electric power

As in the case of mining, the 1934 and 1937 Constitutions limited operations in hydroelectric power generation to Brazilian nationals, except with respect to investments already made. A law subsequently relaxed this restriction by permitting new foreign investment in the industry at the Government's discretion. The 1946 Constitution took account of this legislation by authorizing the granting of concessions for the production of hydroelectric energy to foreign concerns established under Brazilian laws as well as to Brazilian nationals (Article 153).

As the bulk of the industry is foreign-owned, specific legislation and administrative action, particularly in respect of rates, directly affects foreign investments. One such measure was the Water Code of 1934, amended in 1938, requiring revision of existing power contracts and, pending such revision, prohibiting power companies from expanding installations, increasing rates or entering into new contracts to supply power. The prohibition of rate increases continued until 1943 when a decree-law provided for revision of rates by the companies, subject to government approval.

The position of public utility enterprises in Brazil has been affected by the rise in prices and costs over a long period. Of particular importance was the quadrupling of prices between 1939 and 1950.²⁶ Since changes in utility rates have lagged greatly behind these

²² United States Department of Commerce, *Establishing a Business in Brazil* (Washington, D.C., November 1952).

²³ Inter-American Development Commission, *Laws of Brazil* (Washington, D.C., 1948), page 300.

²⁴ *Report of the Joint Brazil-United States Technical Commission* (Washington, D.C., June 1949), page 310.

²⁵ Naturalized Brazilians and native Brazilians married to foreigners are not qualified to own Petrobras shares.

²⁶ The index of the cost of living in São Paulo rose from 100 in 1939 to 554 in 1952; and the general index of wholesale prices rose simultaneously from 100 to 614 (United Nations, *Statistical Yearbook, 1953*).

price trends, the yield of investments in these industries has tended to decline. In the past some public utility enterprises have arranged with the Government for a "gold clause" in their franchises, linking utility rates with the exchange rate of the cruzeiro. Thus, the Brazilian subsidiary of the American and Foreign Power Company obtained an agreement that half of each of its rates charged to customers should be allowed to fluctuate inversely with the exchange value of the Brazilian currency (in terms of dollars). In practice arrangements of this type have been of little effect owing to popular resistance to changes in utility rates.²⁷

Other industries

While the Constitution of 1946 eliminated the previous general limitations on foreign investments in mining, hydroelectric power generation and banking, certain previous restrictions on other activities of minor importance remained. Coastal shipping is reserved to Brazilian-owned vessels, except in case of "public necessity" (Article 155). The publication of newspapers or periodicals, and radio broadcasting, are reserved to concerns wholly owned by Brazilians (Article 160). The Constitution imposes no restriction on foreign enterprises in insurance, but under an existing decree-law (No. 2036 of March 1940) no new foreign insurance company may be established in Brazil. Companies in operation prior to 1937 may continue, however. Statutory limitations also exist on foreign enterprises in aviation and the manufacture of pharmaceuticals. Aviation companies operating within the country must be organized in Brazil under Brazilian management and with at least one-third of the shares owned by resident Brazilian citizens. Under a decree-law of 1946 companies manufacturing pharmaceutical products must have a qualified Brazilian pharmacist as technical manager, who is to receive a specified minimum salary.

EXCHANGE CONTROL

Exchange control and multiple exchange rates have been in force in Brazil since 1931. The severity of the control has varied with Brazil's external payments position. In 1946 a new system of exchange control affecting foreign investments was instituted, partly with a view to attracting private foreign capital.²⁸ Remittances by investors up to a specified limit were to be permitted at the official rate of exchange. Other transfers were permitted, however, at the less favourable "curb" rate of exchange. Foreign investors wishing to avail themselves of the official rate were required to register their investments with the Bank of Brazil. The limit on yearly remittances at the official rate was established at 8 per cent of the registered amount for interest, dividends or profits, and at 20 per cent for capital repatriation. Yield in excess of 8 per cent could be transferred over

a period of five years, in five yearly instalments. Investments originating abroad were to be registered in the currency of the country in question, a fact which provided some protection against the effects of possible devaluation of the cruzeiro in connexion with the 8 per cent limitation. Reinvested profits were registered in cruzeiros.

In 1947 Brazil's payments position worsened and in June of that year the exchange control was tightened. Remittances became subject to a system of priorities. Towards the end of that year no convertible currency was allocated for the remittance of yield or repatriation of direct investments. The continued pressure on the balance of payments led to the introduction in January 1948 of a 5 per cent tax on most exchange remittances.

In the course of 1948 an effective control on imports was established, and the position with respect to remittances on account of foreign investments was eased. Near the end of 1948 the authorities were able to allocate sufficient exchange to permit a large part of the transfer of current yields desired by foreign investors.²⁹

Following a new strain on the balance of payments early in 1952, a greatly tightened exchange control policy with respect to foreign investments was introduced. According to a new decree, profits transferred abroad since 1946 in excess of 8 per cent of the original investment annually were considered as withdrawal of capital. Thus, the base on which the maximum 8 per cent transfer was allowed was greatly reduced. At the same time, the tax on outward transfers was raised from 5 per cent to 8 per cent. Shortly afterwards exchange transactions previously permitted at the unofficial (curb) rate for investment yields above the 8 per cent maximum were rendered illegal.

A relaxation of transfer regulations was introduced by law in January 1953—establishing a free exchange market—and by subsequent legislation.³⁰ Most of the non-trade transactions, including the inward transfer of capital for direct investment and the outward transfer of such capital, as well as of income from capital, may take place through the free market. The official rate of exchange, which establishes considerably higher exchange value for the cruzeiro than the free rate and, in the case of outward remittances, is more than twice as favourable to investors, is applicable (subject to availability of exchange) to loan capital, interest payments up to 8 per cent annually and to dividends and profits up to 10 per cent annually of investments, both old and new, registered with the authorities, provided they are declared of special importance to the national

²⁹ The Joint Brazil-United States Technical Commission recommended the maintenance of well co-ordinated import and exchange controls over a substantial period to assure the allocation of exchange to foreign investors (*Report of the Commission*, page 176).

³⁰ Law No. 1807 of 7 January 1953 and decree No. 32285 of 19 February 1953; instruction No. 81 of the Superintendency of Currency and Credit issued 22 December 1953; law No. 2145 of 29 December 1953 and decree No. 34893 of 5 January 1954.

²⁷ Joint Brazil-United States Technical Commission, *op. cit.*, pages 118 and 119.

²⁸ Decree-Law No. 9025 of 27 January 1946 and subsequent regulations.

economy. According to the law such investments are those approved by the Government in connexion with official programmes of economic development and those in the fields of power, communications and transportation. The valuation of the investments for the purposes of computing the allowable yield that may be transferred is apparently left to the discretion of the exchange control authorities, within certain limits. For instance, they may approve the addition to registered capital of reinvested earnings that could have been transferred at the official rate of exchange. In February 1954 it was announced that a commission had been set up which would consider proposals for the registration of foreign investments. At the same time the formal requirements for such proposals were set forth.

TAXATION

In general, foreign enterprises are subject to the same taxes as domestic concerns. Taxes on profits of corporations are relatively low, ranging from 10 per cent on incomes up to 100,000 cruzeiros, to 15 per cent on incomes in excess of 500,000 cruzeiros (\$25,000). Public utility companies are taxed at the more favourable rate of 8 per cent on profits of less than 12 per cent of capital invested. In addition to the normal tax on profits of corporations, all dividends on bearer shares (including shares of foreign-owned subsidiaries) are subject to a tax of 20 per cent, withheld at the source. The Brazilian income of foreign branch plants or individuals domiciled abroad is taxed at the source at the rate of 15 per cent, in addition to the normal tax on corporate profits. Profits of branches reinvested in the expansion of their enterprise in Brazil, however, are exempt from this withholding tax. In November 1951 a surtax of 15 per cent of the amount of income tax exceeding 10,000 cruzeiros (about \$500) was introduced, together with a 3 per cent tax on any addition to reserves and on undistributed profits of corporations. The revenue from the new tax will be used to establish a special fund, to be administered by the National Bank for Economic Development. At the end of five years, 5 per cent bonds are to be issued in exchange for the amount of the surtax paid, plus interest.

A sub-commission of the Joint Brazil-United States Technical Commission made several observations of interest regarding taxation of foreign investments.³¹ It recommended that tax concessions be granted to favoured foreign investments in specific fields, provided that such procedure was not unfair to existing investments and on the understanding that no exemptions from the income tax should be granted. It also recommended that Brazilian taxes should be maintained at a level below taxes in capital exporting countries to stimulate the reinvestment of earnings of foreign invest-

³¹ *Report of the Joint Commission*, pages 288 to 306. The sub-commission was composed of Brazilian representatives only. The full commission recommended that a bilateral treaty be concluded with capital-exporting countries for the elimination of double taxation on income from foreign investments.

ments, on the assumption that such reinvested earnings would not be taxed in the creditor country.

GOVERNMENT PARTICIPATION IN ECONOMIC ACTIVITIES

Prior to the late 1930's, government intervention in the Brazilian economy was exercised primarily through semi-autonomous planning and regulating bodies for specific industries.³² The railways were an exception, a steadily increasing proportion of the lines being owned and operated by the Federal and state governments.

In recent years government-sponsored development projects have embraced a variety of activities. The most important are the National Steel Company, the Rio Doce Valley Company for mining iron ore, the São Francisco Hydroelectric Company, the National Alkali Company and the National Motor Engine Factory. These concerns are so-called "mixed" companies, in which the Government holds the majority stock interest while the remainder is held by, or is to be sold to, nationals of the country. They have been assisted by exemption from taxes and import duties, and in other ways. The National Electrification Plan established at the beginning of 1947 contemplates expanded government participation in hydroelectric projects. A government agency, the National Petroleum Council, extracts and refines petroleum and operates a fleet of tankers (at present fourteen vessels). Other important government ventures include three industrial alcohol distilleries, two cement plants and the largest steamship company in coast-wise trade, Lloyd Brasileiro.

In May 1948, the President of Brazil submitted to the Congress a five-year programme of economic development, embracing a number of public and private projects, which has come to be known as the SALTE plan.³³ The bulk of the expenditure under the plan was to be made by the Federal Government. Private investments included in it were confined to electric power generation, for which an investment of 6,822 cruzeiros (\$368 million) was estimated for the five-year period. An amount of 2,500 million cruzeiros (\$140 million) was budgeted for government expenditure in exploration for petroleum, building of refineries and purchase of tankers; no investment by private foreign petroleum interests was included in the estimates. The largest single item of the programme was transportation, with 6,500 million cruzeiros (\$351 million) allotted to railways alone.

The scope of government expenditure under the SALTE plan indicates that the expansion of manufacturing and of electric power generation was expected

³² Fields in which official regulatory bodies operated included electric power, petroleum, coffee and meat packing. Other products regulated by official or semi-official trade associations included fruit, milk, fish, manioc, sugar, timber, maté, salt and rice. In addition to performing normal trade association functions, these bodies in some cases operated schemes for the restriction of output.

³³ This name was derived from the fields in which development projects fall: health (*saude*), food (*alimentos*), transportation (*transporte*) and energy resources (*energia*).

to be financed by private enterprise. Part of the expenditure for railways would be for the benefit of private owned lines and would be reimbursable under agreements to be negotiated.

With the change in administration in 1951, the original SALTE plan was reduced in scope. External financing within the plan is being provided by loans raised with the Export-Import Bank of Washington, D.C., and the International Bank for Reconstruction

and Development. New sources of internal financing through taxation have been provided by legislation enacted in May 1952. Another instrument for carrying out part of the plan is the National Bank for Economic Development, set up in June 1952, with an initial capital of 20 million cruzeiros (about \$1 million) provided by the Treasury. The Bank "will act, as a governmental agency, in financial operations related to the re-equipment and development of the national economy".

CHILE

EXTERNAL PUBLIC DEBT

Foreign borrowing by the Chilean Government began with the flotation of a loan of £1 million in the London market in 1822. Up to the First World War, the equivalent of about \$300 million was floated in the London market. The loans in question were used to finance the construction of railways, port facilities, highways and other public works.¹ Debt service was maintained except in 1880 to 1883 when, owing to war with Peru and Bolivia, amortization was temporarily suspended. From the end of the First World War until 1931, external financing was effected chiefly through the issue of more than \$300 million of bonds in the New York market. National Government issues exceeded \$185 million, municipal issues \$21 million, and government-guaranteed corporate issues \$90 million. The loans to the National Government and municipalities were used principally to finance public works, including roads, sanitary facilities, water supply systems, port installations, railways and irrigation facilities.

The heaviest borrowing during the twentieth century was concentrated in the few years between 1925 and 1930. Total public debt, internal and external, including debts of municipalities and provinces guaranteed by the Government, increased from \$323 million at the end of 1926 to \$456 million by the end of 1929. A further increase in the external dollar obligations of the Central Government and the municipalities, of about \$27 million, occurred in 1930, in which year there was also an issue of Swiss franc bonds.

The world depression of the early 1930's had a profound effect on Chile's balance of payments. Between 1929 and 1932 the dollar value of exports fell by 88 per cent. As foreign lending had ceased and the Government revenue had declined rapidly with the collapse of the export markets for Chilean commodities, the Government found itself unable to raise in local currency the amounts equivalent to the external debt service or to convert the sums collected into foreign exchange. Exchange control was introduced in 1931, and the servicing of the foreign debt was suspended partially in 1931 and completely in 1933. In 1935 partial payments were resumed under a unilateral debt adjustment plan which earmarked certain government receipts, including the profits of the Chilean Nitrate and Iodine Sales Corporation (a government trading monopoly), income taxes on copper mining companies, and duties on petroleum imported for the nitrate and copper mining companies for service of the external debt. Half of the

receipts were to be used for interest and the balance for debt retirement by purchase in the open market of bonds quoted below par or by drawing at par if bonds were quoted at or above par.

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

The organizations of bondholders were opposed to the 1935 plan because of the policy of retiring bonds at prices far below par, the relatively large proportion of earmarked receipts devoted to retirement, the diversion of earmarked funds from amortization to other purposes, and the failure by the Chilean Government to devote to debt service funds derived from taxes on copper imposed after the 1935 adjustment.²

In December 1948 the Government, following successful negotiations with committees representing foreign bondholders, offered a new plan of debt settlement. This proposed to convert the direct and indirect obligations of the Government into new obligations for which the Central Government would assume sole responsibility. Unlike the arrangement in 1935, the payment of interest and amortization was not to be limited by the amount of governmental income from the copper and nitrate industries.

The 1948 plan provided for the exchange of outstanding securities, mostly 6 per cent issues, against new bonds of equal nominal value. Holders of the new bonds were to forgo interest on unpaid coupons, and interest on the new bonds was to rise from 1½ per cent in 1948 to 3 per cent in 1954 and subsequent years. Maturity dates were extended uniformly to January 1954, and amortization was to amount to one per cent annually; Chile reserved the right, however, to apply additional sums to amortization or retirement.

After the 1930's, the Export-Import Bank of Washington, D.C., became Chile's most important source

¹ Guillermo Carvallo Aldunate, *Posibilidades de la economía chilena para los capitales extranjeros* (Santiago, 1949), page 75.

² The funds earmarked for debt service under the plan included receipts from certain taxes. No provision was included for earmarking of receipts from future taxes.

of foreign loans. By the end of 1953, Chile had utilized \$120.7 million of Export-Import Bank loans; out of this sum, \$39.3 million had been repaid, leaving a balance outstanding of \$81.4 million.

Almost all recent Export-Import Bank credits to Chile have been granted to the Development Corporation, a government agency, and to the Chilean State Railways, and guaranteed by the Chilean Government. The State Railways have drawn \$7.6 million for various types of equipment. Loans to the Development Corporation have been made in connexion with its industrial development programme, the most important being a credit of \$48 million authorized in 1945 for the construction of a steel plant, supplemented by an additional loan of \$10 million in 1951 for expansion of the enterprise. The company formed to operate the plant, *Compañía de Aceros del Pacífico, S.A.*, is a joint government and private enterprise project. Its private capital had been subscribed by investors in Chile, including banks, insurance and mining companies, as well as private individuals, and the governmental capital by the Development Corporation and the Autonomous Amortization Fund. Other activities financed by Export-Import Bank credits have been the establishment of plants for the production of electric power, cement, copper wire, rayon and automobile tires and the importation of agricultural machinery and railway equipment. Repayment of these loans is generally not scheduled to begin until a number of years (in most cases five to ten) after the line of credit is established.

Two loans totalling \$16 million were authorized in March 1948 by the International Bank for Reconstruction and Development. One loan, for \$13.5 million, was for hydroelectric development. A second loan of \$2.5 million was made to the Development Corporation for purchase of agricultural machinery. In October 1951 a \$1.3 million ten-year loan was authorized for exploration and use of water resources in a river valley in northern Chile. In September 1953 a \$20 million loan was authorized to a private Chilean company for construction of paper and pulp mills. By the end of 1953 the Bank had authorized loans totalling \$37.3 million, of which \$15.2 million had been drawn upon

and \$0.8 million had been repaid. All of these loans are guaranteed by the Chilean Government.

At the end of 1952 the external long-term obligations of the Chilean Government or those guaranteed by it amounted to about \$283 million. About three-fourths of the total—\$209 million—was payable in dollars.

The distribution of these external long-term obligations, in millions of dollars, was as follows:

<i>Direct obligations:</i>	
Dollar bonds.....	109.9
Sterling bonds (dollar equivalent)....	53.5
Swiss franc bonds (dollar equivalent)..	20.2
TOTAL, direct debt	183.6
<i>Guaranteed loans (principal only):</i>	
Export-Import Bank loans.....	83.1
International Bank loans.....	16.8 ^a
TOTAL, external obligations	283.5

Source: Central Bank of Chile, *Boletín Mensual* (Santiago), September 1953; Export-Import Bank of Washington, *Fifteenth Semiannual Report to Congress for the Period July-December 1952* (Washington, D.C.); International Bank for Reconstruction and Development, *Statement of Loans*, 31 December 1952.

^a Including obligations amounting to \$1.3 million sold by the Bank.

FOREIGN BUSINESS INVESTMENTS

The value of foreign direct investments at the end of 1948, as computed by the Central Bank of Chile, amounted to \$617 million.³ Table 9 shows the composition of this sum.

³ Central Bank of Chile, Sección de Estadística e Investigación, *Inversiones extranjeras en Chile en 1948* (Santiago, 1950). This estimate was made on the basis of a questionnaire covering 162 companies controlled by individuals or corporations residing abroad. Foreign control of a corporation was defined as ownership of over 50 per cent of its share capital. Direct investment includes paid-in capital and reserves, together with depreciation reserves, but excludes reserves for taxes. The figure given above includes \$72 million of consolidated external debt of the companies but excludes \$16.7 million of commercial debt. Investments reported in pesos were converted at the "banking rate" of 43 pesos per United States dollar. Investments in foreign currencies other than the dollar were converted into dollars at the par rates.

Table 9. Foreign direct investments in Chile, 1948

(Millions of United States dollars)

Source of capital	Investments in			Less short-term investment	Net
	Subsidiaries	Other enterprises ^a	Total		
United States.....	136	360	496	14	482
United Kingdom.....	11	113	124	2	122
Other countries ^b	5	9	14	1	13
TOTAL	152	482	634	17	617

Source: See footnote 3, above.

^a Including *agencias, compañías extranjeras* and *filiales*.

^b Of the total of \$14 million, Argentine, French and Belgian investors owned \$5 million, \$3.5 million and \$1.8 million, respectively.

The estimates of the Central Bank relating to United States and United Kingdom investments are slightly higher than the amounts reported by these two countries for the same date.

During the later years of the nineteenth century British capital was invested chiefly in northern Chile, where it contributed to development of the nitrate industry and auxiliary facilities, including railways and electric power plants. British capital was also invested in telephone service and in sheep farming in the southern part of the country. French capital was invested in mining and German capital in electric power and transport facilities in Santiago and in manufacturing, trade and finance. German and Italian investments were to a considerable degree accompanied by immigration and settlement and to that extent cannot be considered as foreign.

The inflow of United States capital for direct investment became important before the First World War. It has been estimated that such investment, amounting to only about \$2 million at the end of 1897, had increased by 1914 to some \$180 million, of which \$170 million was in copper and iron mining.⁴ After the war these investments increased steadily, reaching \$423 million in 1929. In particular, there was an increase of such investments in the copper industry, in nitrate enterprises and telephone service acquired from British holders and in public utilities. There was also some investment in manufacturing encouraged by tariff protection after the First World War.

The changes in United States direct investments in Chile since 1929 are shown in table 10. It will be observed that investments in mining and smelting, which declined considerably during the depression of the 1930's, nearly doubled between 1943 and 1950. Investments in public utilities and transportation more than doubled between 1943 and 1950, but those in manufacturing (other than smelting), though increasing considerably during the 1930's, do not appear recently

Table 10. United States direct investments in Chile, 1929, 1943 and 1950
(Millions of dollars)

Field of investment	1929	1943	1950
Mining and smelting.....	332 ^a	215	351
Public utilities and transportation..	67	66	^b
Manufacturing (other than smelting)	7	28	29
Trade	13	7	15
Miscellaneous	4	13 ^c	8 ^d
TOTAL	423	329	540

^a Incomplete figure.

^b Included in total.

^c Of this amount \$8 million was invested in agriculture, \$3 million in petroleum distribution and nearly \$1 million in finance.

^d Including \$1.5 million in finance and insurance; excluding investment of non-profit organizations, which in 1943 amounted to \$1 million.

⁴ J. F. Rippy, "Investments of Citizens of the United States in Latin America", *The Journal of Business of the University of Chicago* (Chicago, January 1949).

to have shared in the expansion which has occurred in this field in several other Latin American countries. By the end of 1952 United States direct investments had increased to \$623 million.

According to the Bank of England, United Kingdom business investments in Chile declined from a nominal capital of about £39 million in 1938 to £28 million in 1948 and to £24 million in 1950. Most of the decline was accounted for by loan capital of companies registered outside the United Kingdom (presumably in Chile), which dropped from £19.1 million in 1938 to £7.9 million in 1950.

According to the Central Bank of Chile investments of United Kingdom-controlled companies at the end of 1948 equalled \$122 million (£30.5 million) distributed as follows:

	Millions of dollars
Services	51
Mining (particularly nitrates).....	41
Manufacturing	7
Other activities.....	13
"Consolidated debt" (not shown according to industry)	10
TOTAL	122

INDUSTRIAL DISTRIBUTION OF BUSINESS INVESTMENTS

Mining

Though mining in recent years has contributed only about 5 per cent of Chile's national income, it is an important determinant of the level of economic activity since it accounts for about three-fourths of the value of exports. Copper, nitrates and iron ore are the principal mineral products.⁵ In addition to the large foreign-owned mining enterprises there are numerous small mines mostly owned by Chilean capital and accounting for about 5 per cent or less of the production. Domestic enterprises are also engaged in the extraction of gold, copper, and silver ores and non-metallic minerals, including coal. The previously undeveloped petroleum resources of Chile are being worked by an agency of the Government.

Chilean output of copper is second only to that in the United States. About 95 per cent of it is mined by three United States-controlled enterprises established during the period 1905 to 1920. Half the output comes from the Chuquicamata deposits, worked by the Chile Exploration Company, a subsidiary of Anaconda Copper Company. Following an agreement with the Chilean Government in 1948, this enterprise started construction of a plant for the treatment of copper sulphide ores, since the copper oxide ores extracted from its concessions were approaching exhaustion. The first blister copper produced at the plant was poured in November 1952; by the end of 1953, when construction was nearing completion, about \$130 million had been invested in the new installations. Second in importance is the Braden

⁵ The net value of exports by the large mining companies in 1952 was as follows: copper, \$243.8 million; nitrates and iodine, \$56 million; iron ore, \$6.4 million. Chile's total exports amounted to \$415.2 million.

Copper Company, a subsidiary of Kennecott Copper Corporation, accounting for about one-third of production. Third in importance is the Andes Copper Mining Company (controlled by a subsidiary of Anaconda Copper Company). French interests own several smaller mining enterprises. More than 3,000 small mines, owned predominantly by Chilean nationals, account for the balance. An official credit institution, Caja de Crédito y Fomento Minero, aids the small enterprises by extending credit and by operating processing plants. The formation of a local industry for the manufacture of copper products has been sponsored by the Development Corporation, and the copper mining companies are required to set aside the copper needed for it.

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

The development of the nitrate industry proceeded rapidly after the acquisition by Chile of the "nitrate provinces" from Peru as a result of the war of the Pacific (1879 to 1884). During the war Peruvian owners, apprehensive of the security of their properties, sold their holdings to British investors. By 1890 foreign capital, principally British, represented about nine-tenths of the investments in the industry. Production expanded steadily until the First World War, when production of competitive synthetic nitrates was started abroad. Chilean production, which reached a peak of more than 3 million tons in 1914, has declined in recent years to about half that amount. In the 1920's a United States enterprise acquired two important nitrate companies in Chile and improved the competitive position of the industry by introducing the Guggenheim process, which reduced costs considerably. During the past twenty years, however, no major investments have been made by foreign companies.

Concession rights to the only important high-grade iron ore deposit exploited were acquired in 1908 by a French firm and leased in 1913 to a subsidiary of the United States-owned Bethlehem Steel Corporation. The lease, which expired in 1943, was renewed at that time for a second period of thirty years. Most of its iron ore is exported to the United States, but steps have been taken to ensure needed supplies for the steel plant of the Compañía de Aceros del Pacífico referred to above. A credit from the Export-Import Bank of Washington, D.C., of \$2.75 million, authorized in October 1949, was used to finance about one-third of the cost of developing a new iron ore deposit; the remaining two-thirds was supplied by the Bethlehem Steel Corporation.

The importance of foreign investments in mining for the balance of payments of Chile is reflected in the high share—about three-fourths—of Chilean exports that is accounted for by the large foreign-owned mining enterprises. During the period 1946 to 1951, 62 per cent of the export earnings of these enterprises was absorbed by payments in Chile (wages, taxes and other expenditures).

Manufacturing

Foreign enterprises have participated in manufacturing in Chile since the second half of the nineteenth century. German investment and immigration into the southern part of the country contributed to the development of manufacturing industries. A small steel industry was started by French capital early in the twentieth century. Various United States and British trading firms have broadened their activities from ordinary merchandising to include manufacturing, particularly from the time when import restrictions were introduced as a result of the shortage of foreign exchange.

It is estimated that in 1938 about a fourth of the investments in manufacturing were foreign-owned.⁶ United States investments include some in enterprises manufacturing glass products, automobile tires, asbestos, iron and steel products, synthetic textiles, paints and electric bulbs, and refining sugar and edible oils. Chilean private and governmental capital participates as a minority interest in these enterprises. The value of United States investments in manufacturing increased from \$4.7 million in 1936 to \$27.5 million in 1943, but additions to such investments during the subsequent nine years were only about \$2 million. It may be recalled, however, that a large proportion of the credits extended by the Export-Import Bank of Washington, D.C., has financed the establishment of Chilean-owned manufacturing enterprises, some of which are owned jointly by the Government and by private Chilean investors.

Other industries

There is little foreign investment outside mining and manufacturing. Branches of United States, British, French and other foreign banks operate in Chile. About 25 per cent of the railway mileage is foreign-owned. The telegraph lines are owned by a Chilean enterprise, but about 70 per cent of the telephone service is controlled by a subsidiary of a United States company. The Compañía Chilena de Electricidad, a subsidiary of the American and Foreign Power Company, operates the greater part of the electric light and power industry.⁷ In recent years, expansion of the facilities owned by this subsidiary has been hampered by the fact that the service rates which it is allowed to charge have not been such as to attract additional capital.⁸ In 1945

⁶ George Wythe, *Industry in Latin America* (New York, 1949), page 222.

⁷ This company serves forty-five communities with an estimated population of 2,339,000 (see the company's *Twenty-Seventh Annual Report, 1950*, New York, 1951, page 39).

⁸ American and Foreign Power Company, Inc., *Twenty-Eighth Annual Report, 1951* (New York, 1952), page 17.

the Government purchased from the same subsidiary a tramway system which it had operated following a labour dispute in 1941. The subsidiary distributes electric power generated at its own plants and, recently, also power from the plants of a government-owned enterprise (Empresa Nacional de Electricidad, S.A.).⁹

ENTRY AND STATUS OF FOREIGN CAPITAL

In general, Chilean laws make no distinction between domestic and foreign nationals and firms with respect to the right to engage in business. Authorization is required for the formation of Chilean corporations, whether controlled by domestic or foreign capital, and for the establishment of branches and agencies of foreign corporations. This requirement, it appears, has not been applied so as to exclude foreign business interests.

Insurance activities can be carried on only by enterprises established under Chilean law, but foreign capital may participate in these. Similarly, petroleum may be imported and distributed only by Chilean companies, but foreign enterprises may participate in such companies.

Coastal shipping is reserved for vessels owned by Chilean nationals. Two-thirds of the capital of domestic airlines must be Chilean-owned and at least two-thirds of the members of the board of directors must be Chilean nationals. A government-owned concern is engaged in domestic air transportation. A foreign-owned airline, Panagra, has been permitted to operate domestic passenger service under special arrangement with this concern. Radio broadcasting is reserved for Chilean-owned enterprises.

Governmental control of new investment, domestic and foreign, is authorized by the so-called Law of Over-production, adopted in 1932 as an anti-depression measure. The law empowers the President to declare specific industries "saturated", in which case new factories may be established only upon authorization. Regulations of 1939 place certain restrictions on the transfer to foreign enterprises of factories in industries declared subject to the law just referred to. Though the law has only been invoked to check the expansion of production in certain branches of manufacturing, it has been so interpreted as to render all potential investment in manufacturing, domestic or foreign, contingent upon specific approval in each case by the Government. Approval is also required for expansion of existing manufacturing enterprises.

While Chilean legislation does not require the association of domestic with foreign capital, official encouragement has been given to the formation of enterprises involving joint participation by foreign and domestic investors. A number of such joint enterprises are important in Chilean manufacturing. In several cases the foreign-owned stock represents the investment of funds and partial reimbursement for patents, trademarks and technical services. Such arrangements exist, for instance, in enterprises producing glass, tires,

asbestos, cement, rayon and electric appliances. The foreign-owned copper and nitrate companies have invested jointly with Chilean capital in the formation of the Compañía de Aceros del Pacífico. In addition, some capital stock has been taken in payment for services rendered by a United States firm which designed the plant, so that United States enterprises own about one-fourth of the company's stock.

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

EXCHANGE CONTROL

Exchange control has been in operation since 1931. Chile's system of exchange control is based on a combination of multiple exchange rates and quantitative restrictions. As regards foreign capital, the restrictions distinguish between the large copper companies and other types of foreign investments.

The large copper companies are permitted to retain the foreign exchange proceeds from their exports. In addition to payment of export taxes and income taxes (described below), the companies are required to obtain local currency for most of their operating expenses in Chile at a rate of 19.37 pesos per dollar as compared with the rate of 110 pesos at which the Government acquires foreign exchange from most other sources. As an exception, the copper companies are permitted to acquire local currency for investment expenditures at a relatively more favourable rate of 60 pesos per dollar.¹⁰

The foreign exchange proceeds of nitrate and iodine exports are subject to somewhat different treatment. The Nitrate and Iodine Sales Corporation, a government monopoly, absorbs 25 per cent of the value of the proceeds in lieu of taxes on the income of the producers. The rest of the proceeds are turned over to the producers—mostly foreign companies—in the currencies received. To meet their expenditures in Chile, the producers have to buy pesos, usually at the rate of 50 pesos per dollar.

Exchange restrictions affecting foreign-owned enterprises other than the large mining companies have undergone several changes in recent years. A law of November 1950 (No. 9839) in effect created two

⁹ See below, page 67.

¹⁰ In January 1954 it was reported that a draft law modifying the position of the large copper mining companies with respect to exchange control and taxation had been prepared for submission to the Chilean Congress. According to the proposal, the exchange rate of 19.37 pesos would be abolished and the companies would be allowed to purchase pesos at the more favourable rate applicable to the bulk of Chilean exports and imports. At the same time an increased income tax would be levied on the companies.

classes of such enterprises. Favoured enterprises concluding a special agreement with the Government were authorized to make transfers at a rate of exchange more favourable than the prevailing "free" rate and also to repatriate capital in prescribed annual quotas at such rates.¹¹ Transfers of the income and capital of other investments were not formally limited as to amount but were required to be made at the less favourable "free" rate.

The law of November 1950 was superseded by Decree-Law 427 of November 1953 which, however, maintains the distinction between approved and other investments. New investments, approved by a governmental Committee on Foreign Investments, may be accorded certain privileges which are to be the subject of contract between the investor and the Government and be published in the Official Gazette (*Diario Oficial*).

For a period of ten years, and in some cases for twenty years, the income from approved investments may be transferred without requiring previous authorization. The original capital, whether in the form of foreign exchange or of imported goods, may be repatriated after a period of five years in annual amounts equal to 20 per cent of the original investment. Capital established by reinvestment of earnings may qualify for the same privileges. The period in question may be extended to twenty years. Approved investments are accorded the following privileges:

1. Earnings are to be exempt from any new taxes that may be introduced during the period in question;

2. The products of the enterprise are to be free from price control unless such control already applies to domestic industries producing similar products.

The decree provides that the Government shall each year make provision in its foreign exchange budget for the foreign exchange necessary to meet the requirements arising under contracts in respect of approved investments.

Non-approved investments presumably must either apply for licence to transfer earnings or to carry out repatriation of capital at the official rate of 110 pesos per dollar, or may use the fluctuating free rate, which at the end of 1953 stood at 210 pesos per dollar.

TAXATION

Business enterprises in Chile are subject to a complex set of taxes. In general, a tax is levied on the

¹¹ For instance, the Compañía Chilena de Electricidad was authorized to import capital equipment and to remit earnings at the 31 pesos per dollar rate. In July 1953 Chile's multiple exchange rate structure was simplified and the par value of the peso was changed from 31 to 110 pesos per dollar. The 110 peso rate is now the principal import and export rate. (Proceeds of the exports of the large mining companies constitute the main exception to the latter.) Most non-trade payments are effected at a fluctuating free rate which was about 210 pesos per dollar at the end of 1953. It is reported that foreign-owned enterprises are meeting delays in obtaining foreign exchange for the transfer of their earnings through the official market.

income of individual persons as well as of corporations. The tax varies according to the source of income. Net income from general commercial and industrial activities is taxed at a rate of 15.6 per cent ("basic rate" together with "extraordinary" and "emergency" taxes); from mining and metallurgy activities at 19.5 per cent; from interest and dividends also at 19.5 per cent, but income from bearer shares is taxed at a rate of 28.6 per cent. Furthermore, a tax of 13 per cent is imposed on half the sale price of goods manufactured in Chile.

The following additional taxes are levied on corporate income:

1. An "over-all complementary tax" of 7.2 per cent of taxable income.

2. Excess profits tax, levied on income in excess of 15 per cent of the capital, rising from 13 per cent (on incomes between 15 and 20 per cent of the capital) to 39 per cent (on incomes in excess of 25 per cent of the capital). Excess profits remaining after taxes, it is stipulated, must be reinvested.

3. Housing fund tax, amounting to 5 per cent of the profits of industrial and mining companies (nitrate companies, however, pay only 4 per cent). If the companies provide housing for their employees, the tax is reduced to 2 per cent.

4. "Additional tax", representing 16.9 per cent of the income derived from Chile by foreign-owned enterprises (subsidiaries as well as branches).¹²

The large copper mining companies are subject to a complex tax system in addition to the implicit taxation resulting from the application of the multiple exchange rate system to their purchase of local currency. A so-called extraordinary tax, introduced in 1942, now has, in effect, replaced the normal income tax. This tax takes 60 per cent of the price of copper between 13.5 cents and 24.5 cents per pound. In addition, under an arrangement introduced in 1952, the Government absorbed the full difference between the export price of copper, which under an arrangement with the United States Government was set at 35.5 cents per pound, and the United States ceiling price of 24.5 cents for domestically produced copper. (The Chilean copper was resold in the United States at the higher price.) After abolition of the United States ceiling price, the Chilean Government continued to absorb the full difference between 24.5 cents per pound and the market price. In recent years, through taxes and local production costs but excluding reinvestment of earnings, Chile has absorbed somewhat more than 75 per cent of the total value of copper exported by the large mining companies.¹³ From one-third to two-fifths of this amount has consisted of taxes and customs duties. A part of the remainder represents the cost of acquiring local

¹² This tax also applies to income from Chilean sources of Chileans residing abroad.

¹³ Central Bank of Chile, *Balanza de Pagos de Chile* (Santiago, 1951).

currency at the rate of 19.37 pesos per dollar. In the case of nitrate enterprises, a levy on the sales proceeds, mentioned above, takes the place of income tax and related taxes, with the exception of the housing fund tax.

Income of individuals is subject to an "over-all complementary tax" varying with the taxable income (the maximum rate, applying to an income exceeding 2 million pesos, is 35 per cent).

Various tax exemptions can be granted. Thus new industries producing goods for domestic consumption may be exempted from the excess profits tax and from the related provision concerning compulsory investment of excess profits for a period of ten years from the establishment of the industry. Similar benefits may be granted to enterprises processing locally extracted ores. New Chilean companies¹⁴ producing or processing copper, iron or steel, which utilize national ores, can be exempted for a period of twenty years from income and export taxes, and may be accorded freedom from specified import duties on plant equipment during this period.

In 1953 a decree (No. 375 of 4 August 1953) was issued with the aim of encouraging industry to move into the provinces outside of Santiago. Manufacturing enterprises newly established in the provinces or transferred there from the capital may be granted rebates on their income tax for a period of ten years. The rebates range from 20 per cent when at least half of the raw materials consumed are of Chilean origin, to 50 per cent when only Chilean raw materials are utilized. Higher rebates may be granted to enterprises manufacturing goods hitherto not produced in the country or located in four distant provinces.

GOVERNMENT PARTICIPATION IN INDUSTRY

The Chilean Government participates directly in the nitrate industry, in railways, in the supplying of electric light and power, in the petroleum industry and in miscellaneous other industries.

A State monopoly of the export of nitrate and iodine was established in 1934. Its monopoly rights were transferred by the Government for a period of thirty-five years to the semi-official Nitrate and Iodine Sales Corporation already referred to. The corporation allocates production quotas to the producers, who are required to sell their output to it at cost. The corporation in turn sells the output abroad and distributes 25 per cent of the profits to the Government and 75 per cent to the producers. This method of control was intended primarily to facilitate competition abroad of Chilean nitrate with synthetic nitrates.

A large part of the previously foreign-owned railways has been acquired by the Government and is now

operated by the Chilean State Railways. Similarly, the Government has extended its ownership and control of various public service enterprises. In 1945 it purchased a tramway system from the United States-controlled *Compañía Chilena de Electricidad*, and acquired a five-year option to purchase all of the share capital of that subsidiary. The trend towards State participation in the electric power industry has been intensified in recent years through the activities of a subsidiary of the Development Corporation known as *Empresa Nacional de Electricidad, S.A.*, referred to above. The objectives of this official enterprise are to develop the primary generating possibilities of each region of the country, to connect the regional transmission facilities, and to subject the entire system of generation and transmission to central control. A loan of \$13.5 million from the International Bank for Reconstruction and Development was raised in connexion with this programme.

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

The emphasis on economic diversification and other factors led to the formation in 1939 of a governmental corporation for the development of production (referred to above as the "Development Corporation"), which has come to assume an important role in the expansion of existing industries and formation of new ones. The corporation was formed as a complement to another body, the Reconstruction and Relief Corporation, which was concerned with the short-term problem of rehabilitation from earthquake damage that had occurred early in 1939. The Development Corporation was directed "to obtain greater participation of Chilean interests in industrial and commercial activities".

The Corporation has invested its funds directly in industries in the form of equity capital as well as loans. It is at present co-owner of some sixty enterprises. In his annual message to Congress in May 1944, the President of the Republic stated that the corporation should not compete with private initiative but should undertake ventures that do not attract private investment or are beyond the capacity of private firms. The Government's policy is to sell the Corporation's interest in various enterprises to private investors when feasible; thus far, however, the amount disposed of has been insignificant.

¹⁴ For this purpose companies are considered Chilean if 60 per cent of their share capital is owned by Chileans or if 30 per cent of that capital is owned by the governmental Development Corporation and 20 per cent by private Chileans.

COLOMBIA

EXTERNAL PUBLIC DEBT

Greater Colombia, which comprised the present territories of Colombia, Venezuela, Ecuador and Panama, first borrowed abroad in the 1820's, when two loans totalling \$6.75 million were raised in London, largely to finance the War of Independence. When Ecuador and Venezuela became detached as separate States, Colombia in 1834 assumed responsibility for 50 per cent of this debt and interest arrears. Recurring defaults, the funding of interest arrears and conversion operations followed until a settlement was reached in 1905. Thereafter, there was no default until the early 1930's.

Several small loans, mostly for railway financing, were obtained between 1910 and 1920, chiefly in England. The total external debt outstanding by 1923 was approximately \$24 million. Most of this had been contracted by the Central Government rather than by municipalities. From 1923 to 1928 the Colombian Government, local authorities and mortgage banks borrowed heavily in the United States, so that by the end of 1928 the external debt of these entities amounted to nearly \$200 million. In order to control the volume of foreign loans, the service of which placed a heavy burden on the balance of payments, the Government enacted a law in June 1928 limiting the borrowing capacity of the regional departments and municipalities and requiring that all future external loans be reviewed and approved by the Central Government.

The external debt of local governments went into default in 1931; that of the Central Government was in partial default in 1932 and complete default in 1935. From 1935 to 1941 inclusive, only \$2.5 million was paid in service on the external funded debt of public authorities and mortgage banks, compared with contractual requirements of some \$133 million.

In 1941 Colombia offered 3 per cent bonds in exchange for outstanding central government dollar bonds at par and certificates to cover half of the interest arrears. In 1942 and 1944 similar bonds were offered to holders of dollars bonds issued by mortgage banks and certain municipalities. In 1944 the holders of sterling bonds were offered a settlement which involved exchange of these at par against new bonds at reduced interest rates, and the funding or cash payment of interest arrears, also at a reduced rate. Late in 1949 a similar adjustment was carried out for the remaining departmental and municipal bond issues, the outstanding nominal value of which had been reduced from \$82 to \$34 million through retirement and repatriation. Bondholders were offered 3 per cent bonds,

guaranteed by the Central Government, in exchange at par for their holdings, and similar bonds to cover 20 per cent of interest arrears since 1932. By the end of 1950 bondholders accounting for about three-fourths of the debt concerned had accepted this offer.

Since the 1930's no further loans have been floated in the United States capital market. During the period of default the external debt was greatly reduced through purchase of bonds in the open market by the Government at prices as low as 40 per cent below nominal value. Through these operations and the debt adjustments, the nominal value of the external dollar bonds of the central and local governments and of governmental agencies (with or without government guarantee) was reduced from \$191 million to about \$72 million by mid-1953. About two-thirds of this amount was held in the United States, most of the rest presumably having been acquired by Colombian residents. In mid-1952 only about £2 million of sterling bonds remained outstanding.

It was announced in July 1950 that the Banque de Paris et des Pays Bas had granted a loan equivalent to \$25 million to the Colombian Government for the construction of an iron and steel plant. The loan, carrying interest at 5 per cent and repayable within ten years of the issue, was to be transferred partly in cash, partly through delivery of European-produced equipment. A loan of \$12 million from a German enterprise for the same project has also been reported. Information is not available, however, on the extent to which these two loans have been drawn upon.

In recent years Colombia has received loans from the United States Export-Import Bank of Washington, D.C., for purposes such as agricultural development, highway construction and the purchase of railway material, electrical supplies and other equipment. At the end of 1953, \$66.6 million of these loans had been drawn upon and \$35.5 million had been repaid.

On the same date loans granted to the Colombian Government and official entities by the International Bank for Reconstruction and Development totalled \$55.8 million, of which \$19 million had been drawn upon. Two of the loans, totalling \$30.8 million, are for highway construction and rehabilitation and one, amounting to \$25 million, is for railway construction.

BUSINESS INVESTMENTS

The first substantial foreign business investment in Colombia appears to have been a United States investment in a navigation company established in 1855. Soon thereafter British capital was invested in the develop-

ment of railways. Around 1890 foreign investments were made in gold mining and agricultural production, mostly of bananas and sugar. Investment of United States capital in petroleum appears to have been retarded for some time because of friction arising from the secession of Panama in 1903. After the First World War petroleum extraction absorbed the bulk of foreign business investment; smaller amounts went into transportation and public utilities, insurance and banking, trade and, later, into manufacturing. Before the reversion of a major petroleum concession to the Government in 1951, foreign-owned enterprises accounted for all production of petroleum, about three-fourths of gold output, most banana production and all exports of this fruit, and a large share of the insurance business.

At the end of 1950, the value of foreign capital in Colombia was recorded at \$423 million in a survey made by the Ministry of Finance.¹ Of this amount \$298 million was attributed to investments in petroleum production and distribution facilities. United States business investments on the same date were estimated by the United States census of foreign investments at \$193 million. The difference between the two figures appears larger than might be attributed to investments by nationals of other countries and may result from different valuations of petroleum investments transferred in the course of 1951 to the Government by the (United States) Tropical Oil Company according to the terms of its concession.

The value and nature of United States direct investments in Colombia are shown in table 11.

Table 11. United States direct investments in Colombia, 1929, 1943 and 1950
(Millions of dollars)

Field of investment	1929	1943	1950
Petroleum	56	75	112
Transportation, communication and public utilities	25	18	29
Manufacturing	3	6	25
Trade	4	6	9
Finance and insurance.....	^a	1	4
Mining and smelting.....	11	5	^a
Agriculture	16	2	^a
Miscellaneous	9	4	14
TOTAL	124	117	193

^a Included in "Miscellaneous".

Before the First World War United States direct investments were small; they were concentrated in the production of bananas and sugar, and in gold and platinum mining. The growing of coffee, the predominant export, also had attracted some investments from that country. Investments in public utilities were made at an early stage but did not become significant until the 1920's. By that time, however, petroleum investments overshadowed all others. Investments in other activities were of minor importance before 1929 and

have remained so, although there has been some expansion in manufacturing during the past decade.

In August 1951 United States holdings were substantially affected by the expiration of an important petroleum concession—known as the De Mares concession, held by a subsidiary of Standard Oil Company of New Jersey—which was turned over to an agency of the Colombian Government. However, this did not involve a reduction in the book value of United States direct investments as officially estimated, since the investment in question had been written off by the parent concern in anticipation of the expiration. By the end of 1952 United States investments had increased to \$234 million.

British direct investments in Colombia are smaller than those of the United States and have been declining over a long period. Investments in the production of gold, silver, platinum and emeralds amounted to about \$15 million in 1890 and only slightly more in 1929. During the depression of the 1930's a number of enterprises were liquidated, and the value of mining investments shrank considerably. Railways constituted another major field for British investments, but purchases by the Colombian Government gradually reduced such investments so that only one railway—the La Dorada line—remained in British possession after the Second World War; its franchise is to expire in 1961. The nominal value of investments in Colombia represented by non-governmental securities quoted on the London Stock Exchange in 1949 was £2.2 million, of which £1.7 was in railways.² British capital is also invested in mining, in a bank and in the petroleum industry. Subsidiaries of the Royal Dutch Shell Company, which is financed chiefly by British and Netherlands capital, accounts for about one-third of petroleum output in Colombia.

Canadian capital is invested in the petroleum industry, in a bank and in mining enterprises. German capital was formerly invested in banking, in the largest Colombian air transport company, in chemical plants and in iron works. A Swedish company is engaged in the manufacture of matches. French investments are now of minor significance.³ In 1895 a French citizen, Robert de Mares, acquired the concession which, as indicated below, at one time accounted for most of the country's petroleum output.

The governments of Ecuador and Venezuela had a share in forming the Greater Colombian Merchant Fleet (Flota Mercante Grancolombiana) which, following an agreement in 1946, was set up as a corporation domiciled in Colombia with headquarters in Bogotá and with an authorized capital of 35 million pesos (equal to \$20 million at the 1946 rate of exchange). Colombia and Venezuela each subscribed to 45 per cent, and Ecuador to the remaining 10 per cent, of the shares,

² *South American Journal* (London), 25 March 1950, page 140.

³ Before 1900 French capital raised to build a canal across the Panama isthmus, then part of Colombia, constituted the largest single foreign investment in Latin America.

¹ *Informe del Jefe de la Oficina de Registro de Cambios al Señor Gerente del Banco de la República* (Bogotá), 20 March 1952.

which were to be held almost exclusively by official and semi-official organizations. The Colombian Federation of Coffee Growers (*Federación Nacional de Cafeteros*) took almost the full Colombian quota. Ecuador's participation was financed through a joint 3 per cent loan of \$2 million from that Federation and the Venezuelan Government. At the end of 1952 the fleet numbered fifteen company-owned vessels, built after 1946, plus twenty chartered ships. In mid-1953 the Venezuelan shareholders withdrew from the enterprise. In exchange for their shares they received several of the company's vessels.

INDUSTRIAL DISTRIBUTION OF BUSINESS INVESTMENTS

Transportation and public utilities

Foreign business investments played an early role in the development of transportation and public utilities but later shifted to extractive and manufacturing industries. Of particular importance in the early stage of development were British investments in various railway lines, which, together with craft on the Magdalena River, constituted the inland transportation system. Most railways served the coffee trade, the chief source of foreign exchange earnings.

More than three-fourths of the country's electric power is generated by Colombian-owned plants. The only large foreign-owned electric company is a subsidiary of the American and Foreign Power Company, which accounts for about 12 per cent of the installed capacity of electric power plants in the country. In recent years a United States enterprise has sold its telephone subsidiaries in Colombia to the public authorities, which now own about four-fifths of the telephone system. A United States company, together with a governmental agency, provide telegraph services.

Mining

In the field of mineral production, foreign direct investments have a long history in the mining of gold, silver and platinum ores and of emeralds. In recent years foreign-owned mines, mostly British, Canadian and United States-owned, have accounted for about three-fourths of the output of gold. Gold production reached a peak of 20.4 metric tons in 1941 but declined to about half that total by 1948. A further decline was prevented by the Government's allowing the proceeds of gold exports to be sold at a premium rate of exchange. Free trading in newly mined gold was re-established in July 1953. Platinum and silver production plays a minor role.

Petroleum

The petroleum industry in Colombia, has absorbed most of the foreign investments, United States capital being largely responsible for its development. In 1914 Standard Oil Company of New Jersey acquired some oil lands in Colombia, and in 1916 also acquired from

a French concessionaire two million acres forming the so-called "De Mares concession". These became the centre of Colombian petroleum development, especially after 1926, when petroleum was first exported on a large scale. Total Colombian production reached 20 million barrels in 1929 but the annual rate declined somewhat during the depression years, when petroleum exports accounted for one-fourth of Colombia's exports.

During the 1930's two other United States petroleum companies—the Texas Petroleum Company and the Socony-Vacuum Oil Company—established jointly a subsidiary, which obtained the "Barco concession" near the Venezuelan border. After construction of a pipeline to the Caribbean, petroleum exports from this subsidiary began in 1939. Total petroleum production in Colombia increased to over 25 million barrels in 1940, but then decreased because of lack of shipping facilities during the war; they remained below the 1940 peak in the first post-war years also.

During the past few years petroleum output has again increased, following the entry into production in 1945 of the Yondó field (in central Colombia, adjoining the De Mares concession) operated by a subsidiary of the Shell Group.⁴ Refining of crude petroleum has increased gradually over twenty years from about one million barrels to over 11 million in 1952.

As mentioned earlier, the De Mares concession expired in August 1951. During twenty-nine years of operation, over 400 million barrels of crude petroleum had been extracted. In accordance with the original agreement, the physical assets of the concessionaire were turned over to a new autonomous government agency, the *Empresa Nacional de Petróleo*. They included 1,030 active oil wells, a refinery with a daily capacity of 25,000 barrels, over 300 miles of pipelines and other installations.

Manufacturing

Most manufacturing enterprises in Colombia are Colombian-owned and produce for the local market. Two large United States corporations operate textile factories. Colombia's largest chemical enterprise was originally German-owned; its assets, however, were expropriated by the Government during the Second World War. A number of United States and Swedish companies account for a large part of the chemical and pharmaceutical production. United States capital is invested in plants producing paper, cardboard, glass, tires, beer, yeast, baking powder and pharmaceutical and toilet goods. Netherlands capital controls a large vegetable oil factory.

⁴ Crude petroleum production in Colombia in 1952 reached a record of 38.7 million barrels, as follows: 12.6 million from the De Mares concession, 13.5 million from the Yondó concession and 10.2 million from the Barco concession. The Shell group also operates two other concessions, which yielded 0.8 million barrels; the Texas Petroleum Company operates a concession producing 1.4 million barrels.

Agriculture

While playing a small role in other fields of agriculture, foreign capital has been instrumental in developing banana production, which is centred around Santa Marta on the Caribbean coast. A subsidiary of the United Fruit Company is by far the largest producer in Colombia. Plant disease and shipping difficulties stopped exports during the war, but they have gradually recovered and now account for about 2 per cent of the value of exports.

Banking and insurance

Four commercial banks are foreign-owned. In mid-1951 their assets represented some 15 per cent of the total assets of the fourteen commercial banks established in Colombia. Foreign insurance companies, mostly British, American and Canadian, are active in all fields and especially in fire and transport insurance. They accounted for about half the insured value accepted by insurance companies in 1943, but their share fell to about one-third of a much larger nominal value by 1949. The domestic companies in many cases act as agents or brokers for foreign companies.

ENTRY AND STATUS OF FOREIGN CAPITAL

With certain minor exceptions Colombian law does not specifically restrict foreign ownership of business enterprises. The exceptions relate to air transport, coastwise shipping and frontier land. At least 51 per cent of the shares of air transport companies serving inland routes must be owned by Colombian nationals or by enterprises controlled by such nationals. Coastwise shipping is limited to vessels owned by Colombian nationals or by companies domiciled in Colombia, with a maximum of 40 per cent stock ownership by aliens. Temporary exemption from this limitation may be granted if national companies do not maintain adequate shipping services. For security reasons, public lands situated within two kilometres of the coast or land frontiers can be acquired only by native-born Colombians. Conditions relative to the establishment and operation of enterprises and to the ownership of property in Colombia by United States citizens and corporations on the basis of "national treatment or most-favoured-nation treatment" are contained in the Treaty of Friendship, Commerce and Navigation between the two countries, signed in April 1951. The treaty has not been ratified by either party, however, having been withdrawn for further negotiation after its signature in 1951.

No significant statutory limitations are imposed on the entry of foreign capital. However, before capital, whether in the form of foreign exchange or equipment, is brought into the country, it has to be registered with the exchange control authorities.

An instance of expropriation of foreign-owned enterprise occurred in 1947, when electric distribution facilities of a subsidiary of the American and Foreign Power Company were expropriated by the municipality

of Cali. The provisional indemnification originally granted was considerably less than the subsidiary's valuation of its properties. In 1949, however, the company reported that settlement of its claim had been arranged.⁵

CONTROL OF THE PETROLEUM INDUSTRY

Though Colombian petroleum production reached a new record in 1952, it is believed that existing oil-fields are approaching or have passed peak production, and the number of new wells drilled has diminished. In order to forestall a decline in production, the existing petroleum legislation was amended by decrees of November 1950 and September 1952 and by a law of December 1952 which removed some of the obstacles to exploration for oil. Thus the so-called reserve areas—those adjoining national boundaries and the coast—were opened up for exploration. Previous concessions in these areas had been contingent upon approval in each case by the legislature. Furthermore, the length of the period for which exploration concessions can be granted was extended, and the limitation on the area covered by such concessions was removed.

Oil found on public lands is the property of the State. The ownership of oil discovered on privately owned land generally depends on whether or not the land has been privately held since 28 October 1874, for acquisition of land prior to that time usually carried with it ownership of the subsoil. The Colombian Constitution and Fiscal Code recognize rights thus acquired, but no subsoil rights may be claimed on lands acquired from the Government after 1874 except for oil rights granted during a short period after 1912 when such grants were made possible by a law.

In general, the legislation contains more favourable provisions with respect to oil lands located in the less accessible parts of eastern Colombia (east and south-east of the eastern Cordillera of the Andes) than elsewhere in the country. Exploration rights are normally for five years and may be extended for a further six years; longer periods of time are provided for exploration in eastern Colombia. An exploration concession may be relinquished upon proof that drilling would not yield satisfactory results or has not yielded them. Exploitation concessions are for thirty years (forty years in eastern Colombia), subject to extension for an additional ten years.

Holders of concession contracts have to pay a surface tax, which ranges from twenty centavos per hectare during the first year to three pesos during the ninth year, except in eastern Colombia where lower rates apply, but these rates are reduced by one-half as long as a drilling outfit is maintained on the concession.

Holders of exploitation concessions are subject to half of the surface tax that was applied during the last

⁵ American and Foreign Power Company, *Twenty-Sixth Annual Report, 1949* (New York, 1950), page 11.

year of exploration. A royalty must be paid on petroleum products shipped from concessions; it ranges from 3 per cent to 13 per cent ad valorem, depending on the distance from the field to the port of embarkation.

For the purpose of taxation on income, a depletion allowance is granted on the basis of either an evaluation by the authorities in each case or an annual rate of 10 per cent of the value of the output less royalty. However, the depletion allowance, calculated on the basis of the flat rate, cannot exceed 20 per cent on income before depletion.

The decree of September 1952 exempted drilling equipment from import duties, and a similar exemption was granted for materials used for the construction of pipelines in eastern Colombia. The decree also exempted pipelines from regulations listing property accruing to the State upon the reversion of petroleum concessions.

LABOUR REGULATIONS

In enterprises employing more than ten persons, not more than 10 per cent of the manual wage earners engaged continuously for more than three months, and not more than 20 per cent of the salaried employees, may be aliens; and at least 80 per cent of the wages and 70 per cent of the salaries must be paid to Colombians. Exemptions may be granted for the hiring of indispensable technical personnel, but only for as long as is required to train Colombians to do the work. Nationals and aliens performing the same kind of work must be given equal remuneration and working conditions. There are no restrictions on the employment of foreign managerial personnel. The United States-Colombian treaty mentioned above assures United States nationals and companies the right to engage personnel, regardless of nationality, who are essential to the conduct of their affairs.

The cost of business operation in Colombia is affected by extensive social legislation which provides, for example, for the payment of a "service bonus" to employees.⁶

TAXATION

Colombia's tax laws do not discriminate against foreign nationals. This principle, in its application to United States investments, is explicitly stated in the draft United States-Colombian treaty previously mentioned, according to which Colombia agreed that citizens and companies of the United States, residing or engaged in business in Colombia, will not be subjected to taxation more burdensome than that applicable to its own nationals and companies, or those of any third country.

⁶The Labour Code of 1950 provides for a yearly payment of a "service bonus" equivalent to a month's salary by enterprises with a capital of 200,000 pesos or more and to fifteen days' salary by those with a smaller capital. This provision replaced a profit-sharing scheme introduced by legislation in 1948.

There are three types of direct taxes which affect enterprises in Colombia: income tax, property tax and excess profits tax. Indirect taxes such as the gasoline tax, stamp taxes and the tax on foreign exchange transactions, which are not described here in detail, are also of importance to foreign companies.

The tax on corporate income ranges from one per cent to 32 per cent, the higher rate being levied on income in excess of 5 million pesos. The excess profits tax is levied on profits in excess of 12 per cent of the net assets held during the previous year (if such assets exceed 30,000 pesos) and ranges up to 51 per cent. The property tax varies between 0.15 and 1.5 per cent of net assets above 20,000 pesos. A "housing tax" with a flat rate of 2.5 per cent is levied on income over 10,000 pesos. In July 1953 a surtax for "reconstruction and development", amounting to 20 per cent of the tax on income, patrimony and excess profits was applied to the income of individual and corporate taxpayers whose taxes in 1952 had amounted to 10,000 pesos or more. Net income from partnerships is subject to a tax of 3 per cent.

A law of July 1952 provides that capital invested in enterprises producing manufactures not previously produced in the country and requiring exclusively Colombian raw materials may be exempt from the property tax for five years. In the case of foreign capital, such an exemption may be granted at the time of the registration of capital that is required under the exchange regulations.

EXCHANGE CONTROL

Exchange control, accompanied by a system of multiple exchange rates, has been in effect since 1931. Of the foreign enterprises engaged in production for export, the petroleum concerns have been in a favoured position since they have not normally been required to surrender the foreign exchange proceeds of their sales. An obligation exists to surrender 25 per cent of these proceeds in times of pressure upon the Colombian balance of payments, with the understanding that the currency will be reimbursed when the payments situation improves. This provision has been invoked only once (in 1948).

The rules as to entry of capital for investment and the outward transfer of such capital and of capital yields were rendered more liberal in 1951. According to a decree of August 1951 (subsequently embodied in a law of July 1952), capital in the form of foreign exchange or equipment for production may be freely brought in, subject to prior registration, and can be repatriated in full at any time, subject to previous authorization. Net earnings of registered investments can be remitted without limitation and any undistributed portion of such earnings may be registered as imported capital. Earnings on local capital associated with foreign investments are not eligible for withdrawal, however. The decree applies to foreign investments made both

prior to the promulgation of the decree and subsequent to it. Foreign enterprises which have complied with these general obligations have the right to make the transfers indicated above, though permission in each case—apparently for control purposes—has to be obtained from the exchange authorities. The exchange value attributed to the peso in outward transfers of capital and investment income is 3.4 per cent higher than in inward capital transfers.

GOVERNMENT PARTICIPATION IN ECONOMIC ACTIVITIES

Monopolies created primarily for fiscal reasons represent the oldest form of governmental participation in production. The Central Government controls monopolies engaged in extracting salt and selling emeralds, and the department (territorial administrative units) monopolies produce and import liquor.

Railways have become government-operated to an increasing extent following a programme of nationalization initiated in 1913. The central and local governments now own and operate about 2,800 kilometres of lines; only two lines aggregating 170 kilometres are still operated under concession by private enterprises, of which one is foreign controlled.

Reference was made above to the Flota Mercante Grancolombiana, which is owned partly by the Government. The National Navigation Company (Compañía Nacional de Navegación) is a government-owned enterprise engaging in coastwise and river transportation. Part of the transportation of petroleum in Colombia is carried out through a government-owned pipeline; three additional pipelines are projected. Air transport has been developed largely by private enterprise.

About three-fourths of the electric energy produced for the public is accounted for by municipally owned enterprises, the remainder by private companies. In 1946 the Government established a National Institute of Water Utilization and Electrical Development (Instituto Nacional de Aprovechamiento de Aguas y de

Desarrollo Eléctrico) which was entrusted with planning and promoting electric power generation, but its resources are inadequate to meet the rapidly increasing demand for electricity.

A major governmental venture is the construction, to be completed in 1955, of an iron and steel plant at Belencito, with a yearly capacity of 100,000 metric tons. The plant will be operated by the Empresa Siderúrgica Nacional de Paz del Río, S.A., created by a law in December 1947, with an initial capital of 100 million pesos (about \$57 million at the official rate of exchange at that time), of which private investors may subscribe up to 20 per cent. Contracts with United States and European firms were signed for the construction of the plant and installation of equipment.

As mentioned above, the Empresa Nacional de Petróleo acquired in 1951 the De Mares concession, accounting for about one-third of Colombia's production of crude petroleum. The Empresa Nacional contracted with a subsidiary of Standard Oil Company of New Jersey, successor to the concession holder, to provide managerial and technical services for the extraction of petroleum and to operate a large refinery which had also reverted to the State. The Empresa Nacional will reimburse the managing company for its direct expenses incurred in the production of petroleum and pay an additional 20 per cent for overhead expenses. The managing company will sell for its own account the output of the refinery and will pay the Empresa Nacional a fixed annual amount, plus a charge per barrel of crude petroleum treated—charges varying on a sliding scale depending on the rate of production. Furthermore, the managing company has agreed to lend up to about \$8 million to the Empresa Nacional for construction of a cracking plant. It has also lent \$3 million for construction of a pipeline.

Certain publicly owned credit institutions for economic development are intended primarily to stimulate domestic private investment along specific lines and are of little significance for private foreign investment.

COSTA RICA

EXTERNAL PUBLIC DEBT

When the Central American Federation was dissolved, Costa Rica was allocated part of a small external obligation which had been incurred by the Federation. This liability was redeemed in 1840. Subsequently, Costa Rica did not incur any foreign debt until 1871, when a 6 per cent loan of £1 million was raised in London in connexion with the construction of a railway line. A 7 per cent loan of £2.4 million was raised in 1872 for the same purpose. Both loans went into default in 1874. A settlement with the bondholders made in 1885 was effective for ten years. A new settlement was made in 1897, but four years later a new default occurred. In 1911, final settlement was made by the issuance of 5 per cent refunding bonds in the amount of £2 million.

In addition, Costa Rica in 1912 raised a loan of 35 million French francs at 5 per cent, the proceeds of which were used for railway financing and for liquidation of the internal debt. Another loan—£188,720 at 6 per cent—was obtained in 1912 in London for public construction projects. Full service on the sterling loans and the French franc issue was maintained from 1911 to 1931.

Costa Rica entered the New York bond market in 1927, when it obtained a 7 per cent loan for \$8 million for redemption of internal debt and for the financing of public works. A 7½ per cent loan of \$1.8 million was raised in 1927 to pay for railway electrification. These two loans were also fully serviced until 1931.

The world economic depression brought about an acute shortage of foreign exchange in Costa Rica, and the Government discontinued servicing its foreign debt. From 1931 to 1941 several attempts were made to arrive at a satisfactory arrangement with the British and United States bondholders. Funding bonds, carrying interest at 5 per cent, were issued in 1932 and 1933 in lieu of unpaid interest on outstanding bonds. In 1937, however, payment of interest and amortization on these funding bonds also went into default. From 1939 to the end of 1941, a dollar debt adjustment plan was in effect,¹ but between 1942 and the end of 1952 default was complete.

In October 1952, it was announced that an agreement had been reached between the Costa Rican Government and the Foreign Bondholders' Protective Council for the resumption of service, on an adjusted basis, on Costa Rica's dollar bonds. Under the terms of the proposed

settlement, the Costa Rican Government would issue at par new twenty-year bonds in exchange for about \$8 million of dollar bonds outstanding. Holders of the 1926 and 1927 bonds would receive a new \$100 bond on account of arrears of interest for each \$1,000 of the old bonds. A similar arrangement would apply to the funding bonds of 1932 and 1933. Interest on the new issue would rise from 1½ per cent in 1953 to 3 per cent in 1956 and thereafter. A sinking fund would be provided, and annual payments for this purpose would increase until they reached 3 per cent of the principal in 1956 and thereafter. The Costa Rican Congress and the President subsequently approved the proposal, and in November 1953 the Foreign Bondholders' Protective Council recommended acceptance of the offer to the holders of Costa Rica's dollar bonds.

In May 1953 negotiations took place between the Costa Rican Government and the British Council of the Corporation of Foreign Bondholders concerning a settlement of two London issues in default, but no agreement was reached.²

The external bonded debt of Costa Rica on 30 June 1953 comprised the following (in millions of the indicated currencies):

<i>Dollar bonds:</i>	<i>Dollars</i>
7 per cent external secured gold bonds, 1926....	5.4
7½ per cent Pacific Railway Bonds, 1927.....	1.2
5 per cent funding bonds, 1932.....	1.1
5 per cent funding bonds (Pacific Railway), 1933	0.4
TOTAL	8.1
<i>Sterling bonds:</i>	<i>Pounds sterling</i>
5 per cent refunding bonds, 1911.....	1.4
6 per cent mortgage bonds, 1912.....	^a
5 per cent sterling funding bonds, 1933.....	0.2
TOTAL	1.6
<i>French franc bonds:</i>	<i>French francs</i>
5 per cent external gold loan, 1911.....	5.8

Source: Council of the Corporation of Foreign Bondholders (London), *Report for 1953*, page 415.

^a £15,260; called for redemption in November 1953.

In 1928, the Mortgage Bank of Costa Rica obtained dollar funds in Spain through sale of \$4 million of 7 per cent bonds. A moratorium was declared in 1933, and in 1936 under a new agreement with the bondholders the interest rate was reduced to 3½ per cent and a new amortization schedule established.³ As of 31 July 1954

² Council of the Corporation of Foreign Bondholders (London), *Report for 1953*, page 35.

³ Moody's *Analyses of Investments, Governments* (New York, 1950), page 1759.

¹ For details of the 1939 dollar debt adjustment plan, see Foreign Bondholders' Protective Council, Inc., *Annual Report* (New York, 1938), page 335.

there still were one million colones of bonds outstanding.

In addition to the external bonded loans, the Costa Rican Government has obtained two credits from the Export-Import Bank of Washington, D.C., one of \$5 million in 1940 and one of \$2 million in 1942 for the financing of the Costa Rican section of the Inter-American Highway. The original amortization schedule was modified in February 1946 in order to reduce Costa Rica's annual payments to a level consistent with its exchange income. According to the new agreement, total annual payments of \$350,000 were to be made until the end of 1950. In February 1951, a new service plan was established.

BUSINESS INVESTMENTS

It has been estimated that foreign direct investments in Costa Rica amounted to \$105 million at the end of 1949; of this sum, almost 90 per cent represented investments by corporations.⁴

United States investments are believed to have accounted for approximately three-quarters of all foreign investments in the country. The most recent official estimate of these is for 1950, when they totalled \$62.1 million (table).

Table 12. United States direct investments in Costa Rica, 1943 and 1950

(Millions of dollars)

Field of investment	1943	1950
Transportation and public utilities.....	6.0	10.8
Trade	0.1	2.8
Petroleum distribution.....	1.3	3.8
Agriculture	21.7	44.7
Manufacturing	0.7	
Finance and insurance.....	0.2	
Miscellaneous	0.8	
TOTAL	30.9	62.1

The corresponding total for 1929 was \$22.2 million and that for 1936, \$13.3 million.

The nominal value of British business investments in 1949 has been estimated by the Bank of England at £4.0 million.⁵ A large part of British business investments was in a railway enterprise—Northern Railway Company of Costa Rica, a subsidiary of Costa Rica Railway Company, Ltd. Among other British investments is a bank.

French and German business investments in 1938 were estimated as amounting to \$4 million and \$3 million, respectively, in 1938.⁶

⁴ Stacy May and Associates, *Costa Rica: A Study in Economic Development* (Twentieth Century Fund, New York, 1952), page 261.

⁵ For an historical survey see Henry C. Bischoff, "British Investments in Costa Rica", *Inter-American Economic Affairs* (Washington, D.C.), summer 1953.

⁶ Stacy May and Associates, *op. cit.*, page 263.

INDUSTRIAL DISTRIBUTION OF INVESTMENTS

Agriculture

Costa Rica is primarily an agricultural country, relying for foreign exchange principally on coffee and bananas, which normally represent between 70 and 80 per cent of its exports. Other exports are cocoa and abacá (Manila hemp). It has been estimated that close to half of all agricultural produce of the country, in terms of value, is exported.

Of the two principal agricultural commodities grown chiefly for export, only bananas are produced by foreign-owned plantations. The United Fruit Company, operating through the *Compañía Bananera de Costa Rica*, is by far the most important producer and exporter of this fruit. Banana cultivation by United States enterprises started at the end of the nineteenth century. At that time the plantations were mainly in Limón province on the Caribbean coast of Costa Rica. The building of the Northern Railway by British capital was closely linked with production of bananas. When in the 1930's disease wiped out many banana trees along the Caribbean coast, the United Fruit Company started to develop extensive plantations on the Pacific coast. Most of Costa Rica's banana exports now come from that area.

Direct investment in agriculture by the United Fruit Company accounts for the bulk of the United States capital invested. The considerable increase in agricultural investment during the 1940's—from \$22 million in 1943 to about double that figure in 1950—is connected largely with the change in location of some banana plantations and an increase in acreage under cultivation.

In 1952 the *Compañía Bananera* initiated negotiations with the Government for a concession entailing a large investment programme for resuming cultivation of bananas in Limón province.⁷

Railways and public utilities

Most of the important public utility enterprises in Costa Rica have been developed with the aid of foreign capital. The electrification of one of the three major railway lines (*Ferrocarril Eléctrico al Pacífico*), which is government-owned, has been financed with foreign capital. This line, with a length of eighty-three miles, runs from the capital, San José, to Puntarenas on the Pacific coast. A railway running from San José to the city of Limón, site of the original United Fruit plantations, is owned and operated as a common carrier by the Northern Railway Company, mentioned above. Its lines, including branches, total 280 miles, and it is the most important railway in the country. The United Fruit Company owns and operates two railways, about 320 miles long, leading inland from the ports of Quepos and Golfito on the Pacific coast; both are common carriers. The Northern Railway and the Pacific Railway are reported as operating at a loss.

⁷ United States Department of Commerce, *World Trade Series, Costa Rica—Economic Review, 1952* (Washington, D.C., June 1953).

A United States-owned enterprise—National Power and Light Company (Compañía Nacional de Fuerza y Luz)—generates about two-thirds of the electrical energy distributed in the country.⁸ Though the electrical department of the company is reported to have shown only a modest rate of return investment during the past decade, the company expanded its facilities in the 1940's in accordance with the terms of its concession of 1941. The generating capacity was raised between 1944 and 1950 by approximately three-fourths. About half the capital required for the expansion represented reinvestment of profits; the remainder was derived from the parent company in the United States and from the sale of bonds in Costa Rica. Further expansion of electric facilities has been held by the Company to depend on an increase in the rate which it is allowed to charge for power.⁹

The National Power and Light Company also runs the telephone service; until 1950 it operated the electric streetcar service in the capital.¹⁰ The British-owned Northern Railway Company owns and operates the telephone service in Limón; the United Fruit Company operates a telephone system of its own.

Other investments

Foreign investment in manufacturing is mainly in two processing plants owned by the United Fruit Company (a palm oil processing plant and a plant for decorticating abacá) and a combined fish canning and freezing plant on the Pacific coast which is owned by a United States enterprise.

So far, little foreign capital has been put into development of mineral deposits. In 1949, a United States oil company entered into a contract for exploration and drilling. Owing to opposition to the terms of the contract in the Constituent Assembly, the company suspended its activities until a new contract was signed late in 1951.

As already mentioned, a British bank was established in Costa Rica in 1937. However, it operates with its own capital and does not accept deposits.

FOREIGN INVESTMENTS AND THE ECONOMY OF COSTA RICA

The activities of the United Fruit Company have greatly influenced the economy of Costa Rica. Exports of bananas reached an all-time peak of about 11 million bunches in 1913, but declined to 3 million in 1935. Since then, except during the war years when transportation difficulties affected exports, production has increased steadily, and exports have risen to about 10 million

⁸ This company is reported to have had at the end of 1949 a total fixed capital investment in Costa Rica of \$10.9 million. (Stacy May and Associates, *op. cit.*, page 265.)

⁹ A 15 per cent increase in rates—the first since 1928—was authorized in September 1952.

¹⁰ The company was allowed to discontinue streetcar service upon petition showing consistent deficits over a period of years. The telephone service was also operated at a loss from 1944 until a rate increase was granted in 1949.

bunches in recent years. At this level Costa Rica is again one of the leading world exporters of bananas.

The area owned by the United Fruit Company and planted to bananas increased from 20,000 acres in 1945 to 41,000 acres in 1952. A further expansion of banana production is called for under a contract between the company and the Government. The land owned by the company and used for cocoa has increased from about 25,000 acres in 1945 to 28,000 acres in 1952. It is reported that the company plans to increase this acreage to more than 40,000 acres over a period of five years. There has been a small decline in the area under abacá (from 10,000 acres in 1948 to 8,500 in 1952) but during the same period the area growing oil palms doubled, from 5,000 to 10,000 acres.

In 1950 the United Fruit Company employed about 19,000 workers or about 10 per cent of all agricultural workers (excluding employers) in Costa Rica. Its cultivated area represented about 15 per cent of the country's total area in crops. Out of the proceeds of its exports in the same year, over \$20 million accrued to the Costa Rican economy—after deduction of profits transferred abroad.¹¹

The United Fruit Company accounts for over half of Costa Rica's exports—in 1951 for about 60 per cent of a total of some \$62 million. During the same year the yield of foreign direct investments, represented almost entirely by the United Fruit Company, was \$15 million, a figure exceeding the yield during any of several years preceding.

ENTRY AND STATUS OF FOREIGN CAPITAL

Foreigners enjoy almost complete equality with citizens of Costa Rica when doing business in the country. According to Article 19 of the Constitution, foreigners have the same individual and social rights and duties as Costa Ricans, with such exceptions and limitations as the Constitution and laws may establish. According to the Law for the Nationalization of Commerce of 28 December 1943, new commercial enterprises cannot be established by citizens of countries with which Costa Rica has not concluded a treaty of amity and commerce.¹² A long-standing Treaty of Amity, Commerce and Navigation between the United States and Costa Rica, ratified in 1852, renders United States citizens eligible to engage in business in conformity with the law referred to.

No governmental authorization is required for the organization and operation of business. At least 90 per cent of the workers and employees on the payroll of any enterprise must be Costa Ricans who must receive at least 85 per cent of the total annual wage and salary payments. However, the Government can reduce these

¹¹ Stacy May and Associates, *op. cit.*, pages 49 and 50 and table 4.

¹² This law has not been enforced, and foreign individuals and business firms can participate freely in commercial activities.

proportions to 80 and 75 per cent, respectively. Managers and directors are not included in these percentages if there are not more than two such persons in the enterprise.

Article 29 of the Constitution (as amended by Law 24 of 1943) guarantees the inviolability of property. Property cannot be expropriated except in the public interest and unless prior payment has been made in compensation. During recent years the most important case of such action has been the nationalization, in 1948, of the domestically owned commercial banks. The shareholders were compensated with Costa Rican government bonds.

Coal and petroleum deposits are the property of the State. A concession must be obtained from the Government to explore or exploit such deposits.

Extensive privileges may be granted to new industries which are deemed of benefit to the national economy. Such privileges may include tax exemption, reduction of import duties on machinery and raw materials or exemption from them, the introduction of, or increase in, protective customs duties on competing products, and a guarantee that no competing industry will receive similar advantages during a certain period of time. It is also possible for new or existing enterprises to obtain special concession contracts from the Government, subject to approval by Congress. Public lands may be rented to Costa Ricans and foreigners provided that 75 per cent of the land is used for the cultivation of major export products such as coffee, bananas or cocoa.

EXCHANGE CONTROL

Foreign exchange regulations have been in effect since 1932 and have been revised several times. The present exchange control system was put into effect by a law of 29 September 1951. It provides for an official and a "controlled free" exchange market. Since July 1952 the rates in the two markets have been 5.67 colones and 6.65 colones per dollar, respectively (\$0.176 and \$0.15). Foreign exchange may be purchased at the official rate for the import of goods of "primary necessity". Exporters may be permitted to sell in the free market part of the foreign exchange they have obtained from the export of specified commodities. The United Fruit Company is required to sell to the Central Bank (or to other banks acting as its agents) only the portion of foreign exchange which remains after the requirements for profits, depreciation and certain imports (see below) have been deducted from the export proceeds.

Foreign capital entering Costa Rica must be converted at the official rate of exchange and registered with the Central Bank in order to permit the investor to purchase foreign exchange at the official rate for remittances abroad related to the investment made. Remittances abroad of interest and dividends, converted at the official rate, may not exceed 10 per cent annually of the registered capital. The Central Bank is author-

ized to determine in each individual case the percentage of amortization payments to be made at the official rate, subject to the availability of foreign exchange. The Central Bank can refuse to register new foreign capital if it deems the investment contrary to the national interest or inconsistent with the aims of the country's economic policy. If the investor is willing to forgo application of the official rate for remittances from Costa Rica, he can bring capital into the country, or transfer capital yields and make withdrawals from it, in unlimited amounts at the "free" rate.

TAXATION

Costa Rican taxes do not discriminate between nationals of Costa Rica and foreigners, except that a tax of $\frac{1}{2}$ per cent per annum is levied on profits earned by branches or agencies of foreign companies established in Costa Rica. A progressive income tax is imposed on the net income of corporations and individuals. The rate rises from one per cent on the first 1,000 colones to 15 per cent on income in excess of 500,000 colones.¹³ Dividends are not included in a stockholder's taxable income. Though receipts from income taxes have been increasing in recent years, indirect taxes, mainly customs receipts, contributed in 1952 nearly three times as much as direct taxes to government receipts. Recently the income tax revenue has increased, following the imposition of taxes on the United Fruit Company under the terms of its contract of 1949 with the Costa Rican Government. The previous agreement, made in 1930, had guaranteed the company against any increase in existing taxes and against the imposition of new taxes and exempted it from all import duties; on the other hand, the company had agreed to pay the banana export tax of 2 cents per bunch. Under the terms of the December 1949 contract, these original tax provisions were modified,¹⁴ and the United Fruit Company agreed to pay from the beginning of 1950:

- (a) A tax of 15 per cent on the net profits on all activities in Costa Rica, as provided by the income tax legislation enacted in 1949. (The calculation of net profits, as submitted to income tax authorities in the United States, is acceptable to the Costa Rican Government.)
- (b) A 10 per cent levy enacted in 1948 on capital not invested in the banana and abacá industries.¹⁵
- (c) The property tax enacted in 1946.

¹³ In 1954 the upper limit was increased to 30 per cent.

¹⁴ *La Gaceta*, Diario Oficial (San José), 31 December 1949.

¹⁵ In 1948, in connexion with the contemplated establishment of several government-owned enterprises, the provisional Government issued a decree requiring payment of a 10 per cent tax levy on all private capital holdings of 50,000 colones (about \$9,000) and over. This levy, which was non-recurrent, was to be paid in ten annual instalments, intended to provide funds to finance a programme of public works, including improvement of the government-owned railway. The levy was discontinued in August 1953.

- (d) The consular tax on imports enacted in 1930, except on imports for the abacá industry.
- (e) The export tax on cocoa enacted in 1948.
- (f) The charity tax enacted in 1932.

The Costa Rican Government, on the other hand, agreed not to increase any of these taxes or to levy new taxes. The export tax on bananas was to remain unchanged.

The 1949 contract also provided for surrender of foreign exchange and for the right of expropriation. The Costa Rican Government specifically agreed to pay just compensation in United States currency prior to expropriation in case such action was taken for public service establishments of recognized necessity.

In November 1953 the Government of Costa Rica requested that its contracts with the subsidiaries of the United Fruit Company be renegotiated, and in June 1954 new agreements were signed. Their main provisions are that the subsidiaries will be subject to income tax at the prevailing rates, but not to exceed 30 per cent, and that they will be authorized to sell the foreign exchange proceeds of their exports at the free market rate whenever the margin between such rate and

the official rate exceeds 30 per cent of the official rate in any month.¹⁶

As a rule, the Government does not engage in business activities. Government monopolies have, however, been created in three fields: production of distilled alcohol and liquors; production and importation of salt; and insurance. In addition, since the nationalization in 1948 of the domestically owned commercial banks, the Government has almost complete monopoly in commercial banking. Only the nationalized banks can accept deposits, but other banking services may still be offered by foreign private banks. Government match and gasoline monopolies existed till the mid-1930's; at that time, they were turned over to a private enterprise.

At the end of 1952 negotiations between the Government and four small private power companies for the purchase of their assets were reported as well advanced. In 1953 it was reported that the Government had decided to undertake a hydroelectric power project costing about \$10 million, without recourse to external borrowing.

¹⁶ United States Department of Commerce, *Foreign Commerce Weekly* (Washington, D.C.), 16 August 1954, page 10.

CUBA

EXTERNAL PUBLIC DEBT

Cuba's first dollar loan, amounting to \$35 million, was raised in 1904 to meet the expenses of its war of independence. Four loans totalling \$26.5 million were raised during the period 1909 to 1914, to retire internal indebtedness, for public works in Havana, and for general governmental expenditure. A \$9 million loan of 1927 was used for funding internal public debt.

During the period 1928 to 1931, bonds and notes totalling \$100 million were issued by the Government and accepted by United States contractors as payment for the building of a highway traversing the island and for other public works. In order to support the price of sugar the Government issued during the period 1929 to 1931, \$37 million of "sugar stabilization bonds" (payable in dollars) to sugar producers in exchange for 1.5 million tons of sugar; this loan was serviced regularly until its redemption in 1940.

During the world economic depression of the early 1930's, foreign debt service payments became difficult. Servicing on public works debts of the Machado Government (1923 to 1933) was not met from 1933 to 1938. Interest on the publicly offered dollar bonds, however, was paid regularly until their redemption in 1949, and sinking fund payments were suspended only during two years (1934 and 1935).

In 1938 bonds carrying interest at 4½ per cent, dated 1937 and due in 1977, were issued in an amount of \$85 million. Of this total, \$60.9 million of bonds was exchanged at par for three of the four outstanding public works issues of 1928 to 1931 referred to above, \$4 million was issued for the settlement of \$9 million of accrued interest on two of the 1928 to 1931 issues (\$5.7 million of such interest on the third issue was cancelled), \$10.2 million was used to fund debt to foreign railway companies in Cuba and the remaining \$9.9 million was held by the Treasury in reserve. In 1941 the \$9.9 million, together with a new 4½ per cent bond issue of \$8.7 million due in 1955, was used for the settlement of various foreign claims.

Payments on these issues have been made regularly, often before maturity. By the end of 1953 the external funded debt had been reduced to \$62.4 million, of which \$60.5 million was on account of the 1937 issue and \$1.9 million on account of the 1941 issue. It is estimated that about nine-tenths of this total was held in Cuba and the dollar bonds outstanding constituted about half of the total funded debt of the Government.

In 1941 the Cuban Government borrowed \$17.7 million from the Export-Import Bank of Washington,

D.C., for public works; this loan was redeemed in 1950.¹

BUSINESS INVESTMENTS

United States capital predominates among foreign business investments in Cuba. It is estimated to have grown from \$50 million at the end of 1897 to \$265 million at the end of 1914.² Numerous United States-controlled enterprises were established during and shortly after the First World War, and by 1929 investments had reached a value of \$919 million, of which a large part is estimated to have accumulated through reinvestment of earnings in sugar enterprises. Between 1929 and 1943 there occurred a sharp decline in the value of United States investments (see table 13), due mainly to the writing down of investments in sugar production, electric power and railways. Subsequently, the total increased again. By the end of 1952 total United States direct investments in Cuba amounted to \$686 million.

Table 13. United States direct investments in Cuba, 1929, 1943 and 1950

(Millions of dollars)

<i>Field of investment</i>	1929	1943	1950
Manufacturing	45	65	55
Distribution	15	33	21
Agriculture	575	183	263
Petroleum	9	14	20
Public utilities and transportation..	215	272	270
Various groups*	60	-38	13
TOTAL	919	529	642

* Including "finance" and "mining and smelting". In 1943 investment in finance is given as "minus \$60.1 million". It appears that United States banks in Cuba held a portion of their assets in the United States, while their liabilities on account of deposit were almost entirely due in Cuba. Investment in mining and smelting was \$6.4 million in 1943. No separate figures for "finance" and "mining and smelting" in 1950 are available.

British investments in Cuba are chiefly in railways. Those in sugar mills, which had never been large, were liquidated in the 1940's. At the end of 1953 the Cuban Government purchased the assets of a British-owned

¹ In March 1951 the Cuban Electric Company, a subsidiary of the American and Foreign Power Company, obtained a loan of \$12 million from the Export-Import Bank for the financing of additional electric generating capacity. Since the loan is not guaranteed by the Cuban Government, it does not constitute part of Cuba's external public debt.

² J. F. Rippey, "Investments of Citizens of the United States in Latin America", *The Journal of Business of the University of Chicago* (Chicago, Ill.), January 1949, pages 17 to 29.

railway company for \$13 million. The decline of British investments during the period 1913 to 1948 is shown below.

Table 14. United Kingdom direct investments in Cuba, selected years

(Millions of pounds sterling)

Year	Total	Railways
1913.....	44.4	25.8
1929.....	42.4	29.3
1940.....	32.2	29.2
1948.....	27.5	26.7

Source: *South American Journal* (London), 19 March 1949. The figures refer to non-governmental securities quoted on the London Stock Exchange.

Canadian investments are largely confined to banking but are important in this field. Substantial Canadian investments in sugar mills were liquidated between 1942 and 1948.

INDUSTRIAL DISTRIBUTION OF BUSINESS INVESTMENTS

Sugar

Foreign business investments in the Cuban economy have declined in importance since the 1920's but continue to play a considerable role, particularly in sugar production. During the past ten years, sugar and related products have continued to account for about four-fifths of exports, and for about one-third of the estimated national income. The share of foreign-controlled mills in sugar production fell from three-quarters in 1930 to 43 per cent in 1951. Details of the ownership of sugar mills in 1939 and 1952 are given in table 15. The United States-controlled sugar output, which had increased from about 35 per cent shortly before the First World War to 55 per cent towards the late 1920's, declined to 43 per cent in 1952. British, Canadian and Netherlands investments in sugar production have been completely liquidated in recent years.

Table 15. Ownership of sugar mills in Cuba, 1939 and 1952

Nationality of ownership ^a	Number of sugar mills		Percentage share in production	
	1939	1952	1939	1952
United States.....	66	41	55.1	43.3
Cuba	56	113	22.4	54.5
Spain ^b	33	6	14.9	2.0
Canada	10	—	4.8	—
United Kingdom.....	4	—	1.4	—
Netherlands	3	—	0.8	—
France	2	1	0.6	0.2

Source: *Anuario Azucarero de Cuba, 1952* (Havana), page 71.

^a Classified according to the nationality of the individuals or corporations owning or leasing sugar mills.

^b Most of these investments are believed to be owned by residents of Cuba.

Public utilities, transportation and manufacturing

Of the electric power supply in Cuba, about 40 per cent is generated by public service companies, and the remainder by industrial establishments (principally sugar mills), chiefly for their own needs. One of the public service companies, the Cuban Electric Company, a subsidiary of American and Foreign Power Company, supplies 90 per cent of the output. The domestic telegraph service is government-owned and operated; other communications are controlled by United States capital.

The Cuban railway system comprises 3,000 miles of common carrier lines and about 6,800 miles of track which exclusively serve the sugar industry. Of the former nearly all were until recently owned and operated by foreign enterprises. The two most important are the United Railways of Havana Company, with nearly 1,400 miles of route serving the western part of Cuba, and a United States enterprise, which owns two companies with nearly 1,100 miles of route serving the eastern part of the island. In 1950 almost half of the shares of the latter were reported held by Cuban nationals.

As stated above, in December 1953 the Cuban Government purchased the assets of the British-owned United Railways of Havana Company. These assets were transferred to a government-controlled corporation, Ferrocarriles Occidentales de Cuba, S.A., which had been created to operate the railways. In order to finance the purchase, to provide the new enterprise with working capital and to liquidate arrears, a governmental agency has placed bonds amounting to \$20 million with two commercial banks in the United States. Up to 49 per cent of the shares of the newly created enterprise are to be sold to private investors, presumably Cuban.

The principal aviation company providing local service is a subsidiary of a United States enterprise.

The leading air transport company in the country, *Compañía Cubana de Aviación*, was originally a wholly-owned subsidiary of a United States enterprise, but at present majority control is in Cuban hands. The company operates on national as well as international routes.

Despite some expansion during the past two decades, manufacturing, other than sugar production, is of secondary importance. Foreign participation in Cuban manufacturing enterprises is largely confined to United States capital. United States enterprises are engaged in the manufacture of a variety of products, including tobacco, dairy and other food products, soft drinks, textiles, rubber goods, fertilizers, paints, pharmaceuticals, soap and cement.

Mining and petroleum extraction

Cuba's mineral resources have been exploited to a minor extent, financed mainly by United States capital. Manganese deposits have been worked since 1888, but continuous production began only around 1930. The chief producer of this ore in Cuba is a subsidiary of a

United States enterprise. Chromite production has been continuous since 1916; the largest reserves of this mineral are also worked by United States companies. Mining of manganese and chromite ores was stimulated by war-time demand during the 1940's, but subsequently declined. Since 1950 there has been a partial recovery of the exports of these metals.

Iron ore production was started by a United States company in 1908. The reserves of iron ore are considerable, but technical difficulties involved in separating the iron, nickel, chromium and cobalt components of the ore have hampered production.³ A large United States-owned plant for the processing of nickel ore, built during the Second World War, ceased operation in 1947 owing to high production costs; following an increase in the price of nickel, the plant was reopened in 1952, and it is reported that an investment of about \$40 million for the expansion of existing facilities is being planned. Substantial investment by other United States enterprises in the extraction of nickel is also reported under consideration.

In 1952 exports of copper concentrates reached a peak value (\$7.8 million) and were the most important mineral export of the island.

Exploration for petroleum has been undertaken by several foreign enterprises, but by 1949 all but one had withdrawn because no important discoveries had been made. Subsequently, exploration work was resumed and in 1954 oil was struck in the province of Camagüey. Interest in petroleum exploration in Cuba, both by foreigners and nationals, is also being stimulated by the Government, which in 1954 enacted regulations for granting liberal credit facilities and for assuming part of the risk involved.

Refining of imported crude oil is carried on principally by a United States enterprise, although recently two other foreign companies which retail petroleum products in Cuba have made public their intention of constructing their own refineries on the island.

Banking and insurance

There is considerable foreign capital in banking and insurance. Of fifty-six banks registered in September 1950 three were of United States registry, two of Canadian and one of Chinese registry; these six banks accounted for about 55 per cent of total deposits. Of 129 insurance companies operating in Cuba at the end of 1946, 66 were foreign-owned, 28 being American, 36 British and Canadian, one French and one Swiss.

FOREIGN INVESTMENT AND THE CUBAN ECONOMY

Until the 1930's, sugar production, the mainstay of the Cuban economy, was developed largely by foreign-owned enterprises. The establishment of transportation, communication and electric power facilities by foreign enterprises has largely been auxiliary to the

production and marketing of sugar. In general, the inflow of private foreign capital, except for government borrowing in the United States during the late 1920's, has been closely related to the sugar industry.

The dependence of the economy on the world sugar market is said to increase the risk premium attached to business investments generally, and thus to reduce initiative.⁴ It also tends to discourage diversification, for when the price of sugar is high investment in other activities is relatively less rewarding, while when the price of sugar is low the rest of the economy is depressed and investment in general seems risky. Despite the absence of exchange restrictions and other specific restraints on foreign investment, Cuba has attracted relatively little new foreign capital in recent years, and a substantial amount of Cuban capital appears to have found its way abroad (see below).

Since the beginning of the present century Cuba has in almost every year had a surplus of exports over imports sufficient to finance net outward payments for freight and other services and remittances on account of the external debt and other foreign investments. An exception was the period from 1924 until the early 1930's, when a substantial inflow of capital offset an adverse balance on current account. In the early 1930's, when the inflow of capital ceased, pressure on the balance of payments was averted by a sharp drop in domestic incomes, and hence in imports, following the decline in export proceeds.

Since the late 1920's the inflow of new foreign capital has not been an important element in the Cuban balance of payments; in fact, since the end of the Second World War there has been a moderate net outflow of private long-term equity capital, except in 1951, and of funds for repayment of the Government's external debt.

Most of the outflow of long-term private capital is accounted for by sale of sugar mills and other United States-controlled enterprises to Cuban buyers. This outflow, however, has been more than balanced by the reinvestment of earnings of United States-owned subsidiaries in Cuba, which is not included in the recorded capital movements. In addition to the capital outflow just mentioned, there has been a flow of funds to the United States for the purpose of investment in real estate and other assets and the building up of "cash hoards" in safe-deposit boxes. One estimate puts this outflow at \$24 million in 1947, \$45 million in 1948 and \$43 million in 1949.⁵ According to a United States 1941 census of foreign-owned assets in the United States, Cuban nationals owned \$52 million worth of United States securities in that year. Deposits in the United States by Cuban firms and individuals at the end of 1953 have been estimated at \$69 million.

Outward payments on account of foreign investment yield and amortization on the external debt equalled about 17 per cent of receipts on current account in

³ International Bank for Reconstruction and Development, *Report on Cuba* (Washington, D.C., 1951), page 995.

⁴ *Ibid.*, pages 6 to 10.

⁵ *Ibid.*, page 518.

1929, but dropped to 7.5 per cent in 1946 and 4.3 per cent in 1951. The decline is owing to the shrinkage of the external debt.

ENTRY AND STATUS OF FOREIGN CAPITAL

Foreign nationals and enterprises are accorded the same rights to engage in economic activities as Cuban nationals and enterprises.⁶ The legal requirements for the establishment of enterprises in Cuba are minor.

Governmental control of particular industries, such as mining, petroleum, banking and insurance, is administered without discrimination between foreign and domestic enterprises. Concessions for mining and petroleum extraction may be applied for by individuals, or firms, of Cuban or foreign nationality, provided they are established under Cuban law. Mining concessions are granted by the State for unlimited periods for operations on public or private property. In the latter case the State may expropriate lands upon application of a third party for a concession if the owner of the surface rights and the applicant fail to reach an agreement. The owner of the land is indemnified for the value of the land and for any damage caused by the expropriation. Exploitation concessions for petroleum are granted for a period of thirty years, after which all rights and property revert to the State without compensation. A royalty of 10 per cent of the petroleum extracted has to be paid to the State.

A trend towards control over the production and marketing of sugar began in the mid-1920's, after the collapse of the war-time boom. The policies followed have involved limitation of production, restriction of exports, bulk sales to foreign countries and participation in international agreements for the stabilization of the world sugar market.

Among the controls which affect a number of industries, reference may be made to those regulating the cultivation, production, distribution, consumption, import and export of coffee. A tobacco stabilization scheme is also in effect. The prices of various products of primary necessity, especially staple foods, are controlled. Otherwise the price control system established during the war has been abolished. Certain export controls have been introduced recently in order to assure an adequate domestic supply of locally produced raw materials such as henequen fibre.

Labour legislation in Cuba and its application are generally considered as tending to discourage business

⁶ The Constitution of 1940 provides that "the right to and possession of real property and the operation of agricultural, industrial, commercial, banking and other enterprises or businesses by foreigners located in Cuba or those whose operations are centred in Cuba, although they are located outside the country, are subject to the same regulations as the law establishes for nationals" (Title 17, Section IV, Article 272). The only limitation to these rights appears to be in Article 90, which stipulates that the law shall restrict the acquisition and possession of land by foreigners, and provide measures for the restoration of land to Cubans. As far as can be determined, however, this provision has not been implemented by specific legislation.

investment, domestic as well as foreign.⁷ Article 77 of the Constitution of 1940 provides that an employee can be dismissed only if a proper cause of a kind indicated by law is proved by administrative proceedings, and he has the right to appeal to courts. Employers hold that in practice the dismissal for proper cause of a worker employed for more than six months renders it necessary for the employer to go through a long and expensive procedure and that even so the result is uncertain.⁸

Other difficulties arise from the requirement of labour unions that promotion of employees be based on seniority rather than on merit. It is held that in some fields improvements in labour efficiency are also impeded by the insistence of unions on the employment of unnecessary workers, and by their opposition to labour-saving methods or machinery.

According to a labour decree of 1933 (sometimes referred to as the "Cubanization law"), at least 50 per cent of the personnel of agricultural, industrial or mercantile enterprises in Cuba must be native-born Cubans, and at least 50 per cent of the wages and salaries must be paid to such personnel. Enterprises which when the decree was issued employed a higher percentage of native-born Cubans are required to maintain that proportion. New or vacated positions must be filled by native-born or naturalized Cubans, and reductions in personnel must be effected by removal of foreign personnel. The provisions do not apply to the representatives or attorneys-in-fact of the employer, or to employees in technical positions for which no "academically qualified" native Cubans can be found. The adequacy of such native candidates is decided by the authorities. A foreign technician may be employed only until such time as a native-born Cuban can be found to replace him, or until a Cuban can be trained to fill the post. An employer engaging a foreign technician is required, at his own expense, to train a Cuban to replace him as early as possible.

TAXATION

Profits earned by stock and limited liability companies and by banks, sugar mills and mining companies, irrespective of their organization, are subject to a tax that ranges from 20 per cent on the first 100,000 pesos to 35 per cent on amounts in excess of one million pesos.⁹ Special flat rates apply to profits of railways, companies in coastwise shipping and co-operatives. Other enterprises pay from 15 per cent on profits of up to 25,000 pesos to 35 per cent on profits in excess of one million pesos.

The declared capital of enterprises is subject to an annual levy of 0.5 per cent, and there is a 15 per cent tax on "excess profits" which are defined as profits in excess of 10 per cent of the declared capital of the

⁷ International Bank for Reconstruction and Development, *op. cit.*, chapters 6, 16 and 17.

⁸ *Ibid.*, page 364.

⁹ United States Department of Commerce, *Foreign Commerce Weekly* (Washington, D.C.), 26 January 1953, page 5.

enterprise concerned. There is a special tax of 10 per cent on interest and dividends. The special tax on foreign-controlled enterprises which do not declare dividends in Cuba is levied on profits transferred abroad.¹⁰

A law of 1942 empowers the President to suspend, wholly or in part, any tax (national, provincial or municipal) or customs duty in order to stimulate manufacturing production. The most important decrees based on this law were issued in 1945, 1946 and 1948.

Imports of equipment and building materials for the establishment or expansion of enterprises manufacturing or processing goods that were previously not manufactured or processed in Cuba may be exempted from customs duties and related charges. Raw materials imported for such enterprises can also be exempted from customs duties for a ten-year period, provided such materials are not produced in Cuba.

Enterprises manufacturing finished or semi-finished goods that were not produced in Cuba in 1945 may be exempted from the normal tax on profits for a period of ten years, provided that at least a third of the raw materials they use are Cuban. The tax on excess profits may be waived for six years, and exemptions from other taxes may be granted for periods of from six to

¹⁰ A law of May 1951, besides introducing a number of other tax changes, created a one-time 4 per cent tax on corporate surpluses, unless distributed, that were in excess of 30 per cent of paid-in share capital. A "transitory provision" of the law compels corporations to distribute as dividends their net profits in excess of 30 per cent of the paid-in share capital. Corporations engaged in the operation of public services may retain larger shares of their net profits. Holding companies, on the other hand, are obliged to distribute to their stockholders 90 per cent of the profits shown on their balance sheets. Banks and insurance companies, newspaper, radio broadcasting and television companies are exempted from this provision.

ten years. Such concerns may be permitted to depreciate their fixed assets at an annual rate of 20 per cent after an initial two-year period.¹¹

Producers of manufactured or semi-manufactured goods not made in Cuba before September 1939 may be granted tax privileges for a period of three years. Such privileges appear to have been widely applied.¹²

TRANSFER OF EARNINGS AND CAPITAL

Transactions in foreign exchange are unrestricted, except that payments to Spain require a licence and must be effected through a special clearing account. Remittances of income from capital and transfers of capital may be effected freely.

A tax of 2 per cent is imposed on all outward payments. Since December 1952 this tax has not been levied on repatriated capital invested in "productive enterprises" in Cuba or in Cuban securities, when the capital is brought in through a bank affiliated with the Banco Nacional de Cuba (the central bank) and deposited in the name of the investor.

According to the decree of 15 August 1953 mentioned above, approved enterprises may be exempted from the 2 per cent tax on payments for imports of capital goods to be installed in their plants (during a period of three years) and for the raw materials they process (during a period of ten years).

¹¹ The provisions for the stimulation of "new industries" have been expanded in a decree-law of 15 August 1953 (*Gaceta Oficial Extraordinaria*, No. 68, 27 August 1953).

¹² By the end of 1950 tax concessions had been granted to about thirty-five manufacturing enterprises producing rayon, foods, chemicals, fertilizers and other commodities (International Bank for Reconstruction and Development, *Report on Cuba*, page 133).

DOMINICAN REPUBLIC

EXTERNAL PUBLIC DEBT

The external public debt of the Dominican Republic originated in a number of sterling loans issued in London and on the continent of Europe during the second half of the nineteenth century. Seven such loans, ranging between £0.8 million and £2.8 million, were issued between 1869 and 1897. Default occurred on each of these loans within four years of the date of issue, and several of the later issues were employed largely for conversion of loans in default. The fresh capital entering the country through the loans was used mainly for road and railway construction and for consolidation of floating debt. By 1904 the total of defaulted bonds and other debt contracted by the Government equalled about \$32 million, of which approximately \$22 million was due to European creditors.

In 1907 foreign creditors agreed to accept about \$12.4 million for claims amounting to some \$21.2 million; total Dominican liabilities, external and internal, were reduced to about \$17 million, which was to be refunded through a new bond issue of \$20 million. The debt settlement was linked with a treaty concluded between the United States and the Dominican Republic, empowering the President of the United States to appoint a Receiver General and other officers of the Dominican customs, while the Dominican Government agreed not to increase its public debt or modify its import duties, except with the consent of the United States Government.

The \$20 million bond issue was floated in New York in 1908, was regularly serviced and finally repaid in 1927. This was the first publicly offered dollar loan to the Dominican Republic. A second loan of \$1.5 million was floated in 1912 with United States approval; this was repaid by 1917. Revolt and financial difficulties characterized the period 1913 to 1916, during which new indebtedness was incurred without the consent of the United States. In 1916 the United States intervened, establishing a military government which lasted until 1924. To settle claims, which by then aggregated over \$15 million, the military governor provided for payment of recognized claims in bonds issued in New York to the amount of about \$4.2 million. Two other bond issues were floated by this Government, one for \$6.7 million in 1922, and another for \$2.5 million in 1924, to finance public works and meet certain other expenses.

A 1924 Convention with the United States replaced the treaty of 1907, extending the customs receivership. A loan of \$3.3 million was floated in 1926 to refund the 1924 loan and for other purposes, and in 1927/28

a \$10 million bond issue was offered to raise funds for public works. The 1922 to 1926 and 1927/28 loans carried interest at 5½ per cent and were to be redeemed by 1942 and 1940 respectively.

No default occurred between 1908 and 1931. The guarantee afforded bondholders by the customs receivership arrangements made the securities among the most attractive on the New York bond market. In 1931 a sharp decline in customs revenue forced virtual suspension of sinking fund payments for three years, but interest was paid in full. In view of prevailing economic conditions, the United States Government raised no objections to the departure from the terms of the 1924 Convention. In 1934, at the request of the United States and Dominican Governments, the Foreign Bondholders' Protective Council, Inc., representing United States bondholders, negotiated a plan for readjusted loan service, whereby the amortization schedule for outstanding loans was extended.

The customs receivership arrangement was discontinued under the terms of a new convention with the United States, signed in 1940. The Dominican Republic resumed the collection of its customs revenues, and service on the two outstanding dollar loans was henceforth secured by a lien on all Dominican revenues.

In 1947 the Government redeemed all dollar bonds outstanding in the United States, amounting to \$10.9 million. For the purpose, \$1.2 million was provided out of income and the balance from sale of internal debt bonds to the government-owned Dominican Reserve Bank.

In 1940 and 1941 the Government raised two loans, totalling \$3.3 million, from the United States Export-Import Bank, chiefly for agricultural development. The loans have since been repaid.

FOREIGN BUSINESS INVESTMENTS

According to the Dominican Government's reply to a questionnaire sent out in December 1950 by the United Nations Economic Commission for Latin America, total capital invested in business in the Dominican Republic in 1948 amounted to about \$104 million,¹ of which RD\$23.3 million was owned by Dominicans, RD\$79.5 million by foreigners and

¹ The Dominican peso (RD\$) is at par with the United States dollar. Prior to October 1947, United States dollars constituted the only circulating paper currency, and Dominican coins served as subsidiary currency. From 23 October 1947, the newly established Central Bank of the Dominican Republic began to issue Dominican currency, which has been kept at par with the United States dollar. Since 1 February 1948, Dominican pesos are the only legal tender in the Republic.

RD\$1.2 million jointly by Dominicans and foreigners. The amounts reported appear to include substantial investments in agriculture, although the method of compilation of the data was not explained. Distribution of the foreign investments by source was as follows:

	<i>Millions of Dominican pesos</i>
United States.....	75.2
Canada	2.9
Spain	0.5
Netherlands	0.2
Italy	0.2
Other countries.....	0.5
Joint Dominican-foreign.....	1.2
TOTAL	80.7

According to earlier official Dominican information, in 1940, \$61.6 million was invested in the sugar industry of which sum \$55 million was United States owned,² and in 1945, \$79.4 million was invested in "industry" of which sum 75 per cent was foreign-owned.³

United States sources estimated United States direct investments in the Dominican Republic at \$69 million in 1929, \$41 million in 1936 and \$42 million in 1940. In 1943 and 1950 direct investments from this source were distributed as follows (in millions of United States dollars):

	1943	1950
Agriculture	62	79
Public utilities and transportation..	5	11
Manufacturing	1	9
Other groups.....	4	7
TOTAL	72	106

By the end of 1952 total United States direct investments in the Dominican Republic had increased to \$123 million.

Most of the post-war increase in United States capital was applied in the development of banana plantations and additional investment in sugar companies. In 1945 nine of the fourteen sugar-grinding mills in the country were owned by United States enterprises.⁴ Of the five most important United States-controlled sugar companies, two belong to the South Porto Rico Sugar Company and three to the West Indies Sugar Corporation. The ownership of sugar mills by nationality in 1945 was as follows:

	<i>Number of mills owned</i>	<i>Per cent of total capacity</i>
United States.....	9	80.0
Italian	3	12.9
Canadian	1	6.1
Dominican Republic nationals	1	1.0
TOTAL	14	100.0

Source: A. B. Gilmore, *The Puerto Rico Sugar Manual* (New Orleans, Louisiana, 1946/47), pages 215 to 232.

² Dirección General de Estadística, *Album Estadístico Gráfico* (Ciudad Trujillo, 1944), page 14.

³ Vicente Tolentino Rojas, *Reseña Geográfica, Histórica y Estadística de la República Dominicana* (Ciudad Trujillo, 1948), page 79.

⁴ United States Tariff Commission, *Mining and Manufacturing Industries in the Dominican Republic* (Washington, D.C., 1948), page 16.

In 1953, out of a total of sixteen sugar mills, twelve were foreign-owned and four were owned by Dominican nationals. Of the latter, two have been established in recent years. Two sugar refineries and a number of other business enterprises connected with sugar plantations are owned by United States investors.

In 1952 a subsidiary of the United Fruit Company owned about 4,200 acres growing bananas and about 7,400 acres of "improved land" besides other properties, including railways and port facilities in the northern part of the Dominican Republic.⁵ Another United States-owned company mainly exports bananas grown by farmers on small farms.

The most important electric power company in the country, the Compañía Eléctrica de Santo Domingo, is a subsidiary of a United States utility corporation. It operates five generating stations supplying energy to most of the country.⁶ Telephone service is provided by a United States-owned company.

Until the government-owned Banco de Reservas de la República Dominicana was established in 1941, the only commercial banks in the country were branches of the Royal Bank of Canada, the Bank of Nova Scotia and the National City Bank of New York. The Banco de Reservas took over the operations of the National City Bank branch. The Central Bank of the Dominican Republic was established in October 1947. Most of the insurance business in the Dominican Republic is handled by foreign companies.

Among other industries with a major proportion of foreign capital are the chocolate industry, the shoe industry and the soap industry. A yucca starch factory, representing a \$2 million United States investment and the country's only beer brewery are owned by United States nationals.⁷ A new industrial alcohol plant, completed in 1949, is owned jointly by the Dominican Government and a private United States group. The only match factory is reportedly owned by Swedish interests to the extent of 51 per cent of the capital stock.⁸ An American-owned sugar company is reported to be investing \$7 million in a plant for the processing of sugar cane waste (bagasse) into a raw material for the chemical industry.⁹

United States investment in petroleum consists chiefly in importing and distribution facilities. Several exploratory oil wells have been drilled, but petroleum has not been found in commercial quantities. The extraction of iron ore by an enterprise with United States participation has started recently. The ore is

⁵ United Fruit Company, *Report for 1952* (Boston, Mass.). The report noted that "the Company will not increase the present acreage to any large extent under present conditions".

⁶ United States Tariff Commission, *op. cit.*, page 14.

⁷ Dirección General de Estadística, *op. cit.*, pages 30 and 31. Construction of a new brewery and bottling plant to replace present installations was begun at the end of 1949. The building cost is estimated at about \$100,000.

⁸ United States Tariff Commission, *op. cit.*, page 29.

⁹ *New York Times*, 6 January 1954.

being exported through Haina where the Government is constructing port installations.

ECONOMIC SIGNIFICANCE OF FOREIGN INVESTMENTS

The Dominican Republic is predominantly an agricultural country. Existing manufacturing industry is engaged chiefly in processing foodstuffs and other agricultural products. Principal obstacles to industrialization appear to have been the insufficiency of purchasing power and savings, the small size of the domestic market, shortage of skilled technicians and factory workers, and inadequate transportation facilities. Some of these obstacles, however, appear to have declined in importance since the 1930's as a result of the favourable conditions in the markets for the country's export products.

Railways, telephones, electric power, banking, sugar grinding and refining and other industries owe their existence, to a major extent, to foreign investments. Of particular importance is the role of foreign capital in developing the production of sugar (raw and refined) and molasses, which together generally account for about half the total value of Dominican exports. Bananas, starch, beer, matches and other commodities produced chiefly by foreign-controlled enterprises account only for a small share of total exports. Foreign capital is of minor importance in the production of cocoa beans, coffee and tobacco, which together accounted for over a third of exports during the period 1948 to 1952. The spectacular increase in the value of the country's exports that has occurred since the 1930's (from \$18 million in 1937 to \$115 million in 1952), is due largely to higher prices of the latter commodities and large quantities sold. The share of sugar in the export value fell from 60 per cent in 1937 to 46 per cent in 1951.

The rise in exports has been accompanied by the formation of considerable surpluses on merchandise trade and a favourable development of the balance of payments in general. This has facilitated the retirement of the foreign public debt and permitted a considerable increase in reserves of gold and foreign exchange.

GOVERNMENT POLICIES

With the exceptions noted below, foreigners and Dominican nationals enjoy the same rights in respect of economic activities in the country. For investment in real estate, foreign nationals, as well as Dominican share companies with foreign shareholders, must secure prior governmental permission (Decree No. 2543 of 22 March 1945).

Foreign insurance companies must make guarantee deposits with the Superintendent of the Insurance Department, the amount of the deposit depending on the types of insurance (Law No. 96 of 20 March 1931).

Article 96 of the Constitution provides that mineral deposits are the property of the State and may be

explored and exploited only under concessions or contracts. Though Dominican law entitles foreigners, on the whole, to the same treatment as nationals in regard to mining activities, the Government has declared its unwillingness to grant concessions or contracts to aliens or foreign companies which do not have legal domicile in the Dominican Republic.

Under Law No. 51 of 23 December 1938, at least 70 per cent of the total number of employees and workers hired by an enterprise operating in the country must be Dominican nationals, who must receive at least 70 per cent of the total wages and salaries paid. Management, supervisory and technical employees are exempted from this ratio, provided qualified nationals are not available. The President may permit agricultural enterprises to employ foreign field workers in excess of the legal proportion.

In 1950, the Dominican Government enacted two laws (No. 2236 of 11 January and No. 2643 of 28 December) authorizing the granting of exemption from all taxes and other charges, or from increases in taxes and charges, to agricultural and related processing enterprises wishing to invest new capital which may favour economic development. The exemption is contingent upon the conclusion of a contract between the investor and the Government and can be granted for a period of not more than twenty years. The laws list certain other privileges which do not appear to add to the rights of enterprises but may be of importance, in particular as a renewed guarantee against any legal changes that would affect investors adversely. No distinction is made in the two laws between foreign and domestic enterprises. Of special interest to foreign investors, however, is a provision guaranteeing new investors against restrictions or limitations on the transfer abroad of earnings or capital. Reference may also be made to a general provision authorizing exemption of enterprises organized for large-scale agricultural production for export from legal restrictions on their operations that might result in an impairment of efficiency.

A number of activities are subject to control by the Government, and some branches of activity are operated as State monopolies or government-sponsored monopolies. The State exercises a monopoly, administered by the government-owned Agricultural and Industrial Credit Bank (Banco de Crédito Agrícola e Industrial), on the extraction and processing of common salt from sea water and salt deposits, and the exploitation of gypsum deposits. The Government has recently expressed its desire to interest foreign concerns in the production of salt and gypsum. Peanut oil has been produced by a government-sponsored monopoly since 1937. Authorization must be obtained for the manufacture of certain products subject to excise taxes, and for the establishment of radio broadcasting stations, and telegraph or telephone service.

At present, a number of enterprises are under public ownership: railway lines, telegraph services, aqueducts,

electric power plants, a slaughterhouse and refrigeration plant and a cocoa processing factory. Other enterprises established in recent years with government participation include a factory producing fibre bags and cordage, a cement plant and a textile mill.¹⁰

There are no restrictions on payments abroad, and exchange receipts are freely disposable. However, the Monetary Board of the Central Bank is entitled to establish exchange control should circumstances warrant it.

Decrees of 6 and 9 February 1951 established licensing of imports in order to ensure equitable distribution of goods in short supply abroad or produced domestically in insufficient quantities. Export licences are required for sugar and certain other goods.

Tax treatment similar to that of nationals is accorded to aliens and foreign firms, which may receive subsidies, concessions and exemptions on the same basis as Dominicans.¹¹ An income tax law has been enacted (Law No. 1927 of 11 February 1949, revised by Law No. 2344 of 14 April 1950). Personal income tax rates, as revised, are levied on different categories of income and range from 3 per cent on income from wages and salaries to 7 per cent on income from real property. Personal incomes are subject to surtaxes, ranging from one per cent on incomes from 3,001 to 5,000 pesos to 25 per cent on incomes exceeding 500,000 pesos. Cor-

porations are taxed at the rate of 10 per cent on their annual net profits, whether distributed as dividends or not, and on dividends paid in excess of taxable earnings; an additional 3 per cent tax is payable on undistributed profits. The Directorate General of the Income Tax has the right to "establish the true profits" of enterprises whose accounting does not clearly reflect the net profits from Dominican sources. A 20 per cent absentee surtax on income of real estate corporations incorporated abroad and of foreign-controlled companies incorporated in the country was abolished in 1950, as well as a 10 per cent surtax on personal incomes obtained from real estate, dividends, and pension and retirement funds, by persons who habitually reside abroad.

In addition to the personal and corporate income taxes, the Dominican Government levies licence taxes, payable semi-annually, on all commercial and industrial firms and on the practice of a number of occupations.

A 5 per cent sales tax was established in December 1949 with some exceptions; this tax was subsequently replaced by a tax on production. In addition, there are excise taxes and consumption taxes on a variety of products.

Special export taxes varying with selling prices are levied on sugar, molasses, cocoa beans and coffee. In the case of sugar they vary between 20 and 50 per cent of the price f.o.b. Dominican port; in the case of cocoa, between 17 and 30 per cent; and in the case of coffee, between 18 and 30 per cent. Export taxes are also levied on rice and timber.

¹⁰ United States Tariff Commission, *op. cit.*, pages 14 and 26.

¹¹ Reply to the 1950 questionnaire of the Economic Commission for Latin America (ECLA).

ECUADOR

EXTERNAL PUBLIC DEBT

Ecuador raised loans abroad mainly in three periods: the beginning of the nineteenth century for the financing of its war of independence; towards the end of the century for railway construction; and in the 1940's, when various projects were financed by inter-governmental loans. Default of service payments on the loans raised during the first two periods was frequent until a settlement was reached in 1953. On the other hand, obligations on inter-governmental debts, consisting mainly of loans from the Export-Import Bank of Washington, D.C., have been met regularly. The total public debt, amounting to about \$28 million (including some medium-term commercial indebtedness), is relatively small.

After seceding from "Greater Colombia", Ecuador became responsible in 1834 for 21.5 per cent of the original debt of that Federation, which had been raised in London mainly to finance the war of independence. Ecuador's share amounted to £2.1 million, of which £0.7 million represented interest arrears. This debt went into repeated defaults of long duration, interrupted by settlements involving reduction in principal. It was finally exchanged for an internal "gold condores" issue in the hands of a foreign-controlled railway company. This issue was to mature in 1934, but also went into default and remains unpaid.

Part of Ecuador's external public debt was assumed in connexion with the financing of railway construction by two foreign companies between the late 1890's and the First World War. The bond issues placed by these companies in London and Paris were guaranteed by the Ecuadorian Government. Since 1944 they have constituted a direct obligation of the Government, which has become sole owner and operator of the public service railways in the country.

Most of the railway debt originated in a dollar bond issue of \$12.3 million, placed in London in 1899 by the United States-controlled Guayaquil and Quito Railway Company. After a default had been incurred, a settlement between the bondholders, the company and the Government was reached in 1908 which included a funding operation. Service on the railway indebtedness was maintained with various interruptions until 1929. After that no payments were made until a settlement was reached at the end of 1953.

A small part of Ecuador's external public debt comprises a bond issue in French francs placed in Paris in 1909 by the French-controlled *Compagnie française des chemins de fer de l'Equateur*. This debt is also in

default; but as a result of depreciation of the French franc, its dollar equivalent is negligible.

In 1927 a loan of 10 million sucres (then \$2 million) was extended to the Ecuadorian Government by a Swedish company which was granted a twenty-five-year match monopoly in the country. The concession was cancelled in 1931, however, and a settlement of 1936 provided for liquidation of the debt through payment of 22 per cent of the principal and accrued interest combined.

In 1936 the Government of Ecuador purchased military equipment from the Italian Government against a five-year credit from the latter amounting to about \$1.3 million. This loan was repaid in 1950, after the amount outstanding had been reduced by agreement.

The British Council of the Corporation of Foreign Bondholders has made representations to the Ecuadorian Government for settlement of the railway debt now in default. In 1945 Ecuador offered to resume interest payments at 2 per cent on all bonds and to make sinking fund payments at varying rates. Arrears of interest were to be covered by a cash payment of 4 per cent on each outstanding bond. Alternatively, the Government offered to purchase the outstanding bonds at 40 per cent of their face value. Neither offer was accepted by the bondholders, and their counter proposal was rejected by the Ecuadorian Government. In June 1953 an agreement was negotiated between the Council and the Government of Ecuador, subject to Congressional ratification, providing for settlement of the outstanding bonds of the Guayaquil and Quito Railway, amounting to \$10.7 million, and two smaller issues (\$500,000 and £71,000), which also form part of Ecuador's railway indebtedness. The Foreign Bondholders' Protective Council, Inc. (United States) announced that it was prepared to recommend that American bondholders accept the offer when it is formally made. The outstanding bonds would be exchanged at par for new bonds. Bonds issued in exchange for the Guayaquil and Quito Railway bonds would bear interest of 2 per cent in 1954, rising to 3 per cent in 1957 and thereafter; interest on bonds exchanged for the other two issues would be somewhat lower. Interest arrears on the three issues to the end of 1953 would be cancelled in exchange for a bonus of \$50 for each \$1,000 bond; this bonus would be paid in five yearly instalments. The new bonds issued in exchange for the Guayaquil and Quito Railway bonds would be retired at a rate of $\frac{3}{4}$ per cent annually during the period 1954 to 1958 and one per cent thereafter. Redemption of the other two issues would be at a somewhat lower rate. Congressional rati-

fication was subsequently granted, according to legislation published in November 1953. At the end of 1953 the principal of this indebtedness totalled \$7.3 million, according to the Central Bank of Ecuador.

Loans by the Export-Import Bank of Washington, D.C., have been extended since 1942 to the Government of Ecuador and to the municipalities of Quito and Guayaquil (with the guarantee of the Government). As of the end of 1953 the amounts drawn upon included \$9.8 million for municipal water supply systems, \$10.7 million for highway construction and maintenance, \$1.5 million for railway equipment and about \$0.3 million for the mechanization of rice production. Of the total of \$22.2 million, \$5.6 million had been amortized.

In 1950 the Government of Venezuela and the semi-official Colombian Coffee Growers' Federation authorized a credit of one million dollars each to the Government of Ecuador to finance Ecuador's capital subscription in the "Greater Colombian Merchant Fleet". Upon the withdrawal of Venezuela from the enterprise Ecuador repaid the amount borrowed from that country (\$0.9 million); at the end of 1953 the debt with the Federation was close to \$0.7 million.

The medium-term financing of a railway construction project currently being undertaken by French capital is noted later on.

In February 1954 Ecuador obtained its first loan from the International Bank for Reconstruction and Development. The loan, amounting to \$8.5 million, was granted to an autonomous local authority (with the guarantee of the Central Government) for road construction in the province of Guayas and for improvement of port facilities in Guayaquil.

BUSINESS INVESTMENTS

According to an inquiry made by the Central Bank of Ecuador, eleven foreign-controlled companies operating in the country at the end of 1950 accounted for an investment equivalent to \$16 million, of which 70 per cent was owned by United States companies and the remainder by European enterprises.¹

The official United States estimate of American-controlled investments in 1929 was \$11.8 million and, in 1936, \$4.9 million. Figures for 1943 and 1950 were (in millions of dollars):

	1943	1950
Public utilities and transportation..	1.6	5.3
Finance and insurance.....	0.2	3.6
Petroleum	3.9}	
Mining and smelting.....	3.1}	5.3 ^a
Other	2.0}	
TOTAL	10.8	14.2

^a Of this \$0.6 million was in manufacturing and \$1.7 million in trade.

During the period 1950 to 1952 there was no appreciable change in the value of United States direct investments in Ecuador.

¹ United Nations Economic Commission for Latin America, *El desarrollo económico del Ecuador* (Santiago, Chile, 1953), page 142.

Until the Second World War British capital predominated among foreign business investments. After liquidation of British investments in gold mining and railways, the principal investment is in the largest petroleum company in the country (Anglo-Ecuadorian Oilfields, Ltd.) which in 1945 had a capital of £1.5 million.

Little is known about continental European investments in Ecuador. Those made by immigrants (particularly Italians) cannot be considered as foreign. German investments in a small petroleum company and in an air transport enterprise servicing domestic routes in Ecuador were liquidated during the Second World War. There are Swedish investments in agriculture, including the growing and exporting of bananas.

Petroleum extraction

Petroleum extraction and refining in Ecuador, though small in comparison with that in certain other Latin American countries, has been of considerable significance for the economic development of the country. The industry is concentrated in the peninsula of Santa Elena, on the Pacific coast. Large-scale extraction started in the middle 1920's; it reached one million barrels² in 1928, exceeded 2 million barrels in 1937 and amounted to 2.7 million barrels in 1951. Domestic consumption is increasing rapidly—in 1938 it absorbed less than a third of the output and in 1950 two-thirds—and it is estimated that, should recent trends prevail, Ecuador will become a net importer of petroleum products by the end of this decade.³

The bulk of the output is accounted for by foreign-controlled enterprises. The most important of them is Anglo-Ecuadorian Oilfields, Ltd., mentioned above, which in 1951 produced nearly three-fourths of the country's petroleum output. This company also owns and operates one of the two petroleum refineries. The second largest petroleum company, once in British hands, since 1951 has been controlled by Canadian and United States capital; it accounted in that year for about a fifth of the petroleum output and also owns a refinery. A third company, British-controlled, accounts for some 3 per cent of the output.

Large-scale petroleum exploration undertaken by foreign enterprises in eastern Ecuador has failed in recent years. A subsidiary of the Royal Dutch Shell group obtained a concession in that area in 1937 but not having met with success it sold part of its concession in 1948 to a subsidiary of Standard Oil Company. The concession was abandoned in 1950 after an outlay of some \$30 to \$35 million. An attempt on a smaller scale in the same region by the Canadian-controlled International Petroleum Company also failed.

In 1953 a large concession of nearly three million acres in the coastal area was granted to a United States-

² Of 42 United States gallons each.

³ United Nations Economic Commission for Latin America, *op. cit.* (Santiago, Chile, 1953), page 99.

controlled enterprise, and an extensive exploratory survey of the area was scheduled for the following year.⁴

Mining

British capital began the extraction of gold and silver ores in Ecuador in the late nineteenth century. The largest of these enterprises was acquired in 1897 by an American-owned company which exploited its concession until 1950, when rising production costs rendered further activities unprofitable. Its installations, valued at about \$2 million, were sold at a nominal price to the Government. A smaller American-owned gold mining company withdrew from Ecuador at the same time. Since then gold and silver output has been reduced to a fraction of the previous level. During the Second World War a foreign-controlled mining company exploited a marginal deposit of copper ore but subsequently discontinued operations.

At present the only major foreign investment in mining is that of an American-controlled company which in 1951 was granted a concession for the exploitation of sulphur; it has made an investment of \$1.5 million. An agreement of the company with the Government also calls for the construction of a sulphuric acid plant to supply the domestic market.

Transportation and public utilities

Railway construction in Ecuador was chiefly financed with British and French capital and with Ecuadorian governmental funds. The main railway line was originally built and operated by the Guayaquil and Quito Railway Company. As mentioned in the section on the public external debt, this company placed a bond issue in London in 1899. Of the company's original share capital of \$12.3 million, 49 per cent was subscribed by the Ecuadorian Government, and the rest chiefly by United States citizens who borrowed in the London market. In 1925 the Government's participation was increased to 75 per cent by means of a purchase of stock, and in 1943 an agency of the Government assumed operation of the railway. The following year the assets of the company were nationalized.

The French-owned *Compagnie française des chemins de fer de l'Equateur* was granted a concession for the building and operation of a railway line from the port of Bahía de Caraquez to Quito, but only about fifty miles of line were constructed when the project was abandoned in 1913. This section is now owned and operated by the Government.

In 1951 an agency of the Government signed a contract with two French firms for completion of a railway line from Quito to the port of San Lorenzo (near the Colombian border), about half of which had been built by 1928. The contract includes construction of harbour facilities at San Lorenzo. One of the construction firms arranged for a nine-year line of credit of \$10.5 million to be granted by a French supplier to the

Ecuadorian agency. By the end of 1953, \$4.8 million had been drawn upon, of which \$2.2 million had been repaid.

The Ecuadorian Corporation, Ltd., until 1946 operated the light and power system as well as the tramway service in Quito; then it sold these facilities to the municipality. This enterprise, originally registered in England in 1913, is now largely owned by American and Canadian investors, but still has some British participation. Its ordinary share capital amounted to \$6.3 million in 1951.

A subsidiary of the American and Foreign Power Company owns and operates the light and power systems of Guayaquil and Riobamba, serving a population of about 300,000 inhabitants. The public service electric power facilities in other parts of the country are municipally owned. An American company provides telecommunications service between Quito and Guayaquil, and with other countries.

Other direct investments

Manufacturing is little developed in Ecuador. Among foreign investments in this field, the most important are those of the Ecuadorian Corporation, Ltd., mentioned above. They comprise the only cement plant in the country, located near Guayaquil, in which the Government holds a minority participation, a brewery and an ice plant. A governmental agency (*Corporación de Fomento*) is building a cement plant being equipped with the assistance of German capital.

The United Fruit Company (United States-controlled) and Swedish and Chilean enterprises have banana plantations producing for export. They also buy bananas from small producers and finance their operations. In 1952 bananas replaced cacao as Ecuador's principal export article.

ENTRY AND STATUS OF FOREIGN CAPITAL

In general, Ecuadorian legislation makes no distinction between domestic and foreign nationals and firms with respect to the right to engage in business. The main exception is that aliens may not own or administer physical property within fifty kilometres of the land frontiers or of the shores of Ecuador, unless specifically authorized by law. There are no limitations regarding the investment of foreign capital and no restrictions against foreigners' being members or directors of companies doing business in the country.

The subsoil and all streams and bodies of water are considered the property of the State, but right of exploitation can be granted to foreigners as well as nationals. The organization and operation of mining or petroleum companies are largely subject to the General Mining Law and the Petroleum Law. Foreign companies can extract petroleum only if they have acquired legal domicile in Ecuador and a concession from the Government. Petroleum exploitation concessions can be granted for a period not exceeding forty years.

⁴ United States Department of Commerce, *Foreign Commerce Weekly* (Washington, D.C.), 7 December 1953, page 9.

Concessions for petroleum exploration and extraction can be obtained at more favourable terms in the less accessible parts of the country than in the coastal area. Foreign companies engaged in mining need not acquire legal domicile in the country, unless Ecuadorian investors hold at least 10 per cent of their capital. Mining concessions are for a period of fifteen, twenty or thirty years, depending on the nature of the deposits and the type of the concession.

The establishment of banks and insurance companies is subject to a licence and their operations are supervised by the Superintendency of Banks. There are no special restrictions on foreign-controlled enterprises in this field.

In all enterprises employing more than five persons, 80 per cent at least of the working force must be of Ecuadorian nationality. For foreign-owned mining enterprises, however, 85 per cent of the working force and 10 per cent of the technical and administrative staff must be Ecuadorians. At least half of the personnel of the foreign insurance companies must be Ecuadorians. Exceptions are made in the case of technical positions for which no suitable Ecuadorians can be found.

EXCHANGE CONTROL

Exchange control has been in existence in Ecuador since 1932. It has been frequently modified, the latest major modification being introduced on 28 February 1952. There is now an official buying and selling rate of 15 sucres and 15.15 sucres per dollar, respectively, and a fluctuating free market rate which stood at 17.45 sucres per dollar at the end of 1953.

The control of exports, of imports and of payments at the official rates is carried out by the Central Bank of Ecuador. The proceeds of exports have to be surrendered to the Central Bank. Proceeds of gold and petroleum exports, however, need not be surrendered, and those from banana exports have only to be surrendered in part at the official rate. Foreign companies established in the country must buy local currency from the Central Bank at the official rate for the payment of local salaries, taxes and other expenses.

A large part of the payments made through the free market is handled by exchange brokers and is not subject to licensing. The Central Bank, however, buys and sells in the free market in order to stabilize the rate of exchange.

Foreign capital brought into Ecuador may be registered with the Central Bank, in which case it must be surrendered at the official rate. Registration of capital may be refused by the authorities if the investment is not considered of national interest. In the case of registered capital, the outward transfer of principal as well as income can be effected at the official rate, subject to the availability of foreign exchange. Dividends and profits of equity investments may be transferred at that

rate up to an agreed amount but not more than 12 per cent per annum of the registered capital. A higher percentage of the registered capital may be allowed for transfer of interest on, and amortization of, loan capital.

Foreign capital may also be brought into the country through the free market, in which case it can be repatriated and its earnings can be transferred abroad only in the free market. Foreign-owned insurance companies can make payments and receipts only through the free market, but their remittances abroad must be approved by the Superintendency of Banks. Such companies must hold in the country as reserves 25 per cent of the insurance premiums collected by them.

TAXATION

Income of individuals derived from capital is subject to a tax ranging from 10 per cent on an annual taxable income under 5,000 sucres (about \$300) to 22 per cent on the portion of income that exceeds 200,000 sucres (about \$13,300). Income of individuals derived from other sources—except from agriculture, which is free from income tax—is taxed at rates varying according to its origin.

Distributed corporate income is not taxed at the source. Dividends on bearer shares, however, are subject to a 20 per cent tax withheld at the source. Undistributed profits of corporations are subject to a tax which, together with surcharges, amounts to 18.6 per cent (19.8 per cent in the province of Guayas). Dividends remitted abroad, either by foreign or by domestic companies, are subject to a 16 per cent tax.⁵

Mining companies pay corporate income taxes and royalties according to provisions in their concession contracts. Petroleum companies are subject to tax on both their distributed and their undistributed income. This tax varies inversely with royalties levied on the "net physical production" (gross production less amounts used in operation). The royalty depends on the distance from the centre of operations of the enterprise to the nearest port of shipment (falling from 11 per cent for a distance of up to 50 kilometres to 5 per cent for 600 kilometres or more). The royalty is usually paid in kind (in petroleum products or by undertaking public works) but may be collected in cash at the discretion of the Government.

Petroleum concessionaires also pay a surface tax and other small levies. The total tax burden of the largest petroleum company in Ecuador was estimated in 1950 to have exceeded half its profits before tax.

A number of products, including the principal export commodities (cacao, bananas, coffee and rice), are subject to specific export taxes.

⁵ In June 1953 a surtax on income was introduced ranging from one to two per cent. Undistributed corporate income and corporate earnings remitted abroad are subject to a surtax of one per cent (Bank of London and South America, *Fortnightly Review*, London, 27 June 1953, page 439).

GOVERNMENT PARTICIPATION IN ECONOMIC ACTIVITIES

The Government controls the price of certain commodities or the proportion of the total output which must be made available to the domestic market. This applies, for instance, to petroleum products.

The Government maintains a monopoly on the production, importation and distribution of alcohol, salt, tobacco and matches. It owns and operates a telecommunications service. As stated earlier, the Government now owns and operates all public-service railways in the country. It also holds shares in some corporations, notably a cement plant, and a chemical and pharmaceutical enterprise which was established in 1940 by

Italian immigrants. It is a shareholder in the Greater Colombian Fleet mentioned above.

A development corporation, the Corporación Ecuatoriana de Fomento, was established in 1942. A Corporación de Fomento was established by the Government in 1949 which granted credit and made equity investments for the purpose of expanding production until it was terminated in 1953. More recently a Planning and Economic Co-ordination Board (Junta de Planificación y Coordinación Económica) has been set up. The Government has also supplied most of the resources of the National Development Bank (Banco Nacional de Fomento) created in 1944. This bank, which is a successor to the former Mortgage Bank (Banco Hipotecario), operates through fifteen provincial banks.

EL SALVADOR

EXTERNAL PUBLIC DEBT

Apart from El Salvador's share of the Central American Federation debt, which it assumed in 1827 and repaid in 1860, the country had no external long-term debt until 1889. In that year a loan of £300,000 was raised in London, and in 1892 another of £500,000; both these loans were secured by customs revenue and by a mortgage on a railway line. Later, the two series of bonds were exchanged for debentures of the Salvador Railway Company.

No further external loans were obtained by the Government until 1908, when a loan of £1 million was raised. This loan was secured by a special import duty and a coffee export tax. Its purpose was the financing of public works and the funding of some domestic short-term loans. Interest payments on it were suspended in 1910, and accumulated arrears were funded in 1915 by the issue of £229,908 of 7 per cent sterling funding bonds. Interest on both series went into default in 1921.

El Salvador's major borrowing operation took place in 1923 with the issue of \$16.5 million of dollar bonds (partly at 8 per cent interest and partly at 7 per cent) and of £1.05 million of 6 per cent sterling bonds, secured by customs revenue. The proceeds were used to retire the bonds of 1908 and 1915, to fund interest arrears on these bonds, to settle a number of other internal and external debts of the Government (in particular arrears of subsidies owed to two railway companies operating in El Salvador) and to carry out public works.

Interest payments on the 1923 bonds were maintained in full until 1932. Between 1933 and July 1935, interest was paid partly in cash, and partly in 4 per cent deferred interest certificates. In 1936, a readjustment agreement was concluded with the bondholders whereby annual service payments were limited to \$850,000 and interest rates on the loans referred to were reduced to 5½, 4 and 3½ per cent; the amount not required for interest was to be applied to the retirement of deferred interest certificates and to a sinking fund for the bonds. Payments on the new basis were made up to, and including, January 1938, when the entire external debt service was again suspended. The debt remained in default until 1946.

In April 1946, following an agreement with representatives of the 1923 sterling and dollar bondholders, new thirty-year bonds with a nominal value of \$10,032,500 and £946,500 were issued for the funding, at reduced rates of interest, of outstanding bonds and

interest arrears, and for redemption of the deferred interest certificates at 15 per cent of face value. Interest on the new bonds varied between 3 and 4 per cent. Annual service on them was to be not less than \$800,000; amounts not required for interest payment were to be utilized for retirement through purchase or drawings. The pledge of customs revenue as security for the debt service was waived. On 30 June 1953 the balance outstanding was \$5.8 million and £0.5 million.¹

In 1941, the Government of El Salvador obtained a loan of \$1.7 million at 4 per cent from the Export-Import Bank of Washington, D.C., for the purchase of equipment and materials for the construction of a section of the Pan-American Highway. At the end of 1953 about \$0.4 million of this loan was still outstanding.

In December 1949, the International Bank for Reconstruction and Development authorized a 4½ per cent loan of \$12.5 million to the Comisión Ejecutiva Hidroeléctrica del Río Lempa (an agency of the Salvadoran Government) for hydroelectric development. As of the end of 1953, \$11.9 million had been drawn upon. The dam and the 30,000 kilowatt power plant, together with ancillary installations, involve an expenditure of about \$18 million. Funds for the local currency expenditure have been raised through sale of bonds in the country. The project, scheduled for completion in mid-1954, will double the existing output of electric energy in El Salvador.

BUSINESS INVESTMENTS

The first substantial direct foreign investment in El Salvador dates from the 1890's, when a railway line was built by a British firm. It was soon followed and overtaken in importance by United States capital which developed a second railway line. United States direct investment expanded rapidly up to the 1920's. After a substantial decline in the 1930's, there has been a renewed though small inflow of capital in post-war years. British direct investment has changed little since the beginning of the century. Canadian capital, which entered the field relatively recently and went primarily into electric power plants, is third in importance.

United States investments

In 1950 direct United States private investments in El Salvador totalled \$18.5 million, of which \$16.8 million was in the category of "transportation, communication and public utilities". In 1943 the total was \$14.9 million, of which \$13.4 million was in the latter cate-

¹ Annual address of the President of the Republic, as reported in *Fortnightly Review*, vol. 18, No. 466, 31 October 1953 (Bank of London and South America, Ltd., London).

gory. The corresponding total for 1929 was \$29.5 million, for 1936, \$17.1 million, and for 1940, \$11.2 million. Comparable figures for years prior to 1929 are not available, but one estimate put United States direct investments in 1908 at only \$1.8 million, of which \$800,000 was in gold mining and the remainder in railways.²

The bulk of United States direct investment in the country is in the Salvadoran branch of International Railways of Central America (IRCA), which also owns and operates railways in Guatemala. The United Fruit Company has an important interest in this corporation, whose capital is \$41.4 million. Its concession in El Salvador, where it operates 285 miles of track, runs to the year 2009, when the railway becomes the property of the Government. Another United States direct investment is the All-America Cable and Radio Company.

Investments in gold mining were abandoned in the early 1920's but resumed in 1946 with the establishment of the New York and El Salvador Mining Company, with a capital of \$50,000. Petroleum investment is confined to distribution.

United States shipping is represented by the Grace Line, which has installations at the port of La Libertad, and the International Railways of Central America, which has installations in the port of Cutuco, near La Unión. Air service installations are owned by two United States airlines, Pan American World Airways and TACA International Airways.

Four of the fifteen foreign insurance companies operating in El Salvador are United States-owned.

There is practically no United States investment in agriculture. Unlike neighbouring Guatemala or Honduras, the country is not suitable for large-scale banana plantations. Coffee, which is the main export crop, is most efficiently grown on medium-sized holdings which are owned by local inhabitants.

British investments

The major British-controlled enterprise, the Salvador Railway Company, has a share capital of £500,000; its outstanding debentures in 1947 were given as £311,000. Some of its shares are held by the Salvadoran Government. The present market value of this investment is negligible. The company has paid no dividends since 1912/13, and has been in default on its bonds since the early 1930's.

One cigarette factory in San Salvador is owned by the British American Tobacco Company, and one bank is a branch of the Bank of London and South America. Several British insurance companies operate in the country. The Bank of England estimated British investments in 1949 in El Salvador at a nominal value of £1.2 million.

² Cleona Lewis, *America's Stake in International Investments* (Brookings Institution, Washington, D.C., 1938), pages 583 and 602.

Other foreign investments

Canadian investments, estimated in 1942 at \$4 million, are primarily in electric power plants.³ A subsidiary of the (Canadian) International Power Company supplies the city of San Salvador and neighbouring communities; it owns or controls eight other generating plants in the country, and one ice plant.

Little information is available concerning investments by countries other than the United States, the United Kingdom and Canada. One estimate puts the value of these investments at about \$9 million in 1942,⁴ but this sum includes enterprises that are owned by foreign residents in El Salvador, thus not representing foreign investments proper.

Economic significance of foreign investments

The major contribution of foreign capital has been in the development of various utilities and services, such as rail transport, roads, international communications, power supply, banking and insurance. Industrial and agricultural development has proceeded largely without foreign participation.

Interest due on the public debt was equivalent to 2 per cent to 3 per cent of exports in the years 1911 to 1920, but increased in importance after the borrowing operations of 1923. During the Second World War the country's balance of payments position became very favourable. Export earnings increased with the rise in coffee prices while world shortages prevented the expansion of imports. A loan and several grants were received from the United States, and the Government was able to reduce its pre-war external debt and to accumulate substantial gold and dollar reserves. As was pointed out above, however, debt service payments, which had been suspended in 1938, were not resumed during the war.

Since the end of the war, El Salvador's exports have continued to rise. The resumption of service on the external debt bonds after the settlement of 1946 put little strain on the balance of payments. Earnings on direct investment have increased and are now larger than remittances on the public debt.

Though there is no exchange control and no sign of undue strain resulting from the transfers of interest and dividends on foreign investments, there has been an uninterrupted net outflow of capital from El Salvador in recent years—totalling 19 million colones⁵ over the period 1946 to 1950. A large part of the funds leaving the country is domestic and is kept on deposit in the United States.

GOVERNMENT POLICIES

Domestic and foreign nationals and firms enjoy equal right to organize business enterprises. A foreign en-

³ United States Tariff Commission, *Mining and Manufacturing Industries in El Salvador* (Washington, D.C., 1948), page 7.

⁴ *Ibid.*

⁵ The par value of the colón is \$0.40.

terprise may, under the Commercial Code of El Salvador, either organize under Salvadoran law, or operate as a branch of a firm incorporated abroad. Companies incorporated abroad but operating principally in El Salvador are treated as Salvadoran.

The Law for the Development of Manufacturing Industries of 22 May 1952 (No. 661)⁶ provides that manufacturing enterprises producing certain types of goods (preferably enterprises financed chiefly by Salvadoran or Central American capital) may be granted a number of privileges and exemptions for a period up to ten years. These concessions are meant primarily for enterprises producing for the domestic market, but they may in some cases be granted to enterprises producing for export. An enterprise initiating the production of an essential product may be granted the right to import free of duty for a period of ten years "indispensable" building materials, plant equipment, raw materials and semi-finished products, and may enjoy full tax exemption for a period of five years and a 50 per cent reduction of taxes for a second five-year period. An enterprise initiating the production of a less essential product may be granted the right to import building materials and plant equipment free of duty for a period of eight years, and may enjoy a tax reduction of 50 per cent for a period of five years and of 25 per cent for an additional three years. An enterprise expanding production of a commodity previously produced may be granted the right to import building materials and plant equipment free of duty for five years.

The beneficiaries are usually required to begin production within two years of the time the privileges are granted, to give preference to purchases of domestic raw materials and to satisfy the requirements of the domestic market before selling abroad. The privileges granted to one firm are extended on application to all enterprises producing the same goods, provided they comply with the conditions of the law.

By mid-1953 the Government had received over twenty applications for the installation of new industrial plants or for the expansion of existing ones under this law. The contemplated investment amounts to over 25 million colones.⁷

El Salvador does not apply exchange control or quantitative restrictions on imports.

At least 80 per cent of the managerial and clerical personnel in commercial and industrial enterprises must be of Salvadoran nationality. Foreign establishments may employ only a limited number of foreign technical experts, unless positions remain unfilled because of lack of qualified nationals.

⁶ El Salvador, *Diario Oficial*, No. 102, Section No. 155 of 30 May 1952 (San Salvador).

⁷ Annual address of the President of the Republic, as reported in *Fortnightly Review*, vol. 18, No. 446, 31 October 1953.

Until recently income taxes occupied only a minor place in the Salvadoran revenue system. In 1951, they represented less than 5 per cent of total revenue. Until January 1952, when a new income tax law became effective,⁸ the same rates applied to corporations and individuals. These rates varied between 2 per cent for the first 1,000 colones and 20 per cent for income above 50,000 colones. The new law introduced a more progressive tax schedule on personal incomes, ranging from 3 per cent on the first 1,000 colones of taxable income to 44 per cent on income exceeding 150,000 colones. Income from corporations is included in individual income and taxed as such. The profits of enterprises domiciled in El Salvador, irrespective of the form in which they are organized, are subject to a separate tax. The rate is 2.5 per cent on net taxable income up to 5,000 colones and 5 per cent on income above that figure. Persons and companies, whether national or foreign, who are not domiciled in El Salvador must pay a tax of 20 per cent on taxable income earned in the country. This tax applies also to income remitted abroad derived from enterprises which are domiciled in El Salvador and thus also subject to the new tax of 2.5 per cent to 5 per cent just referred to.

Social security legislation came into effect at the beginning of 1954.

GOVERNMENT PARTICIPATION IN ECONOMIC ACTIVITIES

The Government has created and subsidizes a number of autonomous associations of producers: a coffee planters' association, a sugar commission, a cotton co-operative, a henequen co-operative and a livestock breeders' association.

Mejoramiento Social, an autonomous public organization established in 1932, pursues partly economic, partly wider social objectives. Originally, the primary purpose of this body was the surveying and distribution of public lands in small farm units. More recently, the institution has undertaken a variety of operations. Besides acquiring and operating a dairy, it has financed the development of low-cost urban housing projects and, more recently, engaged in the construction of a textile factory intended as a pilot plant for the domestic textile industry.

Certain official institutions and government departments, particularly Mejoramiento Social, the Comisión Ejecutiva Hidroeléctrica del Río Lempa and the Ministry of Economy, are now engaged in the elaboration of an industrialization programme. For this purpose a "Corporación de Fomento de la Producción" is being organized, which will give technical and financial assistance to new industries.

⁸ Publicaciones del Ministerio de Hacienda, *Ley y reglamento del impuesto sobre la renta* (San Salvador, 1952). See also Decree No. 1307 in *Diario Oficial*, 22 December 1953.

GUATEMALA¹

EXTERNAL PUBLIC DEBT

When the Central American Federation was dissolved Guatemala was allocated five-twelfths, or £67,900, of the Federation's outstanding external debt. No payments were made for servicing this debt and in 1856 Guatemala raised a 5 per cent loan of £100,000 in London for the purpose of converting it. In 1869 a 6 per cent loan of £500,000 was obtained in London. These two loans went into default in 1876. In 1888 the foreign bondholders agreed to a funding operation involving the issue of 4 per cent bonds for £922,700. Following default on this issue in 1894, a 4 per cent loan of £1.6 million was floated in London in 1895, for conversion of the outstanding debt, internal as well as external. In the same year Guatemala negotiated a 10 per cent loan of £658,500 with a German issuing house for construction of a railway. In 1908 the Guatemalan Government raised a loan of \$5 million with a United States syndicate. In 1924 and 1927 the Government raised \$5 million, carrying interest of 8 per cent, for construction of the Los Altos Railway and of a hydroelectric plant. In 1928, \$2.5 million of 8 per cent bonds was raised in New York for settling a railway debt and £844,600 of 4 per cent funding bonds for the funding of deferred interest on outstanding sterling bonds.

From 1932/33, the service of the outstanding 8 per cent dollar bonds was discontinued as were sinking fund payments on the sterling bonds (interest on the sterling bonds continued to be remitted until 1943). In 1936 bearer bonds were offered in exchange for outstanding Los Altos bonds, the rate of interest on the new bonds being reduced to 3 per cent for the first seven years following the issue, after which it was to rise to 3½ per cent.

In 1944 Guatemala offered to redeem its outstanding external indebtedness at par. The offer was not subject to any time limit so far as the dollar debt was concerned, and full redemption took place; with regard to the sterling debt, however, the offer was declared open only until January 1945, by which time only seven-tenths of the debt had been redeemed, leaving an outstanding balance of £426,980. The British Council of the Corporation of Foreign Bondholders, with the support of the United Kingdom Government, stated that the time limit implied discrimination against bondholders who were unable to submit their claims because of the war. In 1945 the Guatemalan Government announced that

¹ This section relates to the period before the change of administration in June 1954.

the final date for the redemption of outstanding bonds was 20 August of that year.

BUSINESS INVESTMENTS

United States direct investments were reported as \$50 million in 1936 compared with \$70 million in 1929. The totals in 1943 and 1950 and distribution by industries are shown in table 16.

Table 16. United States direct investments in Guatemala, 1943 and 1950

(Millions of dollars)

<i>Field of investment</i>	1943	1950
Petroleum distribution.....	1.1	3.6
Public utilities and transportation.....	62.8	72.2
Agriculture	19.3	^a
Trade	1.4	3.3
Other	2.3	26.8
TOTAL	86.9	105.9

^a Included in "Other".

By the end of 1952 total United States direct investments in Guatemala amounted to \$108 million. The branches and subsidiaries of three United States corporations account for almost all the direct investments.

Business investments of other countries are believed to be very small. There is some British investment in a United States company operating in Guatemala. A branch of a British bank is established in Guatemala City.

Before the Second World War, German nationals, mostly residents of Guatemala, owned coffee farms which accounted for 20 to 30 per cent of the coffee exported. In 1941 these farms were confiscated by the Government or placed under governmental management. A small railway enterprise, known as the Vera-paz Railway, was expropriated by the Government from its German owners in 1942.

INDUSTRIAL DISTRIBUTION OF INVESTMENTS

Agriculture

The United Fruit Company is by far the most important foreign agricultural enterprise. It is mainly engaged in growing and exporting bananas, an increasing proportion of its exports being bananas purchased from local farmers. During the period 1946 to 1952 the company's exports of bananas—including those purchased from individual growers—accounted for 61 per cent to 89 per cent of Guatemala's exports of the

fruit. The company's production of abacá and palm oil is relatively small.

The company's plantations in Guatemala, near the Atlantic coast, were established at the beginning of this century. Banana exports from Guatemala increased until 1915 and then remained stationary until the middle 1930's. Subsequent to the establishment by the company of new plantations near the Pacific coast, exports increased again, except during the war years, reaching a peak of about 13.4 million stems in 1947. In 1948 bananas represented 41 per cent of total exports. Subsequently, banana production and exports declined, partly because of climatic conditions (a severe wind-storm in 1951) but mainly because of retrenchment in the activities of the United Fruit Company. Its banana plantations declined from 34,800 acres in 1947 to 23,400 in 1952. Labour difficulties and anticipation of policies subsequently adopted through the Agrarian Reform Law of 1952 seem to have been the main causes of the reduction in activities. Under these circumstances the company postponed an investment of about \$8 million for the rehabilitation of banana plantations affected by disease.² In 1952 Guatemala's banana exports dropped to 3.9 million stems. Exports of bananas grown by the company declined from a post-war peak of 7.7 million stems in 1948 to 1.5 million in 1952.³

The United Fruit Company has about 5,000 acres of abacá under cultivation for the United States Reconstruction Finance Corporation under a management contract. The production of this fibre was introduced during the Second World War. An area of about 1,600 acres under oil palms was reduced by half in 1952.

Transportation and public utilities

Public railway service is provided largely by a United States enterprise—the International Railways of Central America (IRCA)—in which the United Fruit Company has an interest, reported to amount to about 43 per cent of the voting stock. The IRCA system comprises a line running from the Mexican border to Guatemala City (with branches to three ports on the Pacific coast) and from there to Puerto Barrios on the Caribbean. This system is connected with the IRCA lines in El Salvador. The total route length owned and operated by IRCA in Guatemala is 509 miles. The railway also owns and operates the only deep-water pier at Puerto Barrios.

The United Fruit Company owns a railway of 130 miles serving its plantations near the Caribbean coast. Trains operated by IRCA over its lines provide public service. Another line of fifty-six miles serves the United Fruit Company plantations near the Pacific coast and is also connected with the IRCA.

A subsidiary of American and Foreign Power Company (Empresa Eléctrica de Guatemala) supplies about four-fifths of the electric energy sold in the country. About nine-tenths of the company's output is absorbed by the Guatemala City area. Most of the energy generated by the company's plants is hydroelectric. The United Fruit Company and IRCA also produce electricity, mostly for their own use.

Telecommunication service between Guatemala and other countries is provided largely by two United States enterprises, one of which is a subsidiary of the United Fruit Company (Tropical Radio Company).

Other investments

Two United States companies extract lead and zinc ores for export. Several companies which were engaged in petroleum prospecting discontinued their activities subsequent to the passage in 1949 of a petroleum law which they considered unfavourable. No foreign petroleum company is reported to have applied for a concession since that time.

A branch of the United States-controlled British-American Tobacco Company is engaged in manufacturing in Guatemala.

ENTRY AND STATUS OF FOREIGN CAPITAL

A foreign enterprise in Guatemala may operate as a local company or as a branch of a foreign company. In either case, formal permission of the Ministry of Finance must be obtained. However, the legal criteria for the permission do not differ from those applying to domestic nationals requesting permission to form a local company.

No important limitations apply to the ownership of land by foreigners. However, for reasons of "national security", only Guatemalans by birth may acquire land within fifteen kilometres of the frontiers.

Like a number of other Latin American countries, Guatemala requires that foreign companies applying for permission to operate in the country acknowledge that, with regard to their local activities, they will be subject exclusively to the local laws and courts and will not invoke any special rights as foreigners.⁴

The operations of the large foreign enterprises in Guatemala have traditionally been regulated by concession contracts with the Government. These are usually long-term contracts ranging up to ninety-nine years in duration, exempting the companies from the provisions of any future legislation that may conflict with their terms. The terms of these contracts, which among other things provide for the concessions, are therefore more important than general legislation, from which the enterprises concerned are largely exempt.

² *The Economic Development of Guatemala*, Report of a Mission sponsored by the International Bank for Reconstruction and Development (Washington, D.C., 1951), page 286.

³ Banco de Guatemala, *Boletín Estadístico*, November 1953, page 39.

⁴ Thus, the concession contract with the United Fruit Company provides that diplomatic channels can in no case be used to settle any dispute arising from the contract. Disputes are to be settled by arbitration, with each party naming one arbitrator, the third to be named by the International Court of Justice or by the chief executive of a nation jointly agreed upon.

The United Fruit Company concession expires in 1981, when most of its property in the country will revert to the Government without cost to the latter. The concession of the International Railways of Central America expires in the year 2009, when all its lines will revert to the Government. The concessions of the American and Foreign Power Company subsidiaries expire between 1970 and 1980.

In recent years there has been a movement in Guatemala for revision of the concession contracts with the three major foreign enterprises on the ground that they were granted by earlier regimes and afford excessive advantages to the companies concerned, to the detriment of national welfare. In 1951 negotiations were conducted between the Government and the companies, without satisfactory results.

The major contracts with foreign investors were effected at a time when foreigners were free to invest in any type of enterprise in Guatemala with no requirement of participation by national investors. While this continues to be the general rule, it has recently been subject to qualification, notably in respect of petroleum concessions. Guatemalan capital must have controlling shares in new enterprises producing alcoholic beverages and manufacturing tobacco, according to legislation enacted in 1947 (Industrial Development Law). Certain tax exemptions under the same legislation are conditional upon the participation by domestic capital in varying degrees, depending upon the nature of the enterprise.

In March 1953 the Government expropriated 234,000 acres of land out of a total of 295,000 acres owned by the United Fruit Company in the Tiquisate area near the Pacific coast. The action was based on the Agrarian Reform Law of June 1952 which provides that uncultivated land may be expropriated and distributed to landless persons.⁵ The company contested the legality of the seizure, claiming that although not all of its land was under "active" cultivation, 80 per cent of it was effectively employed and did not fall under the terms of the Reform Law. The compensation offered, about 600,000 quetzales (\$600,000) in 3 per cent 25-year bonds, an amount equivalent to the assessed value of the land as recorded in 1952, was termed unacceptable by the company, which also objected to being paid in bonds. An appeal of the company, after having been referred to the President of the Republic, was rejected. The company has made it known that it recently offered to renegotiate its concession to cede to the Government a percentage of profits but that the Government rejected this offer.

The action has been the subject of diplomatic exchanges between the Government of Guatemala and the

⁵ This does not apply to farms of 220 acres or less or to farms of up to 660 acres if two-thirds or more of the land is cultivated. Compensation for expropriated property is to be effected in "agricultural reform bonds", the amount of the compensation being based on the value set on the landed property for tax purposes by the owner himself.

United States.⁶ The United States contended that the expropriation is in effect discriminatory between nationals and aliens and that the compensation offered does not conform to the minimum standards of just compensation prescribed by international law. The United States also denied the validity of the contention by Guatemala that the expropriation was in conformity with resolution 626 (VII) of the United Nations General Assembly.⁷ In April 1953 the United States filed a claim of \$16 million against Guatemala for the expropriated properties, of which \$9 million was stated to represent the damage to properties not expropriated resulting from the expropriation of the 234,000 acres in question.

In August 1953 expropriation proceedings were started in respect of 173,000 acres of the company's holdings of 263,000 acres at Bananera near the Atlantic coast.

The freight rates charged by the International Railways of Central America have been another source of friction. The Government contended that the railway company charged about ten times as much to move a carload of privately owned coffee a given distance as it did to move a carload of bananas for the United Fruit Company. The validity of such a comparison has been contested, however, since the IRCA uses the freight cars and locomotives of the United Fruit Company. Early in 1953, the railway company was involved in another dispute with Guatemalan authorities, this time concerning 3.5 million quetzales claimed by the Government on account of a charity tax from which the company contended it was exempt.

In mid-1953 several measures were taken by the Government which affected unfavourably the International Railways of Central America and the Empresa Eléctrica de Guatemala, which, as noted earlier, is a subsidiary of the American and Foreign Power Company. These included the imposition of temporary receivership by the Government over the properties of the two companies, following higher wage demands and other demands by the labour unions. As a result it was reported that the Empresa Eléctrica de Guatemala had informed the Government that it would consider any fair offer for the purchase of its assets in Guatemala but that the Government had so far ignored the proposal.

⁶ See Guatemalan memorandum of 26 June 1953 and United States Aide Mémoire of 28 August 1953.

⁷ In resolution 626 (VII) the General Assembly recommends that "all Member States, in the exercise of their right freely to use and exploit their natural wealth and resources wherever deemed desirable by them for their own progress and economic development . . . have due regard, consistently with their sovereignty, to the need for maintaining the flow of capital in conditions of security, mutual confidence and economic co-operation among nations" and, further, that "all Member States . . . refrain from acts, direct or indirect, designed to impede the exercise of the sovereignty of any State over its natural resources". The United States observed that "nothing contained in the resolution referred to, authorized or purported to authorize States in the exercise of their sovereignty in developing their natural wealth and resources to violate rights of other States or their nationals under international law".

EMPLOYMENT AND LABOUR

The Guatemalan Labour Code, which became effective in 1947, provides that nationals must represent at least 90 per cent of the personnel of any enterprise and receive 85 per cent of the salaries and wages. Under specified conditions, these percentages may be reduced by a tenth, but the enterprises concerned must then arrange for the training of nationals to replace foreigners. Managers, directors, administrators and superintendents are exempt from the count to the extent of two persons in each enterprise.

These stipulations of the Labour Code do not apply to the major foreign companies, whose concession contracts provide for almost complete freedom regarding employment of foreign personnel. It appears, however, that the requirements of the Labour Code are in fact met by these companies.

The Labour Code also contains certain general provisions to which all enterprises are subject. In recent years these provisions have been a source of friction between the major foreign companies and the Government. The companies have charged a lack of impartial judgment by the labour courts in connexion with disputes adjudicated pursuant to the Code. The United Fruit Company has also contended that certain provisions of the Code—in particular, provisions conferring special benefits on workers in agricultural enterprises employing more than 500 workers—are discriminatory against such enterprises. These charges have been denied by Guatemalan authorities.⁸

TAXATION

National and foreign enterprises are subject to the same tax provisions, the only exception being an annual franchise tax levied on branches of foreign concerns. The concession contracts under which the three major foreign companies operate contain special clauses with respect to the greater part of their tax liability.

Direct taxation is imposed on the profits of business enterprises by a law adopted in 1938.⁹ The scale of rates ranges from 5 per cent on income from 500 to 1,000 quetzales to 43 per cent on incomes of 300,000 quetzales and above.¹⁰ Dividends received by shareholders in joint-stock companies are not taxed if the enterprise is subject to the business profits tax. Dividends are otherwise taxed along with other income from investments at rates which are somewhat lower in the lower brackets of income than those applying to business profits. Persons resident abroad are subject to this taxation only on income in excess of 10,000 quetzales annually.

⁸ See for instance a series of pamphlets issued in 1949 by the Ministry of Economy and Labour under the title of "The Guatemalan Nation and the United Fruit Company" ("La Nación Guatemalteca y la United Fruit Company").

⁹ The latest revision of the scale of applicable rates was adopted in 1946.

¹⁰ The quetzal, the Guatemalan unit of currency, is at par with the United States dollar.

Proposals for unification of the present taxes on business profits and on other income from invested capital, and for the establishment of a personal income tax, have been under consideration for some time.

A number of tax concessions to manufacturing enterprises—apart from those granted through concession contracts—may be granted under a Law of Industrial Development of December 1947. These concessions include reduction of the business profits tax for a number of years and exemption for varying periods from import duties on equipment and raw materials not obtainable locally. The degree of concession varies with the extent of utilization of domestic raw materials and the employment opportunities offered. New enterprises as well as existing enterprises planning to expand their activities are required to admit participation by national capital up to certain limits in order to qualify for the exemptions. The majority of the shares of companies which produce primarily for the domestic market and "do not require a high degree of technical skill", and one-third of the shares of enterprises requiring a "high degree of technical skill", must be owned by nationals of Guatemala, permanent resident aliens or corporations organized under the laws of Guatemala which invest at least 60 per cent of their annual profits in the country.

Two of the three major foreign enterprises—the United Fruit Company and the International Railways of Central America—are exempt from taxes on business profits, except on those resulting from the sale of consumer goods in company stores. The third enterprise—Empresa Eléctrica de Guatemala—is taxed, pursuant to separate legislation, at 5 per cent of the net profit from the sale of electric energy and 2 per cent of the gross sale of energy.

All three enterprises receive important exemptions from duties on imported equipment required for their principal activities. Nevertheless, import duties on certain equipment and consumption goods and an export tax on bananas represent the most important levies on the United Fruit Company enterprises. The International Railways of Central America pays certain import duties and a tax on passengers and freight. A dispute between the enterprise and the Government relating to this tax remained unsettled at the end of 1953.

TRANSFER OF EARNINGS AND CAPITAL

Transactions in foreign exchange in Guatemala are not subject to limitations. Remittances of income from capital and transfers of such capital may be effected freely.

The Guatemalan Monetary Law of December 1945 established an emergency system of exchange control to come into effect, after approval of the International Monetary Fund, when net official reserves of gold and foreign exchange equal less than 40 per cent of the annual average of total sales of exchange during the three preceding years or are falling at a rate exceeding 25 per

cent per year. So far, no emergency of this kind has occurred.

GOVERNMENT PARTICIPATION IN ECONOMIC ACTIVITIES

Direct participation in industry by the Government has been relatively limited. The most important instances of such participation are the nationalized coffee farms mentioned above, formerly owned by German citizens. These farms are run by a special department, which also operates a number of coffee depulping and processing mills, sugar mills, molasses mills, a flour mill and a tannery. Under the Agrarian Reform Law of June 1952 (see above), provision is made for the parcelling out of the land held by the "national farms" on the petition of the majority of the workers of the particular farms.

The Government owns the second largest electric power company in Guatemala. This company does not compete with the Empresa Eléctrica de Guatemala, which is the principal supplier of electric power in the

country, but operates in outlying areas in co-operation with municipalities.

The Government owns and operates the domestic telecommunications system and an isolated railway line to which reference was made above. Monopoly control over the production and marketing of a few commodities, including tobacco, alcoholic beverages, matches and ammunition is exercised for fiscal reasons; however, this control has been implemented, for the most part, not by the operation of state-owned establishments but by the licensing and regulation of private enterprises.

In 1948 the Government established the Institute for the Development of Production (Instituto de Fomento de la Producción) with an initial capital of 6.5 million quetzales. The Institute may establish enterprises of its own or participate in private enterprises with equity capital. The Institute investment in an enterprise is to be sold when the business has been firmly established. The Institute is already operating some enterprises and has planned the establishment of others.

HAITI

EXTERNAL PUBLIC DEBT

Haiti's external public indebtedness dates back to 1825 when, in order to obtain French recognition of its independence gained in 1804, it agreed to pay the French Government an indemnity of 150 million francs, in five equal annual instalments, so that the French property owners formerly in the country could be compensated. A loan of 30 million francs floated in France was used to pay the first instalment. After Haiti had failed to pay interest on the loan, as well as subsequent instalments of the indemnity, its liability was reduced by an arrangement with France in 1838.

Three government loans were raised between 1875 and 1910. One loan, of 50 million francs, was floated in Paris in 1875 to meet current obligations of the Government. Another loan of 50 million francs was floated in Paris in 1896 for the same purpose. Finally, a syndicate of French, German and United States bankers arranged a loan of 65 million gold francs in 1910 to be used for liquidation of interest obligations and to support a monetary reform. This loan was secured by a tax on the export of coffee and a surcharge on import tariffs. Between 1911 and 1914, several internal bonded loans were raised, secured by receipts from customs duties. A portion of the bonds was acquired by German merchants residing in Haiti. Short-term debts were also incurred to English and French merchants. Failure on the part of the Haitian Government to meet the obligations in question led to repeated threats of armed intervention by the European Powers concerned. The fiscal situation of the Haitian Government in 1914 was precarious; service on the external and internal debt absorbed four-fifths of the government revenue.

An intervention by United States naval forces, undertaken with a view to forestalling further interference by European Powers, resulted in 1915 in a treaty with the United States. This treaty established a "financial protectorate", with wide powers exercised by a financial adviser and a receiver general appointed by the United States. The receiver general was put in charge of the collection of customs duties and their use for meeting the foreign financial obligations of the Haitian Government. One of the first tasks was the settlement and liquidation of all foreign financial claims. It was estimated that on 31 August 1915 a total debt of 122 million francs, including accumulated interest arrears, was outstanding on the three loans mentioned above. In addition, internal bonds held largely by foreigners were estimated at about \$2.4 million.¹ In October 1919,

¹ Arthur C. Millspaugh, *Haiti under American Control, 1915-1930* (Boston, 1931), page 18.

the financial adviser authorized the Haitian Government to raise up to \$40 million by issuing bonds in the United States for refunding the external debt and for paying all other foreign claims approved by a specially established Claims Commission. A first portion of the bond issue, floated in 1922, amounted to \$16 million. This amount was more than sufficient to refund the three external loans, especially since the French franc had depreciated in terms of dollars during the First World War. However, many holders of the 1910 bonds—about 25 million francs of such bonds remained outstanding—insisted on payment in gold francs and refused to accept payment in current francs offered by the Haitian Government. Though the Government thereafter no longer considered the 1910 loan outstanding, it offered an arrangement in 1938 under which the bonds would be redeemed in paper francs and bondholders compensated by the receipt of non-interest-bearing dollar scrip. Under an agreement signed in 1952 between France and the Haitian Government, the dispute over the outstanding bonds held by the French bondholders was settled.

In 1923, a second (and last) portion of the bond issue authorized in 1919, amounting to \$2.7 million, was floated in New York for the purpose of redeeming the government-guaranteed bonds of the foreign-owned Haitian National Railroad, which was thereupon taken over by the Haitian Government. Both these loans were fully serviced until redemption, except from 1938 to 1941, when amortization payments were first curtailed and then suspended with the approval of the United States Government. The financial position of Haiti improved greatly during and after the Second World War, and the Government retired all outstanding bonds in 1947. With the payment of the dollar bonds, United States supervision of Haitian customs revenue ended, and Haiti regained full financial independence.²

The first major Export-Import Bank loan to Haiti, amounting to \$5.5 million, was granted in 1938 for the purchase of construction material needed for public works and road construction. This loan was wholly repaid by 1951. In May 1941, a second loan, this one of \$5 million, was made to a government-owned development company, the Société haïtiano-américaine de développement agricole (SHADA), organized at that

² In 1934, with the termination of the military occupation of the country, a fiscal representative nominated by the United States Government replaced the two officers—financial adviser and receiver general—who had been supervising Haiti's customs collection and fiscal policy under the 1915 arrangement. Later, under an agreement concluded in 1941, the post of fiscal representative was abolished, the functions of his office being transferred to the Fiscal Department of the National Bank of Haiti. This department remained under United States supervision until full redemption of the 1922/23 loan in 1947.

time to promote the production of rubber and sisal needed in the United States. By the end of 1953, \$1.2 million of this loan had been repaid out of earnings.³ A loan to the Haitian Government of \$14 million was approved in December 1948, for an irrigation scheme in the Artibonite Valley. By the end of 1953, \$3 million had been drawn on this loan.

In September 1953 Haiti became a member of the International Bank for Reconstruction and Development but has not yet borrowed from that institution.

FOREIGN BUSINESS INVESTMENTS

Until recently foreign business investments in Haiti, almost entirely of United States origin, have been confined largely to agriculture and railways. The distribution of United States direct investments in Haiti in 1943 and 1950 is shown in table 17.

Table 17. United States direct investments in Haiti, 1943 and 1950
(Millions of dollars)

Field of investment	1943	1950
Agriculture	7.5	7.9
Finance	3.0	—
Public utilities and transportation.....	2.3	2.3
Other groups.....	1.4	2.5
TOTAL	14.2	12.7

The corresponding total for 1929 was \$14.2 million and for 1936, \$9.7 million. The decline between 1929 and 1936 appears to have been due almost entirely to the reduction in book values during the depression. The only significant change in recent years has been the liquidation of investments in finance and in banana growing and exports.

The figures quoted do not reflect the past importance of United States investments in railways in Haiti. According to one estimate, United States capital invested in Haitian railways reached a peak of \$10.4 million in 1914.⁴ This figure presumably includes the bonded debt of the National Railroad redeemed in 1923.

A large portion of the United States direct investments in Haiti is accounted for by the Haytian-American Sugar Company, S.A. This company was incorporated in 1943, and in 1949 took over most of the assets of another United States-controlled enterprise. It now owns or leases about 23,000 acres of sugar-cane land near Port-au-Prince and operates a sugar mill, a sugar refinery and a distillery for alcohol and rum. In addition, it owns through three subsidiaries a railway, a wharf at Port-au-Prince, warehousing facilities and a banking business in Haiti.

Aside from the investments of the Haytian-American Sugar Company, foreign investments in agriculture are

now of minor importance. Beginning in 1935, a considerable increase in exports of bananas took place subsequent to the granting of a concession to a United States enterprise (Standard Fruit and Steamship Company) which established a plantation and which was granted a monopoly on the export of bananas. Exports reached a peak of 7.3 million stems in the fiscal year 1946/47, representing nearly one-fifth of the value of Haiti's total exports. When the company's contract was revised in 1945, its previous export monopoly was restricted to bananas grown in the northern part of the country, and in 1947 it had to be shared with six local trading companies. Since then banana exports have steadily declined, amounting to only 0.6 million stems in 1951/52.⁵

Few mineral deposits having been found in the country, foreign investments in the mining sector of the economy have remained negligible. In 1944 a United States company (Reynolds Mining Corporation) obtained a sixty-year concession for the mining of bauxite. By the end of 1953 the construction of transportation facilities had been started, to be followed by processing and loading installations.⁶ United States capital is engaged in ventures involving the exploration, under concession, of deposits of manganese south-west of Port-au-Prince and of copper in the northern part of the country.

The present central bank (Banque nationale de la République d'Haïti) was originally foreign-owned and engaged largely in commercial banking though it carried out certain official functions under contract with the Haitian Government. The bank was acquired from French owners by the National City Bank of New York in 1922 and finally sold to the Government of Haiti in 1935. A branch of a Canadian bank also operates in Haiti.

Various minor investments are known to have been made during the last few years, involving capital originating in Belgium, Canada, Cuba, France, Italy, Surinam and the United States. Among the projects embarked upon during this period are a sugar mill financed partly by Cuban capital, two housing projects—one United States-financed, the other involving United States, Canadian and Belgian capital—a French-financed cement factory and a navigation company financed partly by capital from Surinam.

At the end of 1952, a concession was granted to a United States entrepreneur for the establishment on the south-west peninsula of a cocoa-processing plant; the concessionaire undertook to promote the production of cocoa beans in the area.

It was pointed out above that foreign investments in Haiti had been of significance only in railways and agriculture. The Haitian railway network, however, has remained inadequate. A United Nations mission re-

³ SHADA ceased to exist in November 1952. The Haitian Government undertook to repay the amount of the loan outstanding at the time of dissolution.

⁴ Cleona Lewis, *America's Stake in International Investments* (Brookings Institution, Washington, D.C., 1938).

⁵ Institut Haïtien de Statistique, *1804-1954: Cent Cinquante Ans de Commerce Extérieur d'Haïti* (Port-au-Prince, 1953), pages 47 to 50.

⁶ *New York Times*, 8 October 1953.

ported in 1949 that no addition had been made to the network for many years and that, in all, only some 160 miles of railway were in operation.⁷ On the other hand, during the past few decades foreign capital has played a considerable part in the development of agriculture and related industries, reflected in the growth of sugar production since the 1920's and the activities of SHADA, referred to above, and of the Service coopératif inter-américain de production agricole (SCIPA), an agency financed jointly by the Haitian Government and the Institute for Inter-American Affairs (operating under the United States Department of State).

An agricultural development project undertaken in the Artibonite Valley with the financial assistance of the Export-Import Bank of Washington, D.C., constitutes another promising venture. The report of the United Nations mission stressed the desirability of such comprehensive projects for agricultural development, suggesting that energies be concentrated successively on one natural development area after another.⁸

GOVERNMENT POLICIES

There is relatively little legislation in Haiti specifically concerned with foreign investments or enterprises as such. Certain laws, however, provide for different treatment of foreign and domestic enterprises and nationals in minor respects.

Subject to general licensing requirements applicable to all business enterprises, foreign interests have the right, not restricted by law, to engage in any kind of activity other than the renting of real estate. Under a law of 8 October 1949, aimed at promoting the establishment of "new industries" in the country, certain tax relief is granted to enterprises engaging in such industries, whether foreign-owned or domestic-owned, namely: (1) exemption from export duties for a period of five years and exemption for the same period of time from import duties on equipment and raw materials not produced locally; (2) 50 per cent reduction of income tax and patent and licence fees during the first year of operation; and (3) 20 per cent reduction of income tax and patent and licence fees during the following four years. The same law grants newly established enterprises in older lines of industry a 50 per cent reduction of income tax and of patent and licence fees during the first year of operation.

Until recently, there was no specific law pertaining to the nationality of directors, officers or employees of enterprises operating in Haiti. In practice, concession contracts negotiated by the Government with foreign-owned enterprises frequently provided that a specified proportion of the employees of the enterprise should be Haitian nationals. One such contract provided that during the first year of operations 75 per cent, and by the end of the second year 90 per cent, of the office employees must be

Haitian. A law of September 1952 provides a more exacting rule of this kind, requiring that not less than 95 per cent of the total staff of any Haitian enterprise, whether foreign-owned or domestic-owned, be Haitians.

According to the 1946 Constitution, now abrogated, foreign-born persons were not allowed to engage in retail trade, direct the operation of "small industries" or devote themselves to professional activities. The provision restricting retail trade to native-born Haitians, it appears, was not enforced. The present Constitution (of 1950) does not include these limitations on the activities of foreign-born persons.

Foreign absentee ownership of land is limited by law. Article 8 of the Constitution of 1950 provides that foreign nationals (individuals or companies) may own landed property needed for agricultural, commercial, industrial or other enterprises, but this right ceases two years after the foreigner has left the country or the operations of the company have ended. A provision, incorporated in the 1946 Constitution, to the effect that the State would become owner in full right of the landed property in question after the two years have elapsed, was dropped in 1950. Foreigners are prohibited from owning more than one dwelling place in a given locality and from renting real estate to others, but this provision has not been enforced. The Constitution provides, however, for regulation of the activities of foreign housing construction corporations by special legislation.

The Constitution establishes the right of the Government to expropriate private property for reasons of public necessity provided prior and fair compensation is paid.

Article 15 of the 1950 Constitution enunciates the principle of State ownership of mineral resources. Regulations applicable to both domestic and foreign mining enterprises are contained in a decree-law of 20 December 1943. Provision is made for exploitation of mineral deposits through the extension of concession contracts. Employment by foreign concessionaires of foreign technicians or skilled workers must be authorized by the Government.

The Haitian Government's main sources of revenue are customs duties, export taxes and, since 1948, a general income tax. The customs duties, which accounted for about three-fourths of total government revenue in 1949/50, are levied for revenue rather than for the protection of domestic producers. They affect a wide list of products but, in order to encourage new industries, the Government has frequently exempted the enterprises concerned from import duties on raw materials or machinery. Export taxes are levied on coffee, sugar, bananas, sisal, goatskins, molasses, cocoa and cotton.

The income tax is levied on personal and corporate incomes and profits earned in Haiti; it is progressive, rising from 5 per cent on taxable income of 3,000 gourdes (\$600) or less, to 30 per cent on taxable income of over 200,000 gourdes (\$40,000). The tax

⁷ United Nations, *Mission to Haiti* (sales number:1949.II.B.2), page 203.

⁸ *Ibid.*, page 106.

applies to foreigners and Haitians without discrimination. It is an established feature of Haitian fiscal policy to grant a measure of tax exemption to newly established businesses. Contracts have been concluded by the Haitian Government exempting new enterprises, both domestic and foreign, from certain taxes or all taxes or guaranteeing such enterprises against an increase in taxes. In October 1949 (law of 8 October 1949, mentioned above), the Legislature established certain criteria for the granting of tax exemptions and other privileges to newly established enterprises. The Executive retains considerable discretion, however, in this matter.

The Haitian Government has established monopolies in domestic trade in tobacco, sugar and bananas. The monopoly on purchase and sale of tobacco was established in 1948 in order to ensure a fair price to tobacco producers and to provide revenue for the Government. The sugar monopoly handles the wholesale distribution

and sale at fixed prices of sugar for domestic consumption. The Government grants specific concessions to Haitians for purchase, at fixed prices, of bananas from producers in given areas.

Foreign exchange transactions are not subject to governmental restriction. The Haitian monetary and banking system links the domestic money supply very closely with the country's foreign exchange position. There are rigid provisions for coverage of the note issue by foreign exchange reserves.⁹ Under this system balance of payments pressure and related exchange control are avoided, but the economy is rendered particularly sensitive to fluctuations in the price and volume of exports.

In April 1953 an agreement was signed between the Haitian and United States Governments for Haiti's participation in the investment guarantee programme sponsored by the Mutual Security Agency.

⁹ United Nations, *Mission to Haiti*, pages 227 to 274.

HONDURAS

EXTERNAL PUBLIC DEBT

During the period 1867 to 1870 the Honduran Government raised four sterling loans in London and Paris, totalling about £6.1 million and intended chiefly to finance construction of an inter-oceanic railway. Only a small section of the railway was built, however, and the loans went into default in 1872.

In subsequent years several attempts were made to settle this debt and to raise additional funds for the inter-oceanic railway. It was not until 1923, however, that an agreement for refunding and adjusting the outstanding loans was approved by the bondholders. The Congress of Honduras accepted the proposed settlement in 1926. It provided for redemption of the outstanding bonds, then amounting to approximately £5.3 million, by semi-annual payments of £20,000 over a period of thirty years. Total payments on the outstanding debt, therefore, would amount to £1.2 million, approximately 22½ per cent of the outstanding indebtedness. Interest arrears were cancelled and no interest was to be paid from 1926 to 1956. The settlement plan was accepted by holders of bonds with a nominal value of £4.8 million, and this amount was redeemed by 1953. Holders of bonds with a nominal value of close to £0.6 million did not assent to the arrangement; the status of these bonds remains undetermined.

Three medium-term loans totalling about \$2 million were raised by the Honduran Government with commercial banks in the United States during the period 1928 to 1933. These loans were repaid by 1936.

In 1942 the Honduran Government borrowed \$1 million from the Export-Import Bank for the purchase of material and equipment in connexion with construction of the Honduran section of the Pan-American Highway. This loan was repaid in June 1950. Honduras is a member of the International Bank for Reconstruction and Development but has not borrowed from that institution.

FOREIGN BUSINESS INVESTMENTS

No official Honduran statistics for direct investments are available.¹ The United States has long been the only significant source of foreign investment.

Since about 1910 two United States companies (United Fruit Company and Standard Fruit and

Steamship Company) which are mainly engaged in the growing, transporting and marketing of bananas, have accounted for the bulk of United States investments in the country. A mining company (New York and Honduras Rosario Mining Company) predominates in mining activities. By 1929 United States direct investments in Honduras were estimated at nearly \$70 million.² During the 1930's the banana plantations in Honduras owned by the two companies just mentioned were heavily damaged by plant disease and some of them had to be abandoned. Largely as a result of this fact total United States investments in Honduras were reduced to \$36.4 million in 1936. In 1943 the total was still only \$37.2 million, distributed as follows (in millions of dollars):

Manufacturing	1.7
Mining and smelting.....	2.1
Public utilities and transportation.....	8.1
Agriculture	23.4
Miscellaneous	1.9

Most of the manufacturing, public utility and transportation investments reported in 1943 are owned by the three companies mentioned, which had built their own railway and telegraph communications as well as a number of manufacturing establishments.

In post-war years United States investments in Honduras have increased rapidly. The two fruit companies have increased their area under cultivation and invested large amounts in fighting plant disease and in introducing new crops. In 1950 total United States direct investments in Honduras were recorded at \$61.9 million. Of this sum public utilities and transportation accounted for \$8.8 million. By the end of 1952 the total had increased to \$81 million.

DISTRIBUTION OF BUSINESS INVESTMENTS

The fruit companies

The activities of the United Fruit Company³ and of the Standard Fruit and Steamship Company are mainly concentrated in the lowlands near the Atlantic coast of Honduras. Though the two companies employ only some 30,000 persons, out of a total population of some 1.5 million, they represent the largest single source of money income in the country. In view of the vertical integration of their activities, the two companies are to

² A figure of \$71.5 million given in official United States statistics includes investments in British Honduras.

³ Most of the activities of the United Fruit Company in Honduras are carried out by its subsidiary, the Tela Railroad Company. The data given are largely based on the annual reports of the parent company.

¹ In its reply to the Economic Commission for Latin America with reference to a questionnaire on foreign investments, the Government of Honduras stated that a census of foreign investments was one of the tasks to be undertaken by the Central Bank of Honduras, which was established in July 1950.

a certain extent detached from the rest of the Honduran economy.

In 1950/51 the United Fruit Company exported 9.1 million bunches of bananas, and the Standard Fruit and Steamship Company 3.5 million. These figures included a relatively small number purchased from independent growers by the companies. In 1952 the United Fruit Company had about 37,000 acres under bananas, 7,000 under abacá and an additional 4,000 under oil palms. The last two crops were introduced during the Second World War. Abacá is produced under a contract with the Reconstruction Finance Corporation, an agency of the United States Government, under which the company receives a management fee. A plant for the processing of palm oil has recently been put into operation. Both abacá and oil palm plantations utilize areas previously under bananas which had to be abandoned because of plant disease; other such areas are being reafforested.

In order to preserve the large investments made in ancillary installations, substantial new investments have been made, particularly since the end of the war, to protect and improve the banana plantations of the two companies. One disease affecting leaves—the Sigatoka disease—has been brought under control by spraying; another, affecting roots—the Panama disease—is being combated by flooding, requiring construction of canals and levees. Large areas of banana plantations have been equipped with overhead irrigation to increase yield. Other areas, formerly swamps, have been drained. New areas near existing plantations have been rendered fertile by the deposit of silt carried by river water which, by means of hydraulic works, is allowed to flood the areas.

The ancillary installations of the two companies consist, in the first place, of transportation facilities established primarily for the export of bananas. The United Fruit Company operates the government-owned harbour installations at Puerto Cortés and the government-owned Honduras National Railway (Ferrocarril Nacional de Honduras), extending fifty-nine miles inland from that harbour. This railway was built by the United Fruit Company for the Government under an agreement concluded in 1920. A loan which the company extended to the Government for financing the construction has been repaid recently, and a new agreement, concluded in 1952, stipulates an extension of the railway by about twenty miles.⁴ A highway leads from the inland terminal of the Honduras National Railway to the capital, Tegucigalpa. The United Fruit Company also owns and operates the harbour installations of Tela and two rail lines with a total length of 107 miles. The Standard Fruit and Steamship Company owns and operates the harbour installations at La Ceiba and 150 miles of tracks. The railways of the two companies are common carriers but are used primarily for the transportation of bananas.

A subsidiary of the United Fruit Company (Tropical Radio Telegraph Company) provides domestic telegraph and telephone service in Honduras, as well as external communication.

In addition to providing installations directly connected with the production and transport of bananas, the two companies have made investments in housing for employees and in sanitary and educational facilities. They also produce and distribute electric energy. The Standard Fruit and Steamship Company has invested in a brewery enterprise, and both companies are engaged in cattle raising and have lumber yards. The United Fruit Company has financed the construction and operation of an important education and research institution in the field of agriculture (Escuela Agrícola Panamericana), serving Honduras and a number of other countries in the Caribbean area.

Other foreign-controlled enterprises

The third largest foreign-controlled enterprise in Honduras is the New York and Honduras Rosario Mining Company, operating under a concession granted in 1920. It mines silver and some gold. Recently it closed its principal mine near Tegucigalpa and is opening a new mine with richer silver ore.

Under the conditions of its concession contract of 1920, the company built the water supply systems of the cities of Tegucigalpa and Camayagua. These systems have since reverted to the Government.

The main foreign-controlled manufacturing enterprise in Honduras is a cigar and cigarette factory owned by the British-American Tobacco Company.

ECONOMIC SIGNIFICANCE OF FOREIGN INVESTMENTS

Foreign investments, mainly in the two fruit companies, are of an unusually great significance for Honduras' international trade and payments. Since the middle 1920's Honduras has been, with the exception of a few years, the most important single exporter of bananas in the world. Exports reached a peak of about 29 million bunches in 1929/30, declined to an average of about 12 million during 1935 to 1945 (except for 1942/43, when there were serious transportation difficulties) and have increased to about 14 million in recent years. It is reported that the United Fruit Company intends to increase its banana production by 2 million bunches per year.⁵ From 1937 to 1951 the share of the principal two commodities accounted for by foreign-controlled enterprises declined—that of bananas from about three-quarters to less than two-thirds and that of silver from 13 to 3 per cent of Honduran exports—while their value increased—bananas from \$8.5 million to \$50 million and silver from \$1.4 million to \$2.3 million. Foreign capital also accounts for certain

⁴ International Monetary Fund, *International Financial News Survey* (Washington, D.C.), 21 March 1952, page 291.

⁵ Statement by the Government of Honduras in reply to a questionnaire of the United Nations (document E/2408, 22 April 1953, page 92).

other Honduran exports, particularly Manila hemp and lumber.

The two fruit companies accounted for two-thirds of Honduras' exports in 1952 and for 29 per cent of its imports. Their exports exceeded their imports (including freight) by \$35 million. Their income from investments in Honduras amounted to \$19 million, offset in part by reinvestments or investment of fresh capital amounting to \$10 million; the balance of \$24 million represented their outlays in Honduras ("purchase of lempiras").⁶

Until recent years the direct contribution of the foreign-owned enterprises to the Government's receipts was relatively small since there was no taxation of income and by virtue of their concession contracts the main foreign-owned enterprises were exempt from payment of most import duties. However, under an income tax law adopted in 1949, their direct contribution to public revenue amounts to about \$3 million yearly (about one-eighth of the total budgeted receipts in the fiscal year 1952/53).

The foreign concerns have provided a number of services usually considered as governmental functions. Under their concession contracts they are required to provide school and hospital services, maintain a police force in the area of their operations and furnish other essential services.

GOVERNMENT POLICIES

The entry of foreign capital into the country is not restricted, and such capital enjoys practically complete equality with domestic capital. Foreign residents in Honduras may freely engage in any trade or industry in Honduras and are subject to the same rights and obligations as nationals. According to Article 286 of the Commercial Code, foreign concerns operating in Honduras are regarded as domestic enterprises.

According to the Agricultural Law promulgated by a decree of 3 April 1936, "the State is the original owner of surface and subsoil rights and may transfer them to private owners, thus making them private property". The same law provides that the State may impose restrictions on private property to facilitate the establishment of public utilities or for other purposes.

Though concessions have played an important part in the country's economy during the past fifty years, there are no constitutional provisions which regulate the granting of concessions. These are usually obtained by a petition to the ministry concerned; in case favourable action is taken, a concession contract is prepared and submitted for approval to the President of the country and subsequently to the legislature for ratification.

Any resident of Honduras may engage in agriculture. However, foreigners may not obtain full title to land within forty kilometres of seacoasts or borders.

The Mining Code, promulgated in 1937, reiterates the provisions of the Agricultural Law of 1936, pro-

viding that the State is the owner of all mineral deposits, even though the surface of the areas where they are located is owned by corporations or private individuals. The State may permit entrepreneurs to make explorations, work mines and dispose of minerals subject to the regulations of the Mining Code. Deposits of certain minerals, such as petroleum, coal and iron ore may be exploited only under contracts granted for periods not exceeding twenty years. Seventy-five per cent of all workers employed by mining enterprises must be Hondurans.

The Banking Law, promulgated by a decree of 11 March 1937, provides that foreign banks may be established in the country, but permission must be obtained from the President through the Minister of Finance.

Exchange control was established in 1934. Since the exchange receipts of the country are sufficient for all requirements, no quantitative restrictions on trade have been put into effect. Foreign exchange control operates for statistical purposes only, and applications for transfers are freely granted.

Prior to the passage of the income tax law of November 1949, the Honduran Government derived its revenue primarily from customs duties and government monopolies. As pointed out above, the new income tax law yields substantial revenue, since under amended concession contracts the foreign-owned agricultural and mining enterprises have agreed to pay this tax. The law provides that net business incomes are subject to rates ranging from 4 per cent on incomes from 2,500 to 50,000 lempiras to 15 per cent on income in excess of one million lempiras (\$500,000).

The Honduran tariff is generally of a revenue character, but protection is afforded to a few domestic industries. Many of the imports required by foreign enterprises are free of duty under provisions in concession contracts. In the fiscal year 1947/48, almost 40 per cent of all imports were free of duty. The income from government monopolies stems primarily from a tax on alcoholic beverages.

Since foreign concessions play a vital role in the Honduran economy, the principal features of recent concession contracts may be noted. The New York and Honduras Rosario Mining Company obtained its original concession in 1920 for a twenty-year period ending 31 December 1940. A new contract was concluded in 1940 to run to 31 December 1960. In it⁷ the company is guaranteed that:

1. No increase in taxes and duties will be imposed;
2. Mining supplies may be imported without payment of duties;
3. Mining products may be freely exported;
4. An internal communications system may be operated;
5. The company's employees will not be subjected to military duty in peace-time.

⁶ *Ibid.*, page 115.

⁷ Moody's *Analyses of Investments, Industrials* (New York, 1948), pages 1869 and 1870.

In turn the company obligated itself:

1. To maintain a police force, hospital and schools in connexion with its operations;

2. To pay an income tax of 7 per cent of its net income;

3. To advance \$250,000 in respect of future tax obligations.

The United Fruit Company, operating in Honduras through the Tela Railroad Company, negotiated in 1949 an important amendment to its basic concession contract of 1912 with the Honduran Government. The major provisions⁸ of the amended contract are:

1. The company agrees to continue planting African palm, cacao and abacá or to increase its plantings;

2. All machinery and supplies may be brought in free of duty;

3. The company agrees to pay the new 15 per cent income tax upon its net profits (for the valuation of

exported bananas and the profits of the United Fruit Company from its activities in Honduras, the calculations acceptable to the United States Bureau of Internal Revenue will be accepted by the Honduran Government);

4. The Government agrees not to impose new or increase existing taxes;

5. No exchange restrictions will be imposed except by mutual accord in case of emergency;

6. The company has the right to do business in Honduras and export its products freely, and may not be subjected to expropriation except for reason of public necessity and then only provided that the Honduran Government has previously paid just compensation in United States currency;

7. No restrictions may be imposed with respect to the number of foreigners employed in management functions; however, with respect to labourers, the company agrees that at least 70 per cent will be Hondurans.

⁸ *La Gaceta*, 11 November 1949 (Tegucigalpa).

MEXICO

EXTERNAL PUBLIC DEBT

At the end of 1953 Mexico's public long-term external debt amounted to \$321 million, nearly all of which was payable in United States dollars. The figure includes both obligations directly assumed by the Federal Government and government-guaranteed external loans to Federal Government corporations. The composition of the debt on 31 December 1953 (millions of dollars) was as follows:

Direct obligations:

Government bonds*	32.7
Railway bonds (assumed by Federal Government)	37.7
Anglo-Dutch petroleum debt	67.7
United States property claims	4.0
Bank of America loans	3.8
Loans from United States corporations and other debts	13.3
TOTAL DIRECT DEBT	159.2

Guarantees:

Export-Import Bank	103.6
International Bank for Reconstruction and Development	58.1
TOTAL EXTERNAL OBLIGATIONS	320.9

Source: Secretaría de Hacienda y Crédito Público, Dirección de Crédito; Nacional Financiera, S.A., and Banco de México, S.A.

* Excluding enemy-owned bonds.

Loan service payments for 1953 amounted to \$41.9 million, of which \$10.7 million represented interest and \$31.2 million amortization.

Mexico's first official foreign borrowing occurred in 1824 with the issue and sale in England of 5 and 6 per cent bonds with a nominal value of £6.4 million. This initial borrowing was followed by a series of defaults and adjustments, which continued until after 1886, reflecting internal political turmoil as well as international disturbances, including war with the United States from 1846 to 1848.

Steps were taken, upon establishment of the Porfirio Díaz regime (1876 to 1910), to restore Mexico's internal and external credit. New 3 per cent consolidated debt bonds for the settlement of outstanding claims against the Government were issued in 1885, the bulk being sold to foreigners after an agreement on adjustment in 1886.¹ During the first decade of this century three Mexican states issued peso bonds abroad with the guarantee of the Federal Government. These bonds, like those of the consolidated debt issue of 1885 and the

¹ The issue of internal debt bonds ceased on 30 June 1896. Complete data on the amount issued are not available, but on 30 June 1907, 45.9 million pesos were outstanding. Since the foreign debt settlement of 5 November 1942 included 41.8 million pesos in 3 per cent debt bonds of 1885, it is presumed that they were sold largely to foreigners.

City of Mexico 5 per cent sterling loan of 1889 (assumed by the Federal Government in 1903), are now included in the foreign debt of the Federal Government.

The debt adjustments referred to, and an increased measure of political stability, cleared the way for borrowing during the twenty-five year period ending in 1913 of large amounts in the principal financial centres of the world for construction of railways and ports, and for other purposes. Private foreign financing of railways, utilities, and mining and petroleum enterprises was also facilitated.

Service payments on the external debt were maintained from the adjustment of 1886 until July 1914, when they were suspended as a consequence of the financial disruption arising from the revolution which began in 1910.

In 1920 a new administration undertook to strengthen the external credit of the country though order had not been fully re-established. In 1922 an agreement was reached between the Mexican Government and the International Committee of Bankers on Mexico as representative of foreign bondholders. This agreement was never fully implemented, nor were other agreements entered into in 1925 and 1930. Political instability continued until the early 1930's, and the Government experienced fiscal difficulties. Fiscal and transfer difficulties in Mexico resulting from the world depression and the Government's public works programme continued to hamper resumption of debt service.

The period since 1941 has been marked by resumption of service on the external funded debt and the railway debt, although on a considerably reduced basis, and by governmental borrowing for both currency stabilization and domestic development from the United States Treasury Stabilization Fund, the International Monetary Fund, the Export-Import Bank and the International Bank for Reconstruction and Development. Agreements have been reached on the amounts due on account of expropriation of petroleum and agricultural properties, and damage attributed to the revolution of 1910.

At present the external funded debt of the Mexican Government is being serviced in accordance with an agreement with the bondholders signed in 1942. The agreement provides for the resumption of service payments and the liquidation of interest arrears on a drastically reduced basis. The total outstanding principal, equivalent to \$230.6 million (\$58.9 million; £30.1 million and 139.6 million pesos), was scaled down to \$47.5 million. The arrears of interest, equalling \$278.9 million, were settled for a payment of \$2.0 million.

Total foreign bond issues between 1824 and 1947 (excluding railway obligations) are estimated at the equivalent of about \$1,000 million. This amount considerably exceeds the net capital inflow into Mexico on account of the loans in question since many issues represented conversion and refunding operations. Most of the loans were floated between 1824 and 1913; the issues during that period totalled \$375.2 million, £91 million and 280.3 million francs. Since 1913, the greatly reduced amounts issued in connexion with various settlement operations have been almost exclusively dollar obligations.

The railway debt is represented by obligations of the government-owned Mexican National Railways and its subsidiaries. The Government's liability is derived from guarantees undertaken upon formation of the Mexican National Railways in 1909 and earlier in connexion with concession contracts with private interests for construction of railway lines.

The service of the railway loans was defaulted in 1914. An adjustment was offered to bondholders in April 1948 pursuant to an agreement between the Government of Mexico and the International Committee of Bankers on Mexico, announced in March 1946. The agreement became operative as of 2 March 1950 upon acceptance by a majority of the bondholders.

The outstanding principal of debts involved in the agreement totalled \$236.6 million (\$211.4 million, £5.4 million and 8.7 million reichmarks) on which about \$324.5 million in unpaid interest had accumulated. By provisions similar to those in the Federal funded debt settlement plan, the outstanding principal was reduced to \$48.1 million and arrears of interest to \$2.5 million.

Under the settlement, bondholders were offered two options, each of which involved payment by the Mexican Government of the same amount of money over a period of twenty-nine years. Plan A provided for retirement of the bonds at approximately a fifth of the original principal amount, and payment of interest on such principal from 1 January 1946 at varying rates on the several bond issues, averaging 4.35 per cent per annum. Under plan B holders would waive interest from January 1946, in lieu of which they would receive higher redemption prices.

The Anglo-Dutch obligation arises from an agreement signed in 1947 with respect to certain oil properties expropriated in 1938. The agreement fixed the amount due at \$130.3 million, including interest during the period from expropriation until repayment has been completed. The debt is to be paid in fifteen instalments of \$8.7 million each, the first of which was paid in September 1948. The agreement covers also certain expropriated United States-owned properties not included in the agreement of 1942 (see below).

Compensation for the expropriation by Mexico of American-owned property (except oil and railway properties) was settled under the Mexican-American Claims Convention of 1941. The agreement fixed

Mexico's total liability at \$40 million, of which \$3 million had been paid prior to the convention, while \$3 million was paid on ratification and the remainder was to be paid in thirteen annual instalments.

An agreement providing for payment by Mexico over a period of five years of about \$24 million plus \$5 million in interest for certain expropriated United States-owned oil properties was reached in 1942; these payments have now been completed.

Since 1942, the Export-Import Bank of Washington has granted loans to Mexico (including some without government guarantee) which, as of 31 August 1954, totalled \$230.2 million (net of amounts cancelled or expired). Of this amount \$166.5 million had been drawn upon. A total of \$51.1 million had been repaid and \$115.4 million was outstanding.

The amounts utilized were for railway equipment (\$66.7 million), electric power development (\$34.0 million), manufacturing (\$32.7 million, over half of which was for the steel industry), agriculture (\$21.9 million), and various other purposes (\$11.0 million). Interest rates on these loans range from 3½ to 5 per cent. The period of most of the longer loans has been 8 to 9½ years, in some instances longer.

Since January 1949, the International Bank for Reconstruction and Development has extended five loans to agencies of the Federal Government of Mexico and to private enterprises, mainly for electric power development. The amount involved as of 30 June 1954 was \$80.3 million (net of refunding and cancellation), guaranteed by the Government. As of that date, \$62.3 million had been drawn upon; the undisbursed balance of effective loans was \$18.0 million. The Nacional Financiera (a governmental financing agency) and the Federal Electricity Commission (Comisión Federal de Electricidad) had been granted two of the loans, totalling \$53.8 million, for electric power development; the Mexican Light and Power Company, a private enterprise, one loan of \$26.0 million, to finance part of the cost of its expansion programme; and a consortium of eight Mexican commercial banks and the Nacional Financiera had received a line of credit of \$10.0 million to provide specific loans to finance medium-sized and small industrial projects. By the end of June 1953 only six loans, totalling about \$0.5 million, had been made and \$9.5 million of the line of credit authorized had been cancelled.

FOREIGN BUSINESS INVESTMENTS

The Bank of Mexico has published annual estimates of the amount of foreign direct investments (in millions of pesos) in recent years. The figures for 1938, 1946, 1950 and 1952 are given in table 18.

The increase in the peso value of investments between 1946 and 1950 was due in part to a net inflow of foreign capital for direct investment, amounting, according to the balance of payments accounts prepared by the Bank of Mexico, to about \$120 million during the four years in question, and in part, it appears, to an increase in the

book value (in pesos) of old investments. The book values of these investments were not revalued sufficiently, however, to offset the decline in the exchange value of the peso from \$0.206 in 1946 to \$0.116 in 1950, as is obvious from the fact that at these rates the totals declined from \$581 million in 1946 to \$566 million in 1950, in spite of the capital inflow. This total was \$731 million in 1952, owing to a net inflow of foreign capital for direct investment.

Table 18. Foreign direct investments in Mexico, 1938, 1946, 1950 and 1952

(Millions of pesos)

Field of investment	1938	1946	1950	1952
Agriculture and livestock....	15	27	35	49
Mining and smelting.....	578	716	967	1,386
Petroleum	6	4	103	56
Manufacturing	119	527	1,279	1,951
Construction	—	11	42	93
Electric power, gas and water-works	630	665	1,183	1,387
Commerce	71	214	607	1,004
Transport and communication	632	641	652	347
Other groups.....	6	19	28	29
TOTAL	2,057	2,824	4,896	6,302

Source: Annual reports of the Bank of Mexico.

The peso value of foreign direct investments in 1938, 1950 and 1952, by creditor country, as estimated by the Bank of Mexico (in millions of pesos) was:

	1938	1950	1952
United States	1,267	3,371	4,770
Canada	448	743	893
United Kingdom	194	257	240
Sweden	96	446	308
France	50	45	32
Other countries ^a	1	32	59
TOTAL	2,057	4,896	6,302

^a Including Argentina, Cuba, Germany, Italy, the Netherlands and Switzerland.

The value of United States investments in 1950 estimated by the Bank of Mexico is in close agreement with official United States estimates, representing about two-thirds of the total. The figures in table 19, derived from United States sources, show the decline in the book value of United States direct investments in Mexico since the 1920's and the change in their industrial distribution. By the end of 1952 total United States direct investments in Mexico had increased to \$490 million.

The major factors causing the decline in value after 1929 were the expropriation of railway, petroleum and agricultural properties and in some cases the writing-down of book values (in dollar terms) occasioned by the depreciation of the exchange rate of the peso. The bulk of the new capital invested in recent decades has been absorbed by manufacturing. The aggregate share of manufacturing and commercial enterprises in the outstanding United States investments increased from 2 per cent in 1929 to 37 per cent in 1950.

Table 19. United States direct investments in Mexico, 1929, 1936, 1943 and 1950

(Millions of dollars)

Field of investment	1929	1936	1943	1950
Mining	230	213	108	121
Utilities and transportation	164	148	106	107
Manufacturing	6	8	22	133
Trade and finance.....	9	11	23	32
Agriculture	59	17	14	3
Petroleum	206	69	5	13
Other groups	8	13	9	6
TOTAL	633	479	287	415

During the nineteenth century, British investments exceeded those of any other origin. They increased greatly during the Díaz regime (1876 to 1910). British capital was mainly invested in petroleum and railways; secondary fields were trade and finance, agriculture, public utilities, mining and manufacturing. The nationalization of railways in 1937 and of the oil companies in 1938, and the sale by British nationals of overseas assets during and after the Second World War—including the Inter-Oceanic Railway in 1944 and the Ferrocarril Mexicano in 1946—greatly reduced British investments. As indicated above, a Mexican official estimate put the value of such investments in 1950 at 8 per cent of all foreign direct investments in the country and 4 per cent in 1952. The Bank of England reported British holdings of business investments in Mexico in 1950 at £38.6 million (\$107.1 million).² The figure is lower than that for 1938 (£58 million), but remains well above the official Mexican figure for 1950, which is the equivalent of £10.5 million.

Canadian investments, which according to the Bank of Mexico equalled 18 per cent of the total in 1950, and 14 per cent in 1952, are represented almost entirely by the largest electric power company in the country. This enterprise, however, though incorporated in Canada, is financed in part by British, United States and Belgian capital.

Other significant foreign investments are represented by Swedish capital, chiefly in telephone services and by French capital, in distribution and manufacturing.

Prior to the 1870's the foreign funds entering Mexican business represented largely the capital of venturesome European and American immigrants investing in agricultural, livestock, mining and commercial undertakings. In the early part of the Díaz regime, however, foreign-owned enterprises appear to have controlled the bulk of the capital invested outside of agriculture. Thus foreign interests owned most of the mines, the petroleum industry, the principal electric power plants, a large part of the railways, several of the principal banks, numerous manufacturing and commercial establishments and about a fifth of the privately held lands.

² Bank of England, *United Kingdom Overseas Investments, 1949-1950* (London, 1952).

INDUSTRIAL DISTRIBUTION OF BUSINESS INVESTMENTS

Mining

Mining activity in Mexico is carried on chiefly by foreign enterprises. A survey of the industry showed that in 1941 sixteen large companies, accounting for more than 80 per cent of the country's total mining production in 1947, were owned by United States capital.³

The value of United States investments in 1929 was \$230 million but fell to \$108 million in 1943. The decline may be attributed to revaluation and liquidations. In 1947 the Mexican Government purchased from United States interests a mining property known as Real del Monte y Pachuca, the world's largest silver mine, with a view to maintaining employment at the mine. In recent years, a slight increase in the dollar value of United States mining investments has occurred.

The decline of foreign investments in the Mexican mining industry since the 1920's has been coupled with a downward trend of production in that industry, both absolutely and in relation to other economic activities. The 1929 volume of mining production was not regained until 1952.⁴

Public utilities

The capital invested in electric power and light facilities in 1947, according to the Mexican Federal Electricity Commission, was 75 per cent foreign-owned. The distribution of ownership was as follows:

	<i>Millions of dollars</i>	<i>Per cent of total</i>
Mexico Light and Power Company and subsidiaries*.....	91.6	43
American and Foreign Power Company and subsidiaries (United States)	60.1	28
Monterrey Railway and Power, Limited (Canadian)	7.8	4
TOTAL, FOREIGN	159.5	75
TOTAL, MEXICAN	51.5	25

* Company incorporated in Canada but owned by a Belgian company; probably includes Canadian, British, United States and Belgian capital.

The generation of electric power in Mexico began in the decade 1890 to 1900 when several domestic and foreign companies started operations. Foreign enterprises were operating on a large scale from 1902. A steady inflow of United States, British, Canadian and Belgian capital followed.

The expansion of privately owned electric power utilities has been hampered by governmental policy, which in general has not allowed them to charge rates

sufficiently high to maintain earnings at levels enabling them to reinvest and attract new capital.⁵ With the aid of loans from the Export-Import Bank and the International Bank for Reconstruction and Development, the two largest privately owned power utilities (Mexico Light and Power Company and subsidiaries and American and Foreign Power Company and subsidiaries) expanded their installed capacity from 445,300 kilowatts in 1946 to 579,700 kilowatts in 1950. An increasing proportion of electric power capacity is in the hands of publicly owned utilities (Federal Electricity Commission and Nueva Compañía Eléctrica de Chapala), which accounted for 12 per cent of the installed capacity in 1946 and for 28 per cent in 1950. This expansion has been financed mainly by Federal budgetary appropriations and by loans from the two banks mentioned above. Even though the share of the two large foreign-owned companies in the installed capacity of public utilities has declined from 66 to 60 per cent, the policy of the Federal Electricity Commission has not been to supplant them but to supplement them. The Commission sells electricity to privately owned utilities for distribution whenever possible.

It is estimated that 95 per cent of the telephones in Mexico are operated by subsidiaries of United States and Swedish companies, the ownership of which is interlocking. Foreign capital has been engaged in telephone service since 1884, when operations were begun by the Mexican Telephone Company, which was controlled by United States capital. A second company, financed by Swedish capital, began operations in 1902 and is now operating under a concession granted in 1926. The Swedish company has been acquired recently by a Mexican company in which a Swedish citizen is reported to have a large interest.

International telegraphic service has been operated until recently by subsidiaries of United States companies. It is now being operated by the Mexican Government following notice served in June 1948 that the foreign-owned concession, due to expire one year later, would not be renewed. By this step the Government completed its control over telegraphic services, the domestically owned branch of which it had been operating since 1878.

Transportation

The Mexican railways were constructed largely between 1880 and 1910 with the aid of private foreign capital. The heavy flow of such capital that began in the 1880's was facilitated by the granting of government subsidies to foreign investors following the failure of attempts to promote railway construction by Mexican nationals. From 1880 to 1910 about 11,500 miles of track were built, adding to the 670 miles existing earlier. During the next thirty years (1910 to 1939), only 450

³ L. J. Hughlett, *Industrialization of Latin America* (New York, 1946), page 252.

⁴ United Nations, *Statistical Yearbook, 1953* (New York, 1954), page 88.

⁵ *The Economic Development of Mexico*, Report of the Combined Mexican Working Party to the International Bank for Reconstruction and Development and Nacional Financiera (Johns Hopkins University Press, Baltimore, 1953), page 60.

miles of main line were constructed. Additions during the period 1940 to 1948 amounted to 850 miles.

Estimates vary as to the amount of foreign capital invested in the railways but suggest that it approached \$1 billion by about 1910, roughly two-thirds of which was of United States origin.⁶

By 1900, the Mexican Government had become concerned over the control of the railways by foreign interests, and during the period 1902 to 1909, plans were made to acquire the bulk of the railway mileage. This involved the formation of a Mexican corporation, the National Railways of Mexico, in which the majority of shares was acquired by the Federal Government. Payment for shares in the old companies was made largely in bonds of the new company. Thus, foreigners retained their interest in the railways as bondholders.

New foreign private financing of railway construction virtually ceased after 1910 and since that time the value of foreign holdings in Mexican railways has declined sharply. This has been due to a number of factors: the default of 1914 on government and railway obligations; further absorption by the National Railways of Mexico of foreign-owned private lines; damage to properties during the revolutionary period; and the complete expropriation in 1937 by the Mexican Government of the properties of the National Railways of Mexico, the major part of whose share capital it already owned.

The trend toward government ownership of the railways has continued in recent years by the purchase in 1944 of the British-owned Inter-Oceanic Railway, representing about 8 per cent of the country's mileage, and in 1946 of the British-owned Mexican Railways, Limited, representing about 3 per cent of the mileage. In 1951 the last major privately owned railway, the Southern Pacific Railway of Mexico, a United States subsidiary, with more than 2,000 miles of track, was purchased by the Government for \$12 million. Of this amount \$3 million was paid in cash and \$9 million in fifteen-year bonds at 3½ per cent interest.

New investment in railway rehabilitation and equipment has been financed in part by loans from the Export-Import Bank. In addition, there is still a substantial balance in the bonded indebtedness of the Federal Government resulting from the acquisition of foreign-owned railways.

United States investments have played a major role in the rapid development of Mexican civil aviation during the past decade. The two largest airlines, representing about a third of the total share capital of such enterprises, are Mexican companies partly owned by Pan American Airways (United States) and United Air Lines (United States). International air transport to Mexico is furnished by eleven companies, two of which are of United States ownership, two Mexican, two Canadian, one Salvadoran, one French, one Costa Rican, one Cuban and one Netherlands.

⁶ F. W. Powell, *The Railroads of Mexico* (Boston, Mass., 1921).

Petroleum

The presence of petroleum deposits in Mexico was known as early as the 1850's and attempts to exploit them were made by various groups. Little was accomplished, however, until about 1900, when the President of the Mexican Central Railroad induced a group of Americans to extract oil in Mexico as fuel for that railroad.⁷ A United States company, the Mexican Petroleum Company of California, acquired 280,000 acres of land for \$325,000 and began production in 1901. The company's operations expanded rapidly, and within a few years other foreign companies, some of which were British, had entered the field.

This development was facilitated by the Mexican Mining Codes of 1884 and 1892, both of which stipulated that rights to petroleum and other minerals belonged to the owner of the surface soil, and by Mexico's first petroleum law, promulgated in 1901, which provided for concessions facilitating the extraction of petroleum from publicly owned lands.

The expansion of the petroleum industry did not cease during the revolutionary period (1910 to 1917) as was the case in other industries. Production reached a peak of 193 million barrels in 1921 and was second only to that of the United States. The value of United States investments in the industry at this time was estimated at \$300 million.⁸ This estimate agrees closely with an official estimate by the Mexican Government made early in 1923 according to which the total value of investments in petroleum was \$521 million, of which 58 per cent was United States owned, 34 per cent British, 7 per cent Netherlands, and one per cent Mexican.

From the early 1920's to 1937, production and foreign investments in the petroleum industry declined steadily. Production fell from 193 million barrels in 1921 to 47 million barrels in 1937. The decline resulted from the uncertainty concerning the Government's policies pursuant to the Constitution of 1917, which abandoned the principle that the subsoil belongs to the landowner, and from exhaustion of some of the deposits.

The properties of the principal private petroleum companies were expropriated in 1938. Since then the production of petroleum has been in the hands of a governmental corporation known as *Petróleos Mexicanos*. Estimates of the value of foreign investments in petroleum immediately before expropriation vary widely according to the sources consulted. The Mexican industrial census of 1935 put United States interests in that year at \$42 million and Anglo-Dutch interests at \$49 million. The companies themselves, at the time of expropriation, valued United States interests at \$200 million and Anglo-Dutch at \$250 million.

⁷ United States Senate, *Investigation of Mexican Affairs*, document 285, 66th Congress, 2nd Session (Washington, D.C.), page 209.

⁸ United States House of Representatives, Committee on Interstate and Foreign Commerce, *Fuel Investigation, Mexican Petroleum*, House Report No. 2470, 80th Congress, 2nd Session (Washington, D.C., 1949), page 82.

The 1937 level of production of 47 million barrels was not again reached until 1946, when 49 million barrels were produced. By 1952 production had increased to 79 million barrels. Recently some new fields have been discovered in the north-eastern part of the country and elsewhere along the coast of the Gulf of Mexico. Known reserves doubled from 1938 to 1953. Despite increased petroleum output, rapidly growing domestic consumption is expected to eliminate Mexico's present net petroleum exports and require net imports by 1956.⁹

Manufacturing

The promotion of manufacturing has been a basic aim of the economic policies of the Mexican Government, particularly since 1941, when the war-induced shortage of many imported articles began to be felt. The volume of manufacturing production more than doubled between 1939 and 1952. Most of this increase has been effected by means of domestic capital, both private and governmental.

Private foreign capital has been estimated to represent about 8 per cent of the new business investments made in industrial machinery and equipment during the period 1945 to 1949.¹⁰ Account should be taken of the fact that loans from the Export-Import Bank, as indicated above, have contributed to the establishment of Mexican-controlled plants engaged in the production of steel, sugar, canned beef, ammonium sulphate and other goods. Table 18 suggests that close to one-third of the foreign direct investments made in recent years have been in manufacturing.

Much of United States investment in Mexican manufacturing industries in the post-war period has been on the basis of participation with local capital. In some instances, participation by United States interests has been limited to the leasing of patent rights. A typical instance is the arrangement between Industria Eléctrica de México, an enterprise devoted to the manufacture of electrical equipment and supplies, and the Westinghouse International Electric Corporation. United States manufacturing enterprises that have made investments in Mexico, some jointly with Mexican capital, produce canned foods, rayon yarn and other textile manufactures, containers, refractories farm implements and machinery, asbestos products, cement, automotive vehicles (assembly only), radios and phonographs, pharmaceuticals, films, aluminium products, steel drums, soft drinks, phonograph records, electrical appliances, chemical dyes and cigarette paper.

In the chemical and pharmaceutical industries, especially the latter, there are important foreign investments. Large German pharmaceutical laboratories were taken over during the war and sold to private interests. Probably the bulk of current production is now accounted for by United States companies.

The automobile assembly and rubber industries consist mainly of branches and subsidiaries of United States companies.

Agriculture

The Bank of Mexico estimated that in 1950 foreign capital represented less than one per cent of the total investment in agriculture. This low figure may be attributed to Mexican land reform, which has been directed, however, against the holding of large estates rather than against foreign holdings as such.

Prior to the revolution of 1910 to 1917, one main object of which was the redistribution of large landed estates, foreigners owned about one-fifth of the private lands of Mexico; of these, United States nationals held about half. Several foreign estates engaged in cattle-raising each exceeded one million acres.

The expropriation of large estates began about 1916, but much of it took place during the years 1934 to 1940. By 1940 approximately half the arable land was held by communal groups known as "ejidos", the balance being held privately, though subject to the maximum acreage limit of size imposed by agrarian laws.

Trade and finance

In recent years, foreign enterprise has been engaged to an increasing extent in distribution activities in Mexico. Commerce accounted for nearly a fifth of the total increase in foreign direct investment during the period 1946 to 1950—more than any other activity except manufacturing. The share of commerce in total foreign direct investments rose from 8 per cent in 1946 to 16 per cent in 1952. The bulk of this increase is accounted for by United States capital.

Foreign-owned banks and insurance companies have practically disappeared, largely as a result of restrictive legislation in these fields enacted in the middle 1930's. The only recent departure from this trend is the participation of some United States firms in investment companies in co-operation with local interests.

ENTRY AND STATUS OF FOREIGN CAPITAL

The right of foreigners to acquire property in Mexico is subject to the constitutional requirement that they expressly agree to submit exclusively to Mexican jurisdiction in any question affecting property rights. The Constitution of 1917, in Article 27, Section 1, sets forth this requirement as follows:

"Only Mexicans by birth or naturalization and Mexican companies have the right to acquire ownership of lands, waters, and their appurtenances, or to obtain concessions for working mines or for the utilization of waters or mineral fuel in the Republic of Mexico. The nation may grant the same right to aliens, provided they agree before the Ministry of Foreign Affairs to consider themselves as Mexicans in respect to such property, and bind themselves not to invoke the protection of their Governments in matters relating thereto, under penalty, in case of non-compliance, of

⁹ *The Economic Development of Mexico*, page 52.

¹⁰ *Ibid.*, table 79.

forfeiture to the nation of property so acquired. Under no circumstances may foreigners acquire direct ownership of lands and waters within a zone of 100 kilometres along the frontiers and of 50 kilometres inland from the seacoast."

Pursuant to this provision, companies with foreign shareholders customarily include a clause in their charters stipulating that foreign shareholders shall be considered as Mexican citizens in so far as their rights in the company are concerned.

In addition, foreigners may participate in most types of enterprises in Mexico only with the permission of the Ministry of Foreign Affairs. A decree of 27 June 1944 stipulates that foreigners and Mexican companies with foreign shareholders require permission from the Ministry in order to acquire existing enterprises or control thereof, when the enterprises are devoted to manufacturing, agriculture, stock-raising, forest exploitation, and purchase, sale or exploitation of rural or urban real estate.

The legislation further stipulates that the Ministry's permission is required for (a) organization of companies that have or may have foreign shareholders and are engaged in any of the activities mentioned; (b) modification or transformation of Mexican companies already in existence or to be formed in future that have or may have foreign shareholders, if Mexican shareholders are replaced by foreign shareholders, or if the nature of the company's activities is changed; and (c) transferring control of the enterprise to foreign shareholders. A condition that nationals own at least 51 per cent of the capital stock and that the majority of directors or partners be Mexicans may be waived at the discretion of the Ministry. The condition of 51 per cent Mexican ownership has frequently been waived, particularly in manufacturing enterprises. Lumbering concessions have generally been granted only to Mexicans and the Forestry Law of 1950 provides that 100 per cent Mexican ownership may be required in granting such concessions.

Immigrant investors must be individually approved by the Ministry of Interior. Among other requirements, they must invest a minimum capital of 400,000 pesos (about \$32,000 at the current rate of 12.50 pesos to the dollar) if they intend to establish a business in the Federal District (which includes Mexico City) or the adjoining states of Mexico and Morelos, and 200,000 pesos in other parts of the country. Moreover, they must deposit 10 per cent of the sums mentioned above in order to guarantee that the investment is going to be made.

The employment of aliens in Mexico is strictly regulated. The Federal Labour Law of August 1931 stipulates that all business enterprises shall employ not less than 90 per cent Mexican workmen in each of the technical and unskilled classes, unless authorized to reduce the proportion temporarily. The proportion is 80 per cent for enterprises with no more than five workers. These restrictions do not apply, however, to managers, directors, administrators, superintendents or

the heads of concerns. In general, employers are required to give preference to Mexicans over aliens. The immigration law of 1947 permits immigration for employment as technicians or specialists only when qualified persons are not available in Mexico. Immigration of labourers and of persons seeking employment is not permitted.

The legislation described has probably stimulated foreign enterprises to train the local labour force. There is still a great need, however, for skilled technicians, which makes it necessary for foreign-operated enterprises frequently to seek special permission to hire foreign personnel, a procedure which involves administrative delays.

CONTROL OF PARTICULAR INDUSTRIES

Mining

A feature of governmental control over the mining industry that may have adversely affected new investment either by foreigners, who largely control the industry, or by Mexican nationals, is the relatively heavy burden of taxation, mentioned above. While foreigners must obtain permission to invest in the industry and must consider themselves as Mexicans in respect to their investments, there is no evidence that these regulations restricted new investments.

Exploitation of mineral deposits, title to which is vested in the nation, may be effected under concessions granted pursuant to conditions imposed by the Mining Law of 2 August 1930. Operation of the enterprise must be maintained for the concessions to continue in force. Exploitation concessions are granted for unlimited periods of time.

A Mining Development Commission (Comisión de Fomento Minero), created in 1934 to develop the mining industry by direct governmental or co-operative activity and to give financial assistance to small private enterprises, participates in the industry only to a small degree.

Petroleum extraction

Prior to 1917 property rights to petroleum deposits on private land were vested in the owners of the soil. The Constitution of 1917 abandoned this principle and provided for strict separation of rights to the subsoil from surface rights. This change caused an extended controversy between foreign owners of oil properties and foreign governments on the one hand, and the Mexican Government on the other.

The new Constitution challenged the status of subsoil rights acquired by foreigners prior to 1917, affecting 80 to 90 per cent of all foreign holdings. In 1921, the Mexican Supreme Court held that the constitutional provision was not retroactive. By 1926 legislation was enacted providing for the issuance of confirmatory concessions for an unlimited period of time to holders of rights acquired prior to 1917. A period

of relative stability in relations between Mexico and the foreign oil companies followed.

Between 1934 and 1936 a number of strikes occurred in the petroleum industry as the result of demands made upon the companies by the workers. In mid-1937 a strike resulted from the failure of the fifteen main oil companies and the workers to agree in negotiations on a labour contract. The strike was terminated when, under procedures established by the Federal Labour Law, a commission of experts was appointed to study the conflict and submit recommendations. The companies registered their objections to the recommendations, submitted in August 1937, but the Labour Board affirmed them in December 1937. In December the companies filed a petition in the Supreme Court for a writ of injunction, contending that they were economically unable to carry wage increase and other costs involved in the Board's decision. In March 1938, the Supreme Court denied the petition. The companies still maintained that they were unable to carry the financial burden, and on 18 March the Mexican Government expropriated the properties. The legality of the expropriation decree was affirmed by the Supreme Court in December 1939.

Shortly after the expropriation, the President of Mexico stated that compensation would be paid for the properties. The position of the companies was that the action of the Government constituted an illegal confiscation since immediate compensation was not paid, and restoration of the properties was therefore requested. In March 1939 negotiations were begun on the basis of a proposal to form several new corporations in which the expropriated companies would be given a financial interest. These negotiations broke down over the issue of who should control the new enterprises. The Mexican Supreme Court, in a decision of 2 December 1939, upholding the expropriation, ruled that payment could be made within a reasonable time, and that the magnitude of the compensation had to be taken into consideration in determining the length of time during which payment should reasonably be made.

"The United States Government did not question the right of the Mexican Government in the exercise of its sovereign power to expropriate the properties within its jurisdiction. It pointed out, however, to the Mexican Government, that principles of international law and of equity required payment of compensation representing fair, assured, and effective value to the nationals from whom these properties were taken."¹¹ The two Governments agreed on November 1941 to appoint two experts to draw up a proposal as to the amounts and terms of compensation. In April 1942 an agreement was reached, fixing the value of the properties on the date of expropriation at \$24 million. An agreement was also reached with Anglo-Dutch petroleum interests in 1947 involving payment of \$130 million.

The petroleum industry is now governed by the Petroleum Law of May 1941, which provides that exploration and exploitation of petroleum deposits may be carried on in three ways: (1) by direct government operation; (2) through public petroleum institutions; and (3) through contracts with private individuals or corporations. The organizations or persons with whom contracts may be executed are: (1) Mexican nationals; (2) companies composed entirely of Mexicans; and (3) joint companies in which the Federal Government holds a majority of the capital stock. In no case can petroleum production be carried on by companies issuing bearer shares. Thus foreign-controlled enterprises cannot be granted concessions directly by the Mexican Government for petroleum exploration and exploitation. In practice, the production and refining of petroleum has been entrusted to a governmental agency, *Petróleos Mexicanos* (Pemex), created in June 1938 to take over the management of the expropriated properties.

In 1948 Pemex prepared a five-year investment plan calling for an outlay of \$470 million. The Government of the United States was approached for a loan of \$200 million in connexion with the plan, but the parties failed to agree on the conditions of the loan.

Regulations established pursuant to the Petroleum Law of 1941 empower Pemex to conclude contracts with other parties for carrying on its operations. This provision has been interpreted as permitting contracts with foreign as well as domestic companies. Up to the end of 1951, sixteen contracts had been signed, including one with the Mexican-American Independent Oil Company (CIMA), a United States enterprise. CIMA has so far been the only one to register a major success; it now extracts some 4,500 barrels daily in the Rabón Grande field.

The contracts usually provide that the private operators assume the risk of losses in exploration. On discovering oil, they receive 50 per cent of the output until the original investment is amortized, and thereafter 15 to 18 per cent of the output during twenty-five years. Under the contracts managerial control of Mexican petroleum resources remains with Pemex. No title or property right to petroleum can be obtained by these companies. These terms have not been such as to attract foreign capital in substantial amounts.¹² Certain United States petroleum companies have raised the question whether Pemex can legally enter into long-term contracts which entitle foreign companies to a percentage of the oil produced from wells drilled by them.¹³ In June 1952 the question of the legality of Pemex action in making these contracts with foreign companies was raised officially in Mexico when the Chairman of the Petroleum Commission of the Mexican Chamber of Deputies stated publicly that Pemex in so doing was

¹² "Petroleum Press Service" (London), December 1949 and May 1952.

¹³ United States House of Representatives, *Fuel Investigation*, *op. cit.*, pages 126 and 127.

¹¹ United States House of Representatives, *Fuel Investigation*, *op. cit.*, page 124.

violating the Constitution, its own charter and the spirit of the nationalization law; the other members of the Petroleum Commission, however, disassociated themselves from the Chairman's pronouncement. An investigation was ordered by the Attorney General.

Electric power

The Federal Electricity Commission, created in 1937, is charged both with the supervision of the private sector of the industry and with supplying electric energy directly. In 1950 it accounted for about 18 per cent of the installed capacity of public service plants; another 10 per cent was accounted for by other publicly owned enterprises. The Commission was created in response to a rapidly growing demand for electric energy in the face of insufficient private investments.

Concessions for the generation and transmission of electricity may be granted only to Mexicans or Mexican companies pursuant to the Law of the Electric Industry (1938), but foreign investors are not excluded from participating in Mexican companies. Because of the increasing shortage of electric power, the law was liberalized to the advantage of private companies in 1941 and 1945 as regards the renewal of concessions and disposition of properties at the end of the concession period.

Concessions may be granted for a period up to fifty years, and may be renewed for an additional fifty years. On the termination of a concession, all property may be freely disposed of by the concessionaire except the hydraulic works, which revert to the Government without compensation. The Government has the right to acquire the remaining property at the end of a concession at a price fixed by experts appointed by both parties.

Rates are regulated by the Government on the basis of a "fair return" to the concessionaire, calculated on the value of the property on 31 December 1941, or, for later investments, at cost in Mexican currency, plus the estimated value of intangibles. The latter may not exceed 15 per cent of the value of physical properties. Rates are fixed so as to yield no lower return than the maximum nominal rate of interest on government bond issues, which has recently been about 6.5 per cent. In 1951 the American and Foreign Power Company reported that the earnings of its Mexican subsidiaries were insufficient to finance the expansion of their facilities in the country.¹⁴ Such expansion therefore required the use of additional loans from abroad.

In October 1953 the Mexican Light and Power Company was authorized to increase its rates so as to obtain earnings of 8 per cent on its property valuation, as determined by the Government. It was reported that such an arrangement might be extended to other privately owned utilities in Mexico. A study is to be made in the course of the next three years to determine whether this

policy will permit the financing of a desired expansion of electric power facilities.

Other industries

Foreign insurance and commercial banking companies, though permitted to establish branches upon special authorization, have apparently found the prospects unattractive under legislation in effect since the middle 1930's and have liquidated most of their investments. The requirements for the investment of the reserves of such enterprises have been regarded as restrictive.

Foreigners are virtually excluded from participating in concessions for the operation of automotive transport services. In marine transport, captains, owners and officers of merchant ships of Mexican registry must be Mexicans. Foreign investment in agricultural enterprises is limited to some degree by regulations establishing the maximum size of such holdings pursuant to the Agrarian Code; moreover, incorporated enterprises cannot engage in agriculture as their main business. Within these limits foreigners may acquire farm land, subject to permission of the Ministry of Foreign Affairs.

TAXATION

Mexico taxes the income of foreign and domestic nationals without discrimination. However, Mexican citizens and companies are taxed on their income from foreign sources as well as domestic sources, while non-Mexicans are generally subject to Mexican taxes only on income from sources within Mexico.

The rate of income tax is the same for individuals and companies. The tax is levied separately on different categories of income and the rate varies not only with the size of income but also with the category.

The rates of the "business income tax" applicable to income from commerce, industry and mining range from 3.8 per cent on the portion of net income between 2,000 and 2,400 pesos to 33 per cent on that exceeding one million pesos. In addition, a surtax is applied which ranges from 15 pesos on net incomes between 2,400 and 3,600 pesos to 260,058 pesos on net incomes exceeding one million pesos. The rates on income from agriculture were reduced by half in 1952 from the levels given above for commerce, industry and mining. This measure reflects the Government's policy of increasing food production and reducing food prices.

An excess profits tax was established in January 1949 and amended in December 1953. It applies to enterprises with an annual income of 300,000 pesos or more. Excess profits are defined as those over 15 per cent of "invested capital", the latter consisting of paid-in capital stock, capital reserves and undistributed profits or, for branches or agencies of foreign enterprises (but not Mexican subsidiaries), 60 per cent of their assets employed in Mexico. Tax rates range from 5 per cent on profits of 15 to 20 per cent, up to 25 per cent on profits in excess of 50 per cent. Unlike other business

¹⁴ American and Foreign Power Company, Inc., *Twenty-Eighth Annual Report* (New York, 1951), page 21.

taxes no exemptions from this tax may be accorded to "new or necessary" industries (see below).

Another schedule of rates applies to interest, rents, royalties and similar income from invested capital. There is a basic rate of 10 per cent, and a surtax ranging from 0.4 per cent on such incomes between 2,400 and 3,600 pesos to 26.1 per cent on that part of income which exceeds one million pesos. Dividends are subject to a special rule: only dividends from foreign companies not operating in Mexico are in effect taxed. Dividends received from domestic companies, and from foreign companies operating in Mexico, are not taxed; however, these companies pay the basic rate of 15 per cent on their profits (net of the business income tax) regardless of distribution.

Other schedules cover income derived from mining concessions or extractive industries (other than actual operating income, which is subject to the "business income tax"). The rates, which are higher than those on general business income, include a basic tax of 10.2 per cent plus a surtax ranging from 8.5 per cent on the first 2,400 pesos to 31 per cent on that part of income which is in excess of 500,000 pesos.

Mining operations, which are controlled largely by foreign interests, are, in addition to the "business income tax", subject to a tax based on the value of production. The latter tax consists of a fixed basic rate (for example, 1.4 per cent on antimony ore, 2.7 per cent on copper ore) and of a sliding scale of surtaxes which vary with the market prices of the ore in New York, expressed in Mexican currency. It has been pointed out that the present taxation of mining enterprises based on production makes it unprofitable to work high-cost mines, thereby depressing investment as well as output.¹⁵

Since May 1941, tax exemption and reduction privileges have been granted to manufacturing enterprises important for economic development. Such concessions may be granted to so-called "new or necessary" industries, new industries being those which manufacture a product not previously produced in Mexico, and necessary industries those which manufacture an article not produced in sufficient quantity in the country. Under the present Law for Industrial Development, in force since February 1946, such privileges may be allowed for a period of ten years to enterprises in industries deemed to be essential, and for seven years to enterprises in industries considered of "economic" but not "essential" importance, and for five years to enterprises in other "new or necessary" industries. Each application is judged on its own merits. Concessions may cover export and import duties, normal taxes on business income and other Federal taxes but not the excess prof-

its tax. The concessions may involve complete exemption from tax; income tax is in practice not reduced by more than 40 to 60 per cent, while full exemption is granted from the gross sales tax and from import duties. It is estimated that the number of firms, domestic and foreign, that have been accorded tax concessions under these provisions was 350 in 1945 and 698 in 1952.

The level of taxation in Mexico affecting foreign-owned enterprises is thus relatively low, except in the extractive industries.

GOVERNMENT PARTICIPATION IN ECONOMIC ACTIVITIES

State intervention and control in the period from 1917 to 1940, particularly during the first "six-year plan" started in 1934, was designed largely to reduce foreign economic influence in the country and to redistribute property rights. Since 1940 official policy has been more concerned with the stimulation of production and promotion of economic development. One consequence of this shift of emphasis has been a renewed interest on the part of private foreign capital in Mexican industry, particularly manufacturing.

The legal basis for the widespread participation of the Government in economic activities is contained in the Law of Monopolies of August 1934 and the Expropriation Law of November 1936. The latter has actually been more extensively applied than the former, though the Law of Monopolies does provide the State with almost unlimited powers of intervention, regulation and control of enterprises judged monopolistic.

Monopolies, with certain exceptions, are prohibited by the Constitution. Under the law, the Government is empowered to prosecute any action constituting an undue exclusive advantage in favour of one or several specific persons to the detriment of the general public or any social class. Co-operative producers' societies under supervision of the Government, which have been an important factor in the marketing of agricultural products, are not affected by the law, nor are enterprises in which the Government participates as a shareholder or partner.

The Government's authority to control the entry of particular foreign investments, derived from the decree of 27 June 1944, is supplemented by certain powers under the Law of Monopolies to control investment and production generally in the interest of avoiding excessive competition or over-production. Article 12 of the Law empowers the Government to adopt measures "regulating the introduction of new industrial activities for the production of certain types of goods, in cases where there is a danger that excessive competition may cause a drop in the wages of workers or prejudicially affect the general public or any one social class" and "restricting the production of certain goods if the supply thereof is in excess of domestic and foreign demands and may cause a crisis of over-production, to the detriment of the general public or of any one social class". Industries which have been declared "saturated" since 1937 include those producing rayon, matches and

¹⁵ *The Economic Development of Mexico*, page 44 and table 63. The same source (page 44) notes that in recent years tax reductions have been allowed to small mines and smelters and that new mines in under-developed areas are granted reductions in production taxes for a period of five years. These measures, however, are said to have been of little consequence for the industry as a whole.

cigarettes. During the period 1943 to 1946 the rubber manufacturing industry was also declared "saturated" owing to the scarcity of raw rubber.

The Expropriation Law confers authority to exercise the power of eminent domain and places all property within the scope of such power. Among the grounds for expropriation are "the creation or development or conservation of any enterprise operating for the benefit of the people" and "the equal distribution of the wealth accrued or monopolized for the exclusive advantage of one or different persons". The Constitution and the Expropriation Law have been the legal basis for the expropriation of investments in agrarian properties, railways and petroleum production. Article 27 of the Constitution provides that "private property shall not be expropriated except for reasons of public utility and by means of indemnification".

In December 1950 the Mexican Congress passed legislation giving the Government wide powers of intervention and control in the economic field. Under the "Law on Powers of the Federal Executive in Economic Matters" of 30 December 1950, the Government may regulate prices and distribution, control exports and

imports, establish production priorities and decree the temporary seizure of factories when this is necessary in order to maintain production. These powers have been applied largely to the regulation of prices of staple foodstuffs. A governmental agency is engaged in importing such commodities when domestic production is insufficient.

A central organization in the Mexican Government's programme of stimulating investment is Nacional Financiera, a government-owned development corporation. Since 1941, this agency has been principally an instrument for financing new enterprises, particularly in manufacturing, partly through loans raised with the Export-Import Bank. By the end of 1953 Nacional Financiera had made investments and granted credits amounting to 2,008 million pesos (\$232 million), over half of which were for the development of transportation, communications and electric power; the remainder was directed largely to manufacturing, particularly of iron and steel, sugar, building materials, fertilizers and textiles. Its activities consist of purchasing stocks and bonds of industrial companies and making direct loans to industry.

NICARAGUA

EXTERNAL PUBLIC DEBT

Nicaragua's first major external borrowing took the form of a 6 per cent sterling loan of £285,000 raised in London in 1886 for the development of railways. In 1904 a 6 per cent dollar loan of \$1 million, repayable in five years, was raised in the United States. The only subsequent external issue, £1.25 million of 6 per cent sterling bonds, redeemable in thirty-five years, was floated by the Government in 1909. The purpose of the loan was the retirement of the 1886 bonds, the repayment of the United States loan of 1904 and the raising of funds for railway construction and other government expenditure. Interest on the 1909 bonds was reduced by mutual agreement between Nicaragua and the British Council of the Corporation of Foreign Bondholders on two occasions—in 1912 from 6 per cent to 5 per cent, and in 1937 to 4 per cent. The 1937 agreement also provided for extension of the maturity of the bonds from 1944 to 1957. In 1953 the Nicaraguan Government exercised its right to redeem at par the outstanding bonds of this issue, which amounted to £221,000.

Nicaragua has received several loans from the Export-Import Bank of Washington, D.C., primarily for highway construction. Credits authorized by this bank for Nicaragua between February 1934 and December 1953 amounted to about \$5.8 million. Most of them were made shortly before the Second World War or during it, and most of these have been repaid. The last of the highway loans was granted in March 1941 in the amount of \$2 million, about \$0.1 million of which remained outstanding at the end of 1953. In May 1951 a loan of \$600,000 to a State-owned electricity enterprise was agreed upon for the purchase of a power generator; this was subsequently drawn upon. By the end of 1953 Nicaragua had about \$600,000 outstanding on its Export-Import Bank loans.

In 1951 three loans to Nicaragua were authorized by the International Bank for Reconstruction and Development: \$3.5 million for highway construction, \$1.2 million for the import of agricultural machinery, and \$550,000 for the construction of a grain drying plant and storage facilities. The loans are part of a programme for the expansion of domestic food supplies, in which construction of roads between the main farming regions and consuming centres is an important element. By the end of 1953 about \$3.4 million had been drawn on these loans. In the latter part of 1953 another \$3.5 million was authorized for highway construction and about \$0.5 million for electric power generation.

FOREIGN BUSINESS INVESTMENTS

Direct investments in Nicaragua are predominantly of United States origin. Canadian investments are second in importance; United Kingdom investments, ranking third, represent only a minor share of the total.

The value of United States direct investments has fluctuated considerably. It reached a peak in 1929 when the Standard Fruit and Steamship Corporation operated important banana plantations, most of which were abandoned in the late 1930's. United States investment in public utilities, of some importance in the 1930's, declined when the Central American Power Company's interests were sold to the Nicaraguan Government in 1941. United States railway investments, which were of importance up to the end of the First World War, were liquidated in the early 1920's.

The distribution of United States direct investments in Nicaragua in 1943 was as follows (in millions of dollars):

Manufacturing	0.2
Commerce	0.2
Petroleum	0.7
Mining and smelting.....	2.1
Agriculture	0.2
Public utilities and transportation.....	0.7
Other	0.2
	TOTAL 4.3

The estimated total for 1929 was \$13 million, of which \$2.9 million represented mining and smelting. Most of the remaining \$10.1 million was in agriculture.¹ As already mentioned, investments in banana plantations have been abandoned, but substantial amounts of land and other real estate remain in United States hands. The 1943 United States census gives the value of United States-owned real property (not included in the above table) at \$5.9 million.

Little detailed information is available on the inflow of United States private capital into Nicaragua during the past decade, but the inflow of direct investment capital during the years 1944 to 1950 has been estimated at \$3 million. The bulk of this capital is believed to have been invested in gold mining, which has expanded rapidly during the past decade. In reply to a questionnaire submitted to it by the United Nations Economic Commission for Latin America, the Nicaraguan Government estimated United States investments in gold mining at about \$10.5 million in 1951. This

¹ According to Cleona Lewis, *America's Stake in International Investments* (Brookings Institution, 1938), the United States investment in agriculture in Nicaragua in 1929 amounted to \$11.3 million, and in public utilities to \$3 million.

figure, however, appears to include one enterprise, the Compañía Minera La India, in which a Canadian corporation acquired 60 per cent of the shares in 1937.²

In 1950 United States investments in Nicaragua had increased to \$9 million, of which \$0.9 million was in the category "transportation, communication and public utilities" and \$0.6 million was in trade.

Canadian direct investments are chiefly in gold and silver mining; three of the six major mining companies are Canadian controlled and account for over half of Nicaraguan gold production. No estimate of the value of Canadian investments is available.

British direct investments, which early in the century included the operation of tobacco and liquor monopolies by British companies, are now of minor importance and confined to banking and insurance. British investment in a commercial bank is estimated by the Nicaraguan Government at \$500,000.

ECONOMIC SIGNIFICANCE OF FOREIGN INVESTMENTS

Although foreign capital has in the past made a substantial contribution to the development of transportation, public utilities and communications, it is at the present time mostly invested in gold mining. The principal mining enterprises, as mentioned above, are operated by United States and Canadian concessionaires. Practically the whole output of gold, together with a small amount of silver that is produced, is shipped to the United States and Canada for refining. Both in 1951 and 1952 Nicaragua's gold production was slightly over \$9 million. Gold exports accounted for 19 per cent of total exports in 1951 and 17 per cent in 1952.

In agriculture the limited foreign investment is predominantly of United States origin. Banana production was developed by the Standard Fruit and Steamship Corporation in the course of the early decades of the century and grew rapidly during the 1920's. After fluctuating for a few years, it declined swiftly after the mid-1930's, as a result of hurricanes and plant disease, and is today almost insignificant. The share of bananas in Nicaragua's export proceeds rose from 6 per cent in 1913 to over 49 per cent in 1932, and subsequently fell to 16 per cent in 1937 and only one per cent in 1951. A subsidiary of the United Fruit Company (United States-controlled) owns a recently established plantation of African palms which is coming into production. It also owns processing facilities for the extraction of palm oil.³ Two United States-controlled companies are engaged as concessionaires in the exploitation of forestry resources and in the timber trade. Forest areas, however, are scattered and are being reduced rapidly, with the result that timber of good size and quality is becoming increasingly scarce in

readily accessible regions. During the Second World War rubber production was developed by the American Rubber Company, but operations virtually ceased in 1948.

Petroleum distribution is in the hands of two United States concerns. Three foreign airlines provide international transport while a Nicaraguan company provides both domestic and some international service. As mentioned above, the United States-owned Central American Power Company was sold in 1941 to the Nicaraguan Government. Practically all important public utility installations are now government-operated. However, foreign telegraph, radio and telephone communications are provided by two United States companies.

GOVERNMENT POLICIES

There is in general no discrimination against foreign capital and business enterprises in Nicaragua.⁴ Nicaraguan laws do not exclude foreign capital from any branch of economic activity. The only instance in which participation of foreign capital is limited is that of an enterprise wishing to establish or develop a new industry with the aid of a government loan; such an enterprise must have at least 75 per cent of domestic equity capital.⁵ All foreign capital entering the country, whether in the form of physical assets or of foreign exchange, must be registered with the National Bank.

An important feature of the policy of Nicaragua with respect to private investments, both foreign and domestic, is the practice of awarding concession contracts which govern certain aspects of the operations of the enterprises concerned for a considerable period. Such contracts, authorized under a law of 1925, may include tax exemption or reduction, guarantee against tax increases or additional taxes, and exempt the enterprise from foreign exchange control over export proceeds. Freedom from export taxes and from import duties on imported equipment and materials have also often been provided. Thus, the status of foreign enterprises is determined to a considerable extent by the provisions of concession contracts rather than by laws of general applicability.

It is reported that the Government of Nicaragua has recently begun to revise its policy on concessions.⁶ Certain suggestions were made in this connexion by a special mission sent to Nicaragua in 1952 by the International Bank for Reconstruction and Development at the request of the Nicaraguan Government. The status of foreign and domestic capital, it was suggested, should be broadly defined in a "general development law". Mention was made of the following points, among others, that might be included in such a law: general concession contracts should be entered into with manu-

⁴ Some minor exceptions are discussed.

⁵ According to the report issued in 1953 by the mission of the International Bank for Reconstruction and Development, only one such government loan had been granted.

⁶ International Bank for Reconstruction and Development, *The Economic Development of Nicaragua*, page 104.

² Moody, *Industrial Securities, 1951* (New York), page 1598.

³ International Bank for Reconstruction and Development, *The Economic Development of Nicaragua* (Johns Hopkins Press, Baltimore, 1953), page 136.

facturing enterprises only in exceptional cases, while concessions for mining exploration should be limited to a period of ten years; tax exemption should be limited to a period of not more than five years after the construction of facilities has been completed; with the exception of the foregoing, all industries, foreign and domestic, should be subject to existing or future tax legislation. It was suggested that the Government should review existing concessions, with due regard to the validity of the contracts, in order to determine whether the enterprises to which they have been granted can be brought under the general tax laws of the country.

The most important limitation on the employment of foreigners is to be found in the provision of the Labour Code which stipulates that at least 75 per cent of the number of employees on the payroll of any firm, whether domestic or foreign, must be Nicaraguan nationals; managerial, administrative and technical personnel, however, are not affected by this provision. By a series of amendments to the Labour Code, effective in September 1953, mining enterprises of a certain size are required to establish schools, commissaries and hospitals and to provide housing and medical treatment for their workers.⁷

Under the immigration law of 1945, persons intending to engage in commercial activities are not eligible for immigration visas. This measure was taken to check the influx of foreigners into trade, which had been regarded with disfavour by established merchants. Foreign investment in commerce is not directly restricted, however.

There are few special requirements for foreign companies intending to operate or open branches or agencies in Nicaragua. Foreign corporations in general must register their charter and appointments of managers or agents in the Commercial Register of Nicaragua and maintain in the country a permanent representative with power of attorney. Life and fire insurance companies with headquarters in foreign countries have to be licensed by the Ministry of Finance and must deposit with the National Bank of Nicaragua as a guarantee a sum of not less than \$30,000 in foreign currency, or show that they possess in the country unencumbered real estate valued at not less than that amount.

The Nicaraguan Constitution explicitly provides for "prior effective payment of a just compensation" in the event of expropriation of private property in the public interest. The Constitution also explicitly establishes the right of the Government to intervene in the operation of public utilities and to nationalize such enterprises if need be, though in this case too, compensation has to be paid prior to nationalization. Another constitutional provision (Article 71) empowers the Government to subdivide and redistribute uncultivated land (whether owned by domestic or foreign nationals), with a view to promoting the development of medium-sized and small-scale holdings.

Article 242 of the Constitution provides that the subsoil belongs to the State and that the right to exploit it may be granted to individuals only on the basis of State participation in the profits. In the case of concessions granted to exploit deposits of ores of various metals (such as gold, silver and copper) the State relinquishes conditionally its ownership of the deposit in favour of the concession holder; in the case of deposits of sulphur, nitrates, coal and certain other minerals, however, the granting of a concession does not convey ownership. Ownership or right of exploitation in a mine is maintained by the payment of a licence fee and lapses if payments cease. All concession contracts stipulate royalty payments, which are assessed on the value of gross production, usually at the rate of 2.5 per cent. In addition, mining companies must register annually and prove that they are operating if they are to enjoy certain privileges, including the tax-free export of processed metals other than gold and the duty-free import of materials and equipment. Mining enterprises may use freely timber grown on public lands within a radius of five kilometres of the centre of operations, and also water-power.

In addition to preparing legislation which will govern the granting of future concessions, the Government is also drafting legislation pertaining to the establishment of new foreign companies in the country. The law in preparation is designed specifically to encourage enterprises in which local capital participates and will provide for the free transfer of earnings and the repatriation of foreign capital.⁸

Prior to January 1953, when a general income tax law became effective, the main direct tax was a tax on "capital" (property tax) assessed on the value of the "net assets" above a certain minimum (3,000 córdobas, equal to \$430) at the rate of 0.1 per cent for owner-occupied dwellings and 0.65 per cent for other property. Import and excise taxes, however, have together accounted for over 80 per cent of total tax revenue in recent years. Export taxes apply to gold, bananas, certain woods and coffee. In November 1951, a progressive profits tax was introduced on production of coffee and raw cotton. In the case of coffee, rates vary not only with the total net profits of the individual producer but also with the price of coffee. The rate of the cotton profits tax varies only with net profits.

The income tax, introduced in 1953, applies to net income originating in Nicaragua and received by natural or juridical persons. Rates range from 4 per cent on the first 40,000 córdobas of taxable income to 18 per cent on that part of taxable income exceeding one million córdobas. Shareholders do not pay income tax on dividends if the distributing corporation is subject to income tax on its profits.

Exchange control was introduced in Nicaragua in 1931. The par value of the córdoba (C\$)⁹ applies only

⁷ United States Department of Commerce, *Foreign Commerce Weekly* (Washington, D.C.), 9 November 1953, page 4.

⁸ Statement by the Minister of Economy of Nicaragua, 27 October 1953, in the Capehart report, page 449.

⁹ Five córdobas equal one United States dollar.

to specified government transactions. In other transactions the value attributed to the córdoba ranges from about \$0.14 (C\$7.05 per dollar) to about \$0.10 (C\$10.05 per dollar). All incoming capital must be registered. New investments or reinvestment of profits by foreign companies operating under special concession contracts are made according to the terms of the contract, which normally also lays down conditions for the transfer of capital and earnings from Nicaragua. In all other cases, transfer of registered capital requires approval and may not exceed 10 per cent per annum of the capital registered. The transfer of earnings also has to be licensed. Such transfers were generally effected at the C\$10.05 rate until February 1954, when it was decreed that the more favourable (to the investor) rate of C\$7.05 would apply. Since this rate was extended also

to the repatriation of registered capital, it may be presumed that it applies equally to capital imported into the country.

The tariff is primarily an instrument for raising revenue, but protective rates apply, for instance, to soap, candles, beer, soft drinks, some kinds of furniture, shoes and ready-made clothing. As noted earlier, equipment and materials for new enterprises may be exempted from import duties for periods of three to six years in line with the policy of encouraging industrial development, usually under a concession contract. A revision of the tariff structure was to be completed in 1954. Imports, which are classified in three categories according to their "essentiality", are conditional on the issuance of a licence by the exchange control authorities.

PANAMA¹

EXTERNAL PUBLIC DEBT

Panama seceded from Colombia in 1903, at which time the Panama Canal Zone was also established (see annex). Compensation received by the Republic of Panama from the United States for the granting of rights in the Canal Zone has constituted a legal guarantee for the bulk of the country's subsequent external indebtedness. Under a treaty signed in 1904 Panama received a payment of \$10 million and, beginning nine years after ratification of the treaty, an annual payment indefinitely of \$250,000 in gold, called the Canal Annuity. Panama placed \$6 million of the \$10 million received in a special fund, known as the Constitutional Fund.

Panama's external borrowing started in 1914 for the financing of railway construction when a 5 per cent issue was placed in the United States. The debt service on this and subsequent issues was guaranteed by the Canal Annuity and by the capital and income of the Constitutional Fund. Between 1923 and 1929, Panama placed abroad issues totalling \$21.3 million. Of this amount, \$17.5 million represented direct obligations of the Government, \$0.5 million was borrowed by the Municipality of Panama and \$3.3 million constituted government-guaranteed obligations of the National Bank of Panama.

In May 1933, interest payments were discontinued on the country's most important foreign issue (\$12 million 5 per cent bonds of 1928). One reason for this default was the refusal of Panama to receive the Canal Annuity payments in dollars with a reduced gold equivalent. During the following years foreign bondholders were paid only part of the interest and amortization due, but received interest bearing certificates and other scrip payments in lieu of most of the remainder. The debt of the National Bank of Panama also went into default, part in November 1932 and the rest in 1933.

In 1939 the United States Government agreed to adjust its Canal Annuity payments to \$430,000. A foreign debt adjustment plan was adopted in 1940/41 and was recommended for acceptance by the Foreign Bondholders' Protective Council. Interest on outstanding bonds was reduced; the periods of the loans were extended; interest bearing certificates were retired against 3 per cent bonds due in 1987; and a 3½ per cent loan of

\$4 million was floated. The bonds of the Municipality of Panama were redeemed in full, both as to capital and interest, in 1942. The National Bank of Panama bonds were also redeemed in cash in 1945.

In 1950 a \$10.5 million 3 per cent foreign loan was issued, maturing serially from 1951 until 1995. The bulk of the proceeds was devoted to the redemption of the \$8.8 million of external dollar bonds held outside Panama at the time. The remainder of the loan (\$1.7 million) together with \$2.5 million from the Constitutional Fund, was used for immediate redemption of the major part of the \$6.3 million of external bonds held within Panama. As of the middle of 1952, the external bonded debt of Panama amounted to \$10.2 million of the 1950 issue mentioned above. Nearly all of it is held by insurance companies and trust funds in the United States. The Canal Annuity, which was pledged as guarantee, is paid directly to the trustees of the 1950 issue and will suffice to service the loan and retire it at maturity.

Another external debt consists of an Export-Import Bank loan of \$2.5 million raised in 1948 to finance the construction of a new hotel.²

In September 1953 the International Bank for Reconstruction and Development lent \$1.2 million for agricultural machinery and another \$300,000 for construction of grain storage facilities to an agency of the Panamanian Government (Instituto de Fomento Económico).

FOREIGN BUSINESS INVESTMENTS

United States controlling interests in various types of businesses in Panama were officially recorded at \$28.5 million in 1929, \$26.7 million in 1936, \$110 million in 1943, \$348 million in 1950 and \$383 million in 1952.³ The industrial distribution of these investments in 1943 and 1950 is given below (in millions of United States dollars):

	1943	1950
Petroleum	38	181
Finance	33	5
Public utilities and transportation.....	22	132
Agriculture	10	...
Trade	5	11
Manufacturing	0.3	2
Miscellaneous	2	...
TOTAL	110	348

² A \$1.5 million loan raised by the Government for the same purpose with the Export-Import Bank was subsequently refinanced by the Panamanian branch of the Chase National Bank.

³ It is reported that an unusually large number of enterprises incorporated in Panama as United States-owned are in fact owned by nationals of other countries operating through United States residents.

¹ This study refers to the territory of the Republic of Panama with the exception of the Panama Canal Zone which is administered by the United States. In view of the importance of the Canal Zone in the economy of Panama, however, a few facts concerning the zone and foreign investments in the zone area are set out in the annex.

"Petroleum" and "public utilities and transportation", the two largest single items, are known to include mainly investments in ships (tankers) sold to Panamanian shipping companies controlled in the United States, but no precise information is available as to the share of such investments in the total. "Finance" covers commercial banking and insurance interests. The total for 1950 includes unspecified amounts in agriculture and miscellaneous investments.

Little United States capital has been invested in manufacturing and practically none in mining ventures in Panama. Agriculture, on the other hand, has constituted an outlet for United States investments since the beginning of this century. Large-scale agricultural production in Panama is mainly carried out by the United Fruit Company and its affiliate, the Chiriquí Land Company. The United Fruit Company operates in the province of Bocas del Toro, producing chiefly cocoa and abacá; the Chiriquí Land Company operates in the province of Chiriquí, producing mainly bananas. In 1949, the two companies had 15,360 hectares under cultivation, of which 50 per cent were devoted to the production of bananas, 33 per cent to cocoa and the remainder to abacá. The companies also produce palm oil, teak and other timber. Important foreign investments are being made to resume banana cultivation in areas formerly ruined by plant disease. In 1953 banana exports amounted to 4.6 million stems valued at \$8 million or over half of the country's total exports.

A private study⁴ gives the following figures (in millions of United States dollars) for United States agricultural investments in Panama in selected years:

1908.....	4.0
1914.....	8.0
1919.....	8.1
1924.....	10.5
1929.....	25.6
1935.....	10.1

The sigatoka disease affecting banana plantations seems to have accounted for the decline in agricultural investments after 1929.

British capital has been invested in gold mining ventures but, as the following figures⁵ show, these investments have been relatively small:

	Number of enterprises	Millions of pounds sterling ^a
1911.....	2	0.63
1913.....	3	0.12
1929.....	3	1.86
1945.....	2	1.64

^a Paid-up capital.

French investments appear to have been negligible after 1900. French capital in the country at the end

of 1913 has been estimated at half a million French francs, all of which represented direct investments,⁶ and in 1943 at \$1.5 million.⁷

ECONOMIC SIGNIFICANCE OF FOREIGN INVESTMENTS

Except for the Canal Zone and the adjacent cities of Panama and Colón, Panama remains essentially an agricultural country based on small-scale farming. Agricultural production has recently increased, and the dependence on imported foodstuffs declined. Large-scale agriculture for export is only being pursued in the extreme western part of the country by the United Fruit Company and Chiriquí Land Company referred to above. These companies account for a substantial share of Panama's exports.

Mining ventures in Panama have been few, and most of these enterprises have suspended operations. British and Canadian capital is known to have been invested in gold mining, and United States capital in manganese mining and exploration for oil. The latter, which is continuing, has been unsuccessful so far.

The public service power plants, gas plants and telephone exchanges in Panama City and Colón are owned and operated by a subsidiary of American and Foreign Power Company.

Three United States companies and one United Kingdom company distribute petroleum products; their storage facilities are in the Canal Zone.

Development of manufacturing industries has been hampered by the smallness of the Panamanian market, the scarcity of capital and skilled labour and the inadequacy of transportation facilities. A few small-scale industries have started since the war, but foreign capital has shown only a moderate interest in this sector of the Panamanian economy. At present foreign capital in manufacturing is invested mainly in meat-packing, milk processing and in the production of cigarettes and soft drinks. Minority foreign ownership in several manufacturing enterprises is also significant.

Foreign (mainly United States) capital has played a preponderant role in commercial banking and insurance. The Chase National Bank of New York has branches in Panama City and Colón, and the National City Bank of New York a branch in Panama City; both have branches in the Canal Zone. Until 1952, there were two Panamanian-controlled institutions active in commercial banking: the Panama Trust Company, founded in 1948, and the Government-owned National Bank of Panama. In 1952, a French bank, the Banque nationale pour le Commerce et l'Industrie, assumed management of the Panama Trust Company, which had had to suspend operations for a full year on account of insolvency. Deposits in the commercial banks in Panama are re-invested largely in United States Treasury securities.

⁴ Cleona Lewis, *America's Stake in International Investments* (Brookings Institution, Washington, D.C., 1938), page 590.

⁵ J. F. Rippey, "The Peak of British Investment in Latin American Mines", *Inter-American Economic Affairs*, vol. II, No. 1 (Washington, D.C., 1948), pages 46 and 47.

⁶ J. F. Rippey, "French Investments in Latin America," *Inter-American Economic Affairs*, vol. II, No. 2 (Washington, D.C., 1948), page 63.

⁷ *Ibid.*, page 68.

Three Panamanian insurance companies and branches of six foreign insurance companies (five United States and one British company) operated in Panama in 1950. However, their investments in Panama were small.

Reference was made above to the substantial United States investments in the Panama merchant marine. Special circumstances have contributed to the rapid growth of shipping, which in 1939 comprised 700,000 tons and in 1953, 4.5 million, when it ranked as the world's fourth largest. It consists mainly of ships transferred from other flags; most of them do not go to Panama ports for registration or normally visit such ports. The capital involved may thus be considered as invested in international shipping activities rather than in Panamanian business. According to an inquiry made in 1950,⁸ 306 out of the 644 vessels of the merchant marine were transferred from the United States, 90 from the United Kingdom, 20 from Greece, 16 from Norway and 14 from Germany. Present ownership does not necessarily rest with the former country of registration, however.

Finally, it should be noted that a large number of enterprises engaged in international trade and other activities and owned by citizens of the United States or of European and South American countries have been incorporated in Panama because of the liberality of its corporation laws and in some instances also because of the tax advantages involved. Such corporations have not made any significant investment in Panama itself.

GOVERNMENT POLICIES

Though the Panamanian Constitution of 1946 grants foreigners on the whole the same civil rights as nationals, certain laws restrict foreigners' rights. Retail trade, for instance, is restricted mainly to Panamanians (in particular, native-born Panamanians). Citizens of the United States may engage in retail trade if legally residing in Panama; foreigners in general only if they were so occupied when the Constitution of 1946 was promulgated. Wholesale trade and industry are open to foreigners, with the proviso that restrictions may be imposed on them for the protection of Panamanians in such occupations. The Labour Code stipulates that at least 75 per cent of the workers of every commercial or industrial enterprise, and of every agricultural enterprise which customarily employs more than five workers, must be Panamanian, and that Panamanians must earn at least 75 per cent of its total payroll.⁹

Panamanian law does not permit foreigners to subscribe to the capital of companies engaged in retail trade but otherwise does not restrict the participation of foreigners in business enterprises.

Foreigners may engage freely in agriculture but may not own land situated less than ten kilometres from the land frontiers or on islands under the jurisdiction of Panamá. Forest land may be exploited under contracts with the Ministry of Finance, relating to areas not over 100 hectares and for periods not exceeding five years. No distinction is made between foreigners and nationals with respect to the granting of such contracts.

Mining is contingent on concessions granted by the Ministry of Agriculture, Commerce and Industries for up to twenty years and subject to a royalty of 6.5 per cent of the gross proceeds. Foreigners possess the same rights as nationals.

Extraction of petroleum and gaseous hydrocarbons requires granting a concession and its sanction in the form of a decree. Exploration permits may be granted for a period not exceeding three years and an area up to 2,500 hectares. Deposits of petroleum and gaseous hydrocarbons may be leased by the State for a period of thirty years; the leases may be extended for an additional ten years. A royalty has to be paid, amounting to 16.5 per cent of the gross proceeds arising from the exploitation.

Customs duties constitute the largest single item of revenue; in 1950 they amounted to 27.3 per cent of all revenue. There are also income taxes; a social security tax; a stamp tax; taxes on the manufacture and sale of liquors, on the registration of ships, on real estate, estates and gifts, on mines, patents, trademarks and trade names and on tourism; and various fees for public services. The income tax is levied according to a progressive scale established in 1947. The rate is 2 per cent up to 2,400 balboas,¹⁰ increasing gradually to a maximum of 16 per cent on incomes of above one million balboas. In 1950 income taxes were 10 per cent of total revenue. Beginning in 1954, these rates will be increased to 2½ per cent on income between 900 and 2,400 balboas and 34 per cent on that part of income that exceeds one million balboas.

In 1950, the Panamanian Government took several steps to encourage capital investment in various sectors of the country's economy. Under Decree-Law No. 12 of 10 May 1950,¹¹ enterprises engaged in agriculture, stockraising, mining, forestry, fishing and manufacturing, and recognized as "beneficial to the economy" by the National Economic Council, may be granted certain privileges to the extent required for the protection of the economic activity concerned. The privileges in question, which may be granted for as much as twenty-five years include the following:

1. Duty-free and tax-free importation of machinery and other equipment, fuel and lubricants, and of raw

¹⁰ The balboa, the Panamanian unit of currency, is legally at par with the United States dollar. United States notes and coins are in general use. Panama only issues subsidiary currency in the form of silver and copper coins.

¹¹ *Gaceta Oficial*, No. 11,198 of 24 May 1950; United States Department of Commerce, *Foreign Commerce Weekly* (Washington, D.C.), 19 June 1950, page 21; and 26 June 1950, page 22.

⁸ International Labour Organisation, *Conditions in Ships Flying the Panama Flag* (Geneva, 1950).

⁹ For this purpose, foreigners who have married Panamanians or have resided twenty years in the country are counted as Panamanians.

materials that cannot be obtained economically in the country;

2. Exemption of foreign experts and technicians from the Labour Code provisions for the protection of Panamanian workers;

3. Exemption from certain taxes other than the income tax, the social security tax, the stamp tax and a number of specific fees;

4. Increase in levies on the importing of commodities identical with those produced by the enterprise concerned if it has obligated itself to supply domestic requirements of these commodities.

Enterprises wishing to enjoy these privileges must agree to invest a minimum sum, to be determined by the Government, and maintain the investment during the period of the concession. Rules are established as to the time when investment and production shall begin. Products offered for domestic consumption are to be of good quality and to be sold wholesale at prices within a range agreed upon by the enterprise and the Government. Preference is to be given to the use of domestic raw materials, when this is possible.

The privileges and exemptions granted to one enterprise under the law in question will be extended by similar contracts to other enterprises in the same field if these assume the same commitments. The contracts, which do not require the approval of the National Assembly, are to be published in the *Gaceta Oficial*.

In September 1950, similar measures aimed at encouraging capital investment in the development of natural resources and in public utilities were enacted by Decree-Law No. 22.¹² It provides for contracts between individual enterprises and the Ministry of Public Works on approximately the same basis as those envisaged by Decree-Law No. 12. The privileges and exemptions which may be granted under the terms of this decree go in some ways beyond the concessions provided for in that law. This is true in particular of a provision granting the free use of public lands to enterprises falling under the scope of the decree.

Law No. 27 of 21 December 1950 introduced measures designed to facilitate the establishment of warehouses and premises for packing, processing or other handling of goods for export.¹³ The law authorizes the President to enter into agreement with interested parties, whether nationals or aliens, for the purpose of granting exemptions and privileges in most respects similar to those enumerated in Decree-Law No. 12. One major additional concession, however, is authorized under Law No. 27, namely, exemption from tax on income and capital appreciation derived from the operations. As of the end of 1953 there were twenty-three

firms, mostly United States-owned, operating under free zone contracts based on Law No. 27. The firms established in the Colón Free Zone are engaged in the storage of merchandise for redistribution abroad and within Panama, but no assembling or manufacturing enterprises have been established there. With the exception of the Colón Free Zone no significant private foreign investment seems to have been made in the Panamanian economy under the stimulus of the legislation enacted for that purpose in recent years.

Annex

NOTE ON THE PANAMA CANAL ZONE

The Panama Canal Zone—a zone of land extending five miles on either side of the Panama Canal, but excluding the cities of Panama and Colón—was established by a treaty concluded between Panama and the United States in 1903, the year of Panama's secession from Colombia. The treaty grants the United States in perpetuity "the use, occupation and control" of the Canal Zone, together with "all the rights, power and authority" which sovereignty over the territory would entail. The Zone has its own legal code, derived largely from Californian law. It does not form part of the customs territory of either the United States or Panama.

The first major foreign investment in the area now known as the Panama Canal Zone was the building in 1849 by a United States company of the Panama Railroad, which links Panama City on the Pacific Ocean with Colón on the Caribbean Sea. Between 1850 and 1880, no significant foreign investments were made. In 1881, French capitalists established the Universal Interoceanic Canal Company for the purpose of constructing a canal across the isthmus. This company, it is claimed, represented the largest single investment of private foreign capital in Latin America before 1900. After 1887, the company also controlled the Panama Railroad Company and a subsidiary shipping line. After the company failed, in 1891, causing losses to many French investors, the Colombian Government authorized the sale of its concessions and rights to the United States Government, but this authorization was later withdrawn. The secession of Panama from Colombia in 1903 was closely connected with these events. In 1904, the concessions and property of the French canal company were acquired for \$40 million by the United States Government, which also purchased the assets of the Panama Railroad Company.¹⁴

Construction of a government-financed canal across the Isthmus of Panama was approved by the United States Congress in June 1906. After an expenditure of \$366 million in construction costs, the canal was first opened in August 1914, but its use remained limited until its formal opening in July 1920. Before passage of the Panama Canal Act of 1950, an organization

¹² Decree-Law No. 22 of 28 September 1950, *Gaceta Oficial*, No. 11,315 of 9 October 1950; *The South American Journal* (London), 13 January 1951, page 17.

¹³ *Gaceta Oficial*, No. 11,391 of 16 January 1951. In this connexion, reference may be made to Decree No. 101 of June 1948, establishing the "Colón Free Zone" with facilities for free port activities.

¹⁴ The Panama Railroad Company also has properties in Panama, outside the Canal Zone, including a hotel.

headed by a governor appointed by the President of the United States was responsible for the operation of the canal. The governor was also formerly appointed president of the Panama Railroad Company. As in the case of all United States agencies, the Panama Canal was operated on the basis of an annual appropriation, and its receipts accrued to the Treasury. The Panama Railroad Company was operated separately as a government-owned corporation. The 1950 Act, which became effective on 1 July 1951, provided for the separation of the management of the Canal from the administration of the Zone. It established the Panama Canal Company for the purpose of operating the canal and the Panama Railroad, together with various business enterprises previously managed by the Panama Railroad Company. Accounts of the canal and the railway were to be kept on a profit and loss basis, with the company paying

interest to the United States Government on net capital investment in the canal and railway. The Panama Canal Company, it was further provided, would have to contribute half of the cost of civil government in the Zone. The gross capital investment of the United States in the Panama Canal was estimated at \$725 million at the beginning of 1949.

In addition to the annuity from the United States referred to above, Panama derives a substantial income from the Canal Zone in the form of wages, salaries, business profits and other payments. The share of income from the Zone in the national income of Panama was estimated at 15 per cent in 1940, and 40 per cent in 1944; subsequently the proportion declined. Income derived from the Zone is of importance to the economy of Panama, particularly since it is paid in foreign currency.

PARAGUAY

EXTERNAL PUBLIC DEBT

Only two bond issues have been publicly offered abroad by the Paraguayan Government. In 1871 and 1872 two 8 per cent issues totalling £3 million were placed in London. After default on the loan service payments, a settlement was arrived at in 1886 reducing by half the principal and the rate of interest on both loans. A new settlement in 1896 reduced the rate of interest to 3 per cent, the rate which still applies. In 1915 an issue of 5 per cent bonds (subsequently reduced to 3 per cent) amounting to £440,000 was placed privately in London. The terms of the three loans were renegotiated in 1924 and 1944, and the 1915 issue was redeemed in 1951. At the end of that year the principal outstanding on the 1871 and 1872 issues amounted to £280,000.

In 1927 the Government made a contract with a United States company for construction and operation of port facilities at Asunción. The cost was fixed at \$2.5 million, for which amount the company issued bonds that were guaranteed by the Government. Upon the expiration of the concession in 1940, a settlement was made between the Government and the company envisaging the payment of \$3.9 million by the Government (\$2.4 million representing principal of outstanding bonds, \$1.1 million unpaid interest and the remainder various other claims). The sum was later reduced to \$2.7 million, payable over a period of thirty years with interest at 5 per cent. At the end of 1950 the amount outstanding was \$2.2 million.

The Government of Paraguay in 1939 borrowed \$3 million from the Export-Import Bank of Washington, D.C., and another \$3 million in 1942, in both cases for highway construction. On 30 June 1953, \$4.3 million had been repaid and \$1.7 million was outstanding.

In 1942 the Government of Paraguay borrowed 100 million cruzeiros (about \$6 million) from the Bank of Brazil. The sum was made available in instalments and

was fully drawn upon by 1948. The loan is to be repaid in dollars by the end of 1958. The Government has made payments in local currency to the Asunción branch of the Bank of Brazil, but, owing to the shortage of foreign exchange, dollar remittances are in arrears. At the end of 1950 the amount outstanding was reported at \$3.6 million.

In 1947 the Government obtained a loan in Argentine pesos from the Central Bank of Argentina, due in 1956. At the end of 1950, 6 million pesos (equivalent to \$1.2 million) was outstanding.

In December 1951 a \$5 million loan was granted by the International Bank for Reconstruction and Development for purchase of agricultural equipment, road-building equipment and trucks. At the end of June 1953 only \$700,000 of this credit had been drawn upon.

As of the end of 1950 the total external debt of Paraguay was equivalent to about \$12 million. During 1951 the Government was reported to have paid all sums due on interest and amortization on account of foreign debt, except with regard to the debt to the Bank of Brazil.

BUSINESS INVESTMENTS

According to official Paraguayan sources, the registered capital invested in the country by foreign-owned enterprises operating there amounted in 1949 to 189 million guaraníes, equivalent to about \$61 million at the par rate.

An estimate of foreign business investments in Paraguay in 1950 made by the United States Embassy in Asunción differed from the figures in table 20 mainly in that it placed Argentine investments at 78 million guaraníes and those of countries other than the United States and the United Kingdom at only 7 million.¹

¹ *The South American Journal* (London), 10 February 1951, page 65.

Table 20. Foreign direct investments in Paraguay, 1949

(Millions of guaraníes^a)

Field of investment	United States	United Kingdom	Argentina	Other countries	Total
Agriculture, stockraising and forestry	18.4	8.8	25.4	4.7	56.0
Manufacturing, including meat-packing	10.7	6.8	1.8	—	19.3
Trade and banking.....	—	0.5	5.5	5.8	11.8
Railways and public utilities.....	—	35.0	0.4	13.2	48.6
Other investments	18.2 ^b	3.6	6.3	25.3	53.4
TOTAL	47.3	47.9	47.9	46.0	189.1

Source: Ministry of Economy, *Paraguay Industrial y Comercial* (Asunción), July 1949.

^a In 1949 the par value of the guaraní was 32.36 United States cents.

^b Petroleum investments.

The 1943 census of United States direct investments abroad gave a total of American investments in Paraguay at \$9.3 million, of which \$4.9 million was in manufacturing. The 1950 census combined figures for Paraguay with those of another Latin American country.

INDUSTRIAL DISTRIBUTION OF BUSINESS INVESTMENTS

Agriculture, stockraising and forestry

Foreign investments in this field are mostly represented by large agricultural and forestry enterprises which also own several industrial railways (described below) and processing plants. Over half of the investments are in forestry industries—lumbering and the production of quebracho extract. A United States company accounts for nearly half of the output of quebracho extract and three Argentine enterprises account for the remainder. Exports of lumber—mainly hardwood to Argentina—and of quebracho extract represented over two-fifths of total exports in 1950.

Despite the large number of cattle in Paraguay, the livestock industry now supplies only the domestic market as a consequence of increased local consumption of meat. The export of hides, however, is of some importance. There are also important foreign investments in the growing of yerba maté (Paraguayan tea), but a decrease in production and higher local consumption caused a reduction in quantities exported. Some foreign capital is invested in the growing of cotton and the production of essential oils. In 1953 a private company with joint Brazilian and United States capital purchased a large area of land for the growing of coffee for export.

Manufacturing

Nearly all foreign investments in manufacturing are accounted for by two meat-packing enterprises. One of them is British-owned and large enough to process 100,000 cattle annually; the other is American, with a capacity of 50,000 to 60,000 head. A third packing plant, with a capacity of 30,000 to 40,000 head, is owned jointly by the Government and by Paraguayan cattle-raisers. All three plants depend on the import of cattle on the hoof from Argentina. Owing to restrictions on the export of Argentine cattle since 1949, the United States and the Paraguayan plants have closed down and the British-owned plant is working on a reduced scale.² The two foreign-owned companies have also made investments in the production of quebracho extract and cattle-raising.

Some Argentine and United States capital is invested in three cotton ginning plants. Argentine capital is invested in the production of beverages.

² Overseas Economic Surveys, *Paraguay* (H.M. Stationery Office, London, June 1952) pages 22 and 23. At the end of 1953 an agreement on the sale of Argentine cattle on the hoof to Paraguay was signed within the framework of a "Treaty of Economic Union" between the two countries.

Railways and public utilities

There are only two common carrier railways in Paraguay, with a combined length of 332 miles. The most important (the Paraguay Central Railway Company, Ltd.) is British-owned. It was organized in the late 1880's to acquire and operate a 45-mile line then owned by the Paraguayan Government. Additional tracks were constructed by the company with the assistance of the Government. At present the company owns 277 miles of track, consisting mainly of a line running south-east from Asunción to the Argentine border, where a train ferry connects it with the Argentine railway system. The capital of the company amounts to £2.8 million. Since 1947 no earnings on the capital have been remitted to London.³

There are eight industrial railway lines in Paraguay, most of which belong to large foreign-owned land, cattle and quebracho companies. Four Argentine companies own 173 miles of track, one United States firm owns 59 miles and one American-Paraguayan company owns 20 miles. Two Paraguayan companies own 46 miles.⁴

River navigation service between Asunción and Buenos Aires is provided by an Argentine company and by an enterprise owned by the Paraguayan Government. In January 1954 a British and a Netherlands company inaugurated direct shipping service between Asunción and Europe by means of shallow-draft vessels.

A firm incorporated in Argentina was engaged in the generation and distribution of electric energy and the operation of a streetcar system in Asunción until it was nationalized in 1948. In 1951 the company was compensated through payment of \$1.5 million and 2.5 million Argentine pesos. The assets of a foreign-controlled company which owned and operated telephone facilities in Asunción and two other cities were purchased by the Government in 1947.

Other investments

Three foreign banks (Bank of London and South America, Ltd., Banco de la Nación Argentina and Banco do Brasil) maintain branches in Asunción. An Argentine company is the only foreign insurance enterprise in the country.

A subsidiary of a United States company is undertaking exploratory drilling for petroleum in the Chaco.

ENTRY AND STATUS OF FOREIGN CAPITAL

There is no formal discrimination between domestically owned and foreign-owned enterprises, and Paraguayan legal requirements for establishing business enterprises may be regarded as relatively liberal. Foreigners may acquire and hold any property that a national may acquire and own, and may conduct any business open to nationals.

³ Overseas Economic Surveys, *Paraguay*, June 1952, page 29.

⁴ *World Railways, 1950-1951* (Sampson Low, Marston and Co., Ltd., London), page B. 35.

Except for certain properties adjacent to navigable waters, and certain subsoil rights, any type of real property may be privately held, and private enterprises may engage in any type of business. Mining rights may be granted to foreigners as well as to nationals.

Ninety per cent of the workers and 95 per cent of certain supervisory employees of any industrial, banking or commercial enterprise have to be of Paraguayan nationality. However, in determining the proportion of nationals to be employed, technical personnel and other specialists are excluded unless they can be replaced by Paraguayans who, in the judgment of the National Department of Labour, are capable of performing these duties.

A decree-law of March 1952 relates to privileges that may be granted to new industrial enterprises in Paraguay processing domestically produced raw materials. Equipment and other materials that cannot be acquired locally may be imported free of duty, the products of such industries may be exempted from export levies and additional privileges may be granted. The concessions may be extended over a period of not more than ten years. Besides being applied to new processing enterprises, they may be granted to existing enterprises which intend to expand their capacity.

In the latter part of 1952 the Government ratified agreements that had been negotiated under the decree-law just referred to with thirteen Italian firms and institutions, which are to engage in forest exploitation and in the processing of lumber products, establish textile mills and dairy plants, produce and process citrus fruits and undertake other activities. The arrangements provide for immigration of 1,200 Italian families into Paraguay and for an investment of Italian capital equivalent to \$8.2 million. The concessionaires are allowed to retain 50 per cent of the proceeds of their exports, for a period of ten years, for the remittance of dividends, the import of spare parts and other purposes. A ten-year exemption from property taxes on land and buildings is also granted.⁵

Early in 1953 similar privileges were granted to a United States company, which plans to establish a paper factory, a pulp mill, a hydroelectric plant and a saw-mill.⁶

Certain governmental activities in the economic field may be mentioned. The government-owned State merchant fleet (Flota Mercante del Estado) provides river transport for a small portion of the country's exports and imports. The State also operates a workshop, an arsenal and a shipyard. Thirty-five miles of railways are government-owned and operated, as are the installations of the port of Asunción. As indicated above, the State has acquired the electric power and streetcar

service in Asunción. The State also owns and operates the telephone, telegraph, radio and domestic air transport services. Alcohol refining is a State monopoly. Jointly with Paraguayan cattlemen the State owns a meat packing plant.

The government-owned Central Bank of Paraguay (Banco Central del Paraguay) was established in 1952. At the same time, the state-owned Banco del Paraguay, a department of which had previously exercised central bank functions, was reorganized as a purely commercial bank. Among its other responsibilities, the Banco del Paraguay is to assist in promoting productive investment. This aim is to be served also by a governmental agency for agricultural development created in 1951.

EXCHANGE CONTROL

Control over transactions in foreign exchange has been in effect since 1932 and is at present carried out by the Central Bank, which also is in charge of the licensing of imports and some exports.

Pressure on the balance of payments during recent years has brought about a depreciation of the currency and various modifications in exchange control. Major revisions were introduced in the latter part of 1952.⁷ There is a system of multiple rates, ranging from a "basic" rate of 15 guaraníes per dollar (applicable to imports of certain "essential" commodities and certain non-trade payments) to a "controlled free rate" which between March and December 1953 stood at 56 guaraníes per dollar (applicable to payments on account of certain invisible items and to the full or partial value of certain exports). In December 1953 this rate was modified to 58.50 guaraníes.

Although not required to do so, foreign investors may register with the Central Bank the foreign exchange they wish to invest in the country, in which case they are sold local currency at the "basic" rate of 15 guaraníes per dollar. If registered, they may apply for the remittance of capital earnings at that rate. Owing to the shortage of foreign exchange, however, the Central Bank has usually authorized the remittance at the "basic" rate of only part of the proceeds of foreign investments. Some relief has been obtained in individual cases through special arrangements with the bank under which the exporter has to surrender only the part of the export proceeds that corresponds to the official value (aforo),⁸ which is lower than the market value. The difference can then be retained abroad by the exporter.

Foreign capital not registered with the Central Bank can be imported only at the "controlled free rate," and the income from such capital can be transferred only at that rate. Since the beginning of 1953,

⁵ *El País* (Asunción), 9 July 1952, as quoted in International Monetary Fund, *International Financial News Survey* (Washington, D.C.), 29 August 1952, page 71, and Bank of London and South America, Ltd., *Fortnightly Review*, 13 December 1952, page 750.

⁶ *Fortnightly Review*, 18 April 1953, page 249.

⁷ In 1952, the basic rate for the guaraní was changed from 6 to 15 guaraníes per dollar.

⁸ The "aforo" value of export products is fixed periodically by the Central Bank, generally on the basis of current prices in the international market.

however, the free market has apparently been the only channel for the repatriation of foreign capital, regardless of registration.

Certain departures from the existing exchange control provisions intended to encourage the investment of new foreign capital may be provided for through concession contracts negotiated between the Government and foreign investors under the provisions of the decree-law of March 1952 referred to above.

TAXATION

A law which became effective 1 January 1950 specifies categories of business income subject to income tax. The tax applies to business income of foreign and domestic enterprises alike. The law exempts incomes derived from farming (other than cattle-raising), "professions", public service and labour. The tax rates range from 5 per cent on net taxable incomes up to 2,500 guaraníes to 19 per cent of such income in excess of 35,000 guaraníes. Under a previous law of 1943 rates ranged from 6 to 10 per cent. Other business taxes appear to be of minor importance.

Most of the customs tariffs are for revenue purposes. Following a rapid increase in the domestic price level, specific duties were increased in the latter part of 1952 by 400 per cent. Ad valorem duties were also raised, from 6 to 11 per cent, and the surtax on such duties from 11 to 16 per cent.⁹ Certain exports are subject to taxes of up to 33 per cent of the official export value.

⁹ *El País* (Asunción), 20 October 1952, as quoted in International Monetary Fund, *International Financial News Survey* 21 November 1952, page 171.

PERU

EXTERNAL PUBLIC DEBT

During the nineteenth century the Peruvian Government borrowed repeatedly in the London capital market. In the period 1822 to 1825, loans totalling about £2 million were raised. Several years later these loans went into default; they were refunded in 1849 and again in 1853. In 1860, a loan was raised in connexion with monetary reform. The refunding loan of 1853 and the 1860 loan were repaid in full before maturity.

During the period 1869 to 1872, a total of £35 million was raised in London for the construction of railway lines. In 1876, Peru defaulted on these loans. Payment difficulties persisted till 1890, when a settlement with the bondholders was made. At that time the sterling debt, including interest arrears, amounted to £57 million. In connexion with the debt settlement, most of the railway lines were turned over to the Peruvian Corporation, Ltd., an organization established by the British creditors. The corporation obtained possession of the railways for a period of sixty years, together with the right to operate the government-owned steamers on Lake Titicaca, which connect the Peruvian and the Bolivian railway lines. The Government agreed to pay the corporation an annual subsidy of £80,000 for thirty-three years and to turn over to it 2 million tons of guano.¹ The agreement relieved the Peruvian Government of all foreign debt payments except the annual subsidy just mentioned. The terms of the agreement were not fully met, and in 1907 a new agreement was concluded which extended the life of the previous contract. In 1928, the annual subsidy was cancelled, and the Peruvian Corporation was accorded possession of the railways, in perpetuity, against payment to the Peruvian Government of £20,000 annually during nine years. An additional sterling loan was raised in London prior to the First World War: the city of Lima in 1911 obtained £600,000 at 5 per cent, guaranteed by the Peruvian Government.

During the 1920's the Peruvian Government raised about \$95 million in New York (not including refunding issues) and £3.3 million in London; the province of Callao raised a loan of \$1.5 million and the city of Lima one of \$3 million. The rate of interest on the loans outstanding from 1927/28 ranged from 6 per cent to 7½ per cent.

In May 1931, the Peruvian Government suspended service on its foreign debt, and the issues of the city

¹ Pan American Union, *The Peruvian Economy* (Washington, D.C., 1950), page 132.

of Lima and the province of Callao went into default. Only one sterling loan, the so-called "Guano Loan" of £1.25 million issued in 1922, was regularly serviced; a reduction of the interest rate from 7½ per cent to 4 per cent on this loan was agreed upon with the bondholders in 1938.

In 1947 the Peruvian Government offered to convert at greatly reduced interest rates, all outstanding dollar and sterling bonds except the dollar loan of the city of Lima. All interest unpaid since 1931 was to be cancelled; interest was to be paid for 1947 and 1948 at one per cent and subsequently was to increase gradually to 2½ per cent, which rate would be paid from 1953. The Foreign Bondholders' Protective Council, Inc. (of New York) did not recommend acceptance of this plan to the bondholders since it considered the interest rate too low and the cancellation of all interest arrears inequitable.² In spite of this objection, which was supported by the British bondholders' organization, the Peruvian Government proceeded with the plan and made the offer directly to the bondholders. By the end of 1950 nearly 60 per cent of all United States bonds had been converted under the new plan through the direct assent of the individual bondholders.

Following negotiations with the Foreign Bondholders' Protective Council, the Peruvian Government in January 1953 offered new bonds, carrying interest at 3 per cent from the beginning of 1953 and due for retirement in 1997, in exchange for the outstanding dollar issues, totalling \$65.7 million.³ In addition, the bondholders were offered certificates equal to 10 per cent of the amount of accrued interest, to be repaid in fifteen annual instalments beginning in 1953.

Following negotiations between the British Council of the Corporation of Foreign Bondholders and the Government of Peru, it was announced in December 1953 that the latter would make an offer to holders of defaulted sterling bonds which the Council was ready to recommend for acceptance. Interest accumulated to the end of 1946 was to be reduced to one-tenth, for which amount the Government would issue non-interest-bearing bonds or scrip to be repaid in fifteen annual instalments. Interest for 1947 to 1953 would rise from one to 3 per cent and be paid in cash. The settlement of interest arrears would be made according to the face value of the bonds. For subsequent payments the Government would recognize the contractual dollar option of the issues by payments in

² Foreign Bondholders' Protective Council, Inc., *Report, 1946 through 1949* (New York, 1950), pages 313 and 314.

³ Not including dollar bonds with a face value of \$0.5 million, previously converted from sterling bonds.

sterling of £1.74 for each pound sterling nominal amount. Interest from 1953 would be 3 per cent, paid according to the new par value of the bonds.

As of the end of May 1954 the bonded indebtedness of Peru (including the Central Government, provinces and municipalities) totalled \$68.1 million, of which \$61.4 million was in dollar bonds and the equivalent of \$6.7 million in sterling bonds.

As of the end of 1953 the Export-Import Bank had authorized a loan of over \$400,000 to an agency of the Peruvian Government (Corporación Peruana del Santa) for hydroelectric development; of this amount about \$300,000 had been repaid. Other Export-Import Bank credits to private enterprises in Peru have been granted without government guarantee. The Cerro de Pasco Corporation (see below) was granted a \$20.8 million credit in 1950 for construction of an electrolytic zinc refinery; of this amount \$14 million has been drawn. The Marcona Mining Company (a subsidiary of a United States corporation), was granted a credit of \$2.5 million in 1953 for development of an iron ore mine. A Peruvian-owned tungsten mining company was granted about \$600,000 in 1951.

In 1952 the International Bank for Reconstruction and Development granted two loans to the Peruvian Government: \$2.5 million for the development of Callao harbour and \$1.3 million for agricultural equipment. By the end of 1953 \$2.4 million of these loans had been disbursed.

FOREIGN BUSINESS INVESTMENTS

During the nineteenth century British business investments, particularly in railways, were more important than those of any other country. United States investments acquired importance around 1900 and in the 1920's gained first place. It has been estimated that in recent years the output of foreign-owned enterprises accounted for about one-fourth of the gross national income of Peru and that from 1951 to 1953 the ratio of foreign to total private investment in the country averaged 15 per cent.⁴ In 1953 long-term foreign direct investments were distributed as follows (in millions of dollars):

	United States	United Kingdom	Other countries	Total
Mining	148	—	1	149
Petroleum	98	5	—	103
Agriculture	12	1	2	15
Manufacturing	13	2	2	17
Transport and public utilities	10	57	10	77
Trade	12	2	14	28
Miscellaneous	2	1	4	7
TOTAL	295	68	33*	396

* Including Italy with \$15 million (of which \$10 million was in public utilities) and France with \$5.5 million.

⁴ United States Department of Commerce, World Trade Series No. 641, *Peru as an Investment Field* (Washington, D.C., October 1954).

Table 21. United States direct investments in Peru, 1929, 1943 and 1950

(Millions of dollars)

Field of investment	1929	1943	1950
Mining (not including petroleum extraction and smelting).....	79.5	29.1	55.1
Manufacturing	3.2	5.5	15.8
Trade	2.5	3.1	13.1
Transport and public utilities....	11.3	7.9	^a
Miscellaneous	27.3 ^b	25.6 ^c	60.5 ^b
TOTAL	123.8	71.2	144.5

^a Included in miscellaneous.

^b Separate figures not available for investments in agriculture and petroleum.

^c Including \$13.4 million in agriculture and \$10.9 million in the petroleum industry.

United States direct investments in Peru are substantial in mining and petroleum and have also some importance in manufacturing and trade. Their total value rose from \$145 million to \$230 million between the end of 1950 and the end of 1952 (table 21), but some \$33 million of this increase appears to have been due to a revaluation of assets rather than a capital inflow or reinvestment of profits.

By far the largest United States mining concern in Peru is the Cerro de Pasco Corporation, organized by American investors in 1902 for mining and smelting copper. Output reached a peak towards the end of the 1920's, fell off sharply during the world depression and remained at a rather low level even during the Second World War, when the corporation's output of zinc and lead became of considerable importance. In 1950 the corporation accounted for about half of the copper and zinc ores⁵ produced in Peru, about one-fourth of the lead and one-third of the silver content. Because of the liberal mining code of 1950 and high price of metals, the corporation is making substantial new investments in concentrating and refining facilities for zinc and lead ores, the production of which has reached record levels. About \$30 million is being invested in construction of an electrolytic zinc refinery (together with a hydroelectric power plant), partly with the aid of an Export-Import Bank credit.

A copper mining subsidiary of the American Smelting and Refining Company and another American-owned enterprise engaged chiefly in the production of silver and lead are of secondary importance. In 1952 the American Smelting and Refining Company expanded considerably its activities in Peru. It placed a mine in operation near the northern coast (at Chilete), producing lead, zinc and silver ores. It carried out large-scale exploratory work on two concessions in southern Peru at a cost which totalled \$7 million by the end of 1952. It ascertained that the copper deposits in one of these concessions (at Toquepala) contain about 400 million tons of ore and would yield about 100,000 tons of blister copper annually during the first ten years of exploitation. Operation of the mine,

⁵ Metal content.

at Toquepala, which will be one of the largest in the world, was estimated to require an investment of \$200 million. A subsidiary was formed to develop it, and a loan application was made to the Export-Import Bank to cover a substantial portion of the capital requirements.⁶

Early in 1952 the Government of Peru approved a contract negotiated between one of its development agencies (Corporación Peruana del Santa) and a United States enterprise (Utah Construction Company) to work iron ore deposits at Marcona. The enterprise is to export a minimum of 500,000 tons of ore per year and, in addition, sell, at a price corresponding to 28 per cent of the Great Lakes price in the United States, ore needed for an iron and steel mill being built at Chimbote by the Corporación Peruana del Santa. An expenditure of over \$9 million is involved, mainly in mining and transport facilities, \$2.5 million of which has been obtained from the Export-Import Bank. Export of ore started in April 1953 and by the end of that year totalled nearly one million tons, valued at \$6.6 million. It was expected that in 1954 two million tons would be exported.⁷

A long-established corporation accounts for the entire output of Peruvian vanadium, which represents about a fourth of the world's production.

The United States-owned oil investments in Peru are mainly represented by a subsidiary of Standard Oil Company of New Jersey, which has operated in the country since about 1914. However, since the new Petroleum Law came into effect in 1952 several additional American enterprises have engaged in petroleum exploration.

According to the Bank of England, the nominal value of British business investments (shares and debentures) in Peru was £19.9 million in 1938 and £19.1 in 1950.⁸ Most of this sum represents investment in the Peruvian Corporation, a railway enterprise to which reference was made above. No dividends have been paid by the Peruvian Corporation for several decades, and interest on debentures is several years behind schedule. The return on other British investments in 1949 was about 10 per cent of the nominal capital and was accounted for mainly by a petroleum concern (see below).

INDUSTRIAL DISTRIBUTION OF BUSINESS INVESTMENTS

Agriculture

Though its mineral and manufacturing output has grown rapidly during this century, Peru is still largely

⁶ American Smelting and Refining Company, *Fifty-fourth Annual Report, 1952* (New York, 1953), page 4; Bank of London and South America, Ltd., *Fortnightly Review*, 4 April 1953, page 214.

⁷ Bank of London and South America, Ltd., *op. cit.*, 20 February 1954.

⁸ According to an estimate by a resident United Kingdom official in Peru, the total of British investments in the country in 1949 was about £30 million, of which £22 million represented the value of the Peruvian Corporation (United Kingdom, Overseas Economic Surveys, *Peru*, December 1951, page 10).

an agricultural country. Practically all major food-stuffs can be produced in the country, and several crops, such as sugar and cotton, are being raised on a large scale for export. In 1950, cotton accounted for 35 per cent and sugar for 15 per cent of the export value. Foreign capital has assisted in the development of agricultural production. Several foreign-owned plantations grow cotton, and sugar is produced by a United States concern.

Mining and smelting

Exports of metals and minerals represent about a fourth of all exports, by value. Foreign capital, primarily from the United States, is largely responsible for the development of mining since the beginning of this century. Of about 29,000 persons employed in mining in 1950, approximately two-thirds worked in foreign-owned enterprises.

Peru's production of copper and silver, though increasing during post-war years, has not attained the pre-war level; on the other hand, output of both zinc and lead has recently reached record levels, and since 1949 has exceeded copper production in value. The enactment in 1950 of a new mining code (see below) has encouraged foreign investments in mining and smelting.

Petroleum extraction

Of Peru's three chief known oil-bearing areas, one is along the Pacific coast in the northern part of the country; the second is in the area of the upper Ucayali River, a tributary of the Amazon; and the third in the north-eastern region, between the Colombian and Ecuadorian borders. Access to the latter two regions is difficult, involving either passage across the Andes or travel of approximately 3,000 miles up the Amazon river system.

Foreign capital was largely responsible for the original exploitation of petroleum deposits in the country, though the Peruvian Government as well as Peruvian private investors have during the past two decades acquired some oil properties. Of some 9,200 workers employed in this industry, less than 900 are working in domestically owned enterprises. More than 6,000 work for the International Petroleum Company, since 1948 a subsidiary of Standard Oil Company of New Jersey.⁹ About 70 per cent of petroleum output in 1952 came from its properties. In addition to extracting crude oil, the company operates a refinery at Talara on the Pacific coast.

A British-owned concern, operating at Lobitos and El Alto (in the coastal area) since 1908, accounted for about 28 per cent of the country's petroleum output in 1952; this concern owns no refinery.

The Zorritos field near the Ecuadorian border, purchased from Italian owners, is operated by the government-owned Empresa Petrolera Fiscal. This enterprise and a joint United States-Peruvian private enterprise

⁹ Pan American Union, *op. cit.*, page 107.

operating in the upper Ucayali River area account each for less than one per cent of total output.

Petroleum production in Peru reached 2.3 million tons in 1936 but from 1939 to 1950 it was under the 2 million mark. In 1952 output rose again, to 2.2 million tons. The export of petroleum and petroleum products fell from 34 per cent of the value of Peru's exports in 1937 to 13 per cent in 1950. Two factors accounted for the decline in exports. First, domestic consumption of petroleum products has greatly increased, particularly because the petroleum companies supply the domestic market at low prices fixed by the Government; in recent years domestic consumption has absorbed nearly 70 per cent of the output. Second, production by the major oil companies for years failed to increase since no new concessions were granted. It has been estimated that, if this condition had continued, Peru would have had no exportable surplus of petroleum products by about 1955.

It seems likely, however, that the legislation on petroleum adopted in 1952 will greatly encourage new investment and production. By the end of October 1953, seventeen companies (seven United States, five Peruvian, two Canadian, one United States-Argentine, one Argentine-Peruvian and one United States-Peruvian) had been granted exploration concessions under the new law for some 3.5 million hectares, and exploitation concessions to some 2.3 million hectares. Most of the activities thus stimulated are taking place in the northern coastal zone.¹⁰

Railways

As was pointed out above, most of Peru's major railway lines were built, with the aid of British capital, by the Peruvian Government in the second half of the nineteenth century. Reference was made to the ceding in 1890 (and from 1928, in perpetuity) of these railways to the British-owned Peruvian Corporation. At the present time, the Peruvian Corporation operates 1,386 miles out of Peru's 2,581 miles of railway; other private enterprises, some of them foreign, own 868 miles; the remainder is owned by the Government.

The mountainous character of the country has limited railway construction. The few existing lines connect the important mining centres in the Andes, as well as the agricultural areas of southern Peru, with major ports along the Pacific coast. So far, it has not been economic to build a railway between the upper Amazon area and the major consuming areas of the country.

The Peruvian Corporation's system includes two main lines and several smaller ones. One of the main lines connects Callao, the major seaport, with Lima, the capital, and then runs across the Andes, rising more than 15,665 feet, to Huancayo. This line is connected with the line built by the Cerro de Pasco Corporation; both are used primarily to transport minerals to the

coast for export. The other main line runs from the port of Mollendo to Cuzco and to Puno at Lake Titicaca, where steamers afford a connexion with the Bolivian railway line running to La Paz, a line also owned by the Peruvian Corporation. The smaller lines of the corporation serve primarily the agricultural area of southern Peru.

Most of the other privately owned lines connect mining properties with the major railways. Several of them were built with foreign capital since they serve properties owned or established by foreigners. Most of the government-owned lines are short, connecting various regions with important cities or with the Pacific coast. Since no railway line connects northern Peru with the south, construction of the Pan American Highway was of considerable significance. In contrast with many other countries, Peru has not obtained funds from the United States Government for construction of this highway. A portion of the expenditure has been financed by a special tax payable by the Peruvian Corporation on freight carried on its railway across the Andes.¹¹

Other activities

Several public utility enterprises in Peru are foreign-owned or were originally foreign-owned. The two companies supplying light and power to the Lima area have been financed in part with Italian and Swiss capital. Several foreign-owned mining companies have established electric power enterprises primarily to meet their own requirements.

The telephone service in Lima is supplied by a subsidiary of the United States-owned International Telephone and Telegraph Company. In the south of Peru, the telephone service is provided by a subsidiary of a Swedish concern.

Manufacturing (other than metal smelting and petroleum refining) is still under-developed but is gaining in importance. Although most of the manufacturing enterprises are Peruvian-owned, foreign capital is responsible for several industries which have been established during the past few decades. One United States-owned and one British-owned enterprise are the most important producers of cotton yarn and fabrics. An Italian-owned enterprise for manufacture of wool and alpaca yarn and fabrics has started production recently. United States and British capital is also invested in the flour milling, brewery, lumber, paper, chemical products and pharmaceuticals industries. A United States-owned company operates the only tire factory in the country.

Several commercial banks are branches of foreign banks, including one established recently with French capital participation.

ENTRY AND STATUS OF FOREIGN CAPITAL

Under the Peruvian Constitution (Article 32), nationals and foreigners have equal status in regard to the

¹⁰ "Search Boom in Peru", *Petroleum Press Service* (London), January 1954, pages 5 to 7.

¹¹ Pan American Union, *op. cit.*, page 138.

acquisition and ownership of property, except that foreigners are prohibited from acquiring land within fifty kilometres of the frontier or in the vicinity of military establishments. In only three fields has the Peruvian Government established specific limitations on the amount of foreign capital which may be invested. Three-fourths of the capital of shipping companies must be held by Peruvians domiciled in Peru. Thirty per cent of the capital stock of petroleum companies organized subsequent to the passage of the Petroleum Law of 1952 must be offered to the State or to private Peruvian interests. However, should these fail to buy the stock offered within ninety days, that stock may be legally held by foreign concerns. Finally, the activities of foreign insurance companies in Peru are limited by a law of 1944 which requires insurance companies to invest their capital in the country and to have a majority of Peruvian directors and shareholders.

To a minor extent, the investment of private capital in Peru is limited by the existence of a number of government monopolies and the participation of the Government in several branches of the economy. Government monopolies created primarily to raise revenue control production of tobacco, salt, guano, industrial alcohol, matches, playing cards and explosives, and the sale of imported wines and liquors. However, with the exception of the tobacco monopoly, the monopolies no longer produce large revenues.

In recent years, the Peruvian Government has made substantial investments in new enterprises in the country. Most of these activities, however, were entered upon, not in competition with private capital, but to developed resources which did not seem to attract either foreign or domestic capital. Thus, the Peruvian Corporation of the Amazon (Corporación Peruana del Amazonas), fully owned by the Government, was formed in 1942 to encourage rubber production east of the Andes.¹² Another government corporation, the Peruvian Shipping Corporation (Corporación Peruana de Vapores) runs ships on routes, not usually served by foreign ships, between Peruvian ports and those of other South American countries such as Argentina, and maintains regular steamship service between Peruvian ports along the Pacific Coast, via the Panama Canal and up the Amazon, to the Peruvian provinces east of the Andes. Finally, the Corporación Peruana del Santa, referred to earlier, was created in 1943 to develop the resources of the Santa River valley. This corporation, with an authorized capital of 600 million soles (about \$40 million), is completing a large hydroelectric plant and is constructing an iron and steel mill at Chimbote which is expected to meet 60 per cent of Peru's steel requirements. Reference has already been made to the arrangement whereby the mill is to be supplied with iron ore from the deposits at

Marcona. Adequate coal deposits are available in the valley. In addition to its two major projects, the corporation either has completed or has under construction harbour, rail and highway facilities. The corporation's steel mill and hydroelectric plant are being financed in part by commercial credit from French sources.

Apart from the Central Bank, there are three government banks: the Industrial Bank (Banco Industrial), which began operations in 1936; the Mining Bank (Banco Minero), established in 1940; and the Bank for Agricultural and Livestock Development (Banco de Fomento Agropecuario), established in 1931 under the name of Agricultural Bank (Banco Agrícola). The purpose of these banks is to grant loans to domestic industrial, mining and agricultural enterprises if such loans cannot be obtained from regular commercial banks.

As was mentioned above, mining and petroleum output tended to decrease during the 1940's. This fact has been attributed partly to the effect of the old mining and petroleum codes and to the regulations pertaining to exchange control and to export levies and other special taxes on extractive industries. A new mining code was promulgated by a decree of 12 May 1950 and was subsequently ratified by the newly elected Peruvian Congress. This code provides that minerals are the property of the State except when exploitation rights are legally acquired. Foreigners and Peruvians may obtain concessions without discrimination. In order to making mining more attractive, the new code reduced taxation on mining and pledged not to increase it over a period of twenty-five years. The principal tax affecting mining is a tax on income. Prepayments on the income tax have to be made at the time mining enterprises export their product and consist of 4 per cent of the value of such exports. They are credited against the income tax liability and refunded if necessary. In addition to amortization allowances on equipment, the code makes an allowance up to 15 per cent of the value of output for ore depletion, provided that the amount does not exceed half the taxable income. Finally, the Government decreed on 16 February 1951 that all machinery, equipment and materials destined for the mining industry may enter the country duty-free.

In the field of petroleum, the Peruvian Government in 1948 created the enterprise known as Empresa Petrolera Fiscal to administer government-owned oil properties. Although this agency was authorized to make contracts with domestic or foreign private companies for exploration and for development of these properties, foreign petroleum companies were not receptive to such arrangements. The Petroleum Law adopted in 1952¹³ encourages national participation in the industry without discriminating against foreign capital, and stimulates development of the resources of the north-eastern area. The law established three con-

¹² The corporation has been absorbed by the Banco de Fomento Agropecuario which was created in January 1952. The bank also took over the functions of the National Wool Marketing Board (Junta Nacional de la Industria Lanar).

¹³ Law No. 11780, 12 March 1952 and regulation of 10 June 1952.

cession areas, with varying rights and obligations in each: a coastal zone; a mountain zone; and an eastern zone. Petroleum concerns are subject to an income tax which amounts to 50 per cent in the case of those in the coastal zone, with lower rates elsewhere. When computing the taxable income, 15 per cent is deductible for depletion in the coastal zone and 27 per cent elsewhere. A levy on petroleum exported—20 per cent *ad valorem* on oil from the coastal zone and a lower rate on that from other zones—serves as prepayment on the income tax. If the activities of an oil company result in a profit for the year, the export tax will be included in computing the share accruing to the Government, but if the company shows a loss, the tax is not refundable. There are also certain exploitation taxes, which vary with zone, size of area and duration of lease.

Half of the surface opened for exploration returns to the State when exploitation rights are granted. After termination of any exploitation concession, the area involved returns to the State with all improvements. As previously, producers must supply the local market at government-fixed prices.

A new council on petroleum (Consejo Superior del Petróleo) has been established as a consultative body in relation to petroleum matters. The law provides for reorganization of the Empresa Petrolera Fiscal with a view to promoting the establishment of petroleum enterprises in which Peruvian private capital will furnish 60 per cent of the total and the Government 40 per cent.

Peruvian labour regulations require that not less than 80 per cent of the persons employed in an enterprise be nationals of Peru and that 80 per cent of the payroll be paid to such nationals. Managerial or technical personnel are not affected by this regulation.

EXCHANGE CONTROL

Since November 1949 there have been no exchange control restrictions on entry of foreign capital into Peru. A decree-law of 13 December 1947, which provided for the licensing of incoming capital and authorized the use of the official rate of exchange for dividend payment and capital repatriation under certain conditions, was suspended in December 1948. Since that time, most of the remaining restrictions on payments in foreign exchange have been abolished.

Since November 1949 there has been complete freedom to effect any non-merchandise transaction through the fluctuating so-called "draft rate" of exchange. Merchandise exporters have to sell the foreign exchange proceeds from their sales, and merchandise importers may buy such exchange for their own merchandise requirements in the "certificate" market. The two rates do not differ greatly, and with prior approval of the Minister of Finance, the remittance of profits of foreign companies may be made at the certificate rate, which usually attributes a slightly higher exchange value to the sol than does the draft rate.¹⁴

After the gradual depreciation of the sol in 1953, the Peruvian Government, in February 1954, made an arrangement with the International Monetary Fund, the United States Exchange Stabilization Fund and the Chase National Bank for a credit totalling \$30 million. This credit is intended to help the Government, undertaking a currency stabilization programme, to maintain an exchange system virtually free of restrictions on trade and payments.

TAXATION

Peru has a complicated tax system, levying a number of taxes on business income, personal income and property. In general, these taxes apply to foreign and domestic enterprise alike. Corporation profits are taxed at progressive rates, ranging from 7 per cent on profits under 10,000 soles to 20 per cent on those in excess of 100,000 soles. In addition, an excess profits tax is levied on profits which exceed a "normal" level; rates are progressive ranging from 10 per cent on excess profits under 50,000 soles to 20 per cent above one million soles. Transfer abroad of dividends is subject to a "complementary tax" of 12 per cent, except for dividends on bearer shares, which are taxed at the rate of 14 per cent and interest on bearer bonds, to which a rate of 7 per cent applies. A tax on exporters of agricultural products is levied in the form of export duties.¹⁵ Export taxes paid are deductible from the liability on account of the profits and excess profits taxes.

¹⁴ During 1953 the "draft" rate fluctuated between 15.78 and 19.96 soles per dollar, and the "certificate" rate between 15.72 and 19.89 soles per dollar.

¹⁵ The same system applied to exporters of mineral products until adoption of the new mining code on 12 May 1950.

URUGUAY

EXTERNAL PUBLIC DEBT

Uruguay's first foreign loan, amounting to £1 million and carrying interest at 6 per cent, was floated in London in 1864, for the purpose of liquidating internal debt. Subsequently, additional sterling loans were raised, and by 1890 the external funded debt had increased to £16.8 million. The following year this debt was consolidated into one 3½ per cent loan, the service on which was regularly met until shortly after the outbreak of the First World War, when sinking fund payments were partially suspended. Additional borrowing increased the external funded debt to £26.4 million in 1910.

In 1920 sinking fund payments on the pre-war loans were resumed. By then external loans represented almost nine-tenths of the public debt. Borrowing in the United States increased rapidly: between 1915 and 1930 dollar bonds totalling \$67.8 million were issued at an average price of 96 per cent of parity with interest rates ranging from 5 to 8 per cent. The proceeds of these loans were used mainly to finance the acquisition of a railway to pay off or refund some indebtedness and to construct port facilities, roads, public works, etc. During the 1920's domestic borrowing increased rapidly so that by 1932 the external obligations had declined to 55 per cent of the public debt. Moreover, prior to the world economic depression a considerable portion of the bonds issued abroad were acquired by Uruguayans: in 1932 the external obligations held abroad (equivalent to about \$90 million) represented only 70 per cent of the amount of such obligations outstanding.

The onset of the world economic depression exposed the balance of payments to pressure. Sinking fund payments were suspended in January 1932, and after July 1933 interest on the external debt was made payable only in pesos into a blocked account, without taking into consideration the fact that the exchange value of the peso had declined. After protest by bondholders, the Government revised its policy to provide for payment of interest in pesos equivalent to not less than 3½ per cent when converted into the currency required under the loan contracts; but the payments were still made into a blocked account.

In 1937 the Government offered a settlement of the defaulted debt. This involved no change in principal but a reduction in contractual interest rates, which had ranged from 5 per cent to 8 per cent, to from 3.5 per cent to 4.3 per cent, and an extension of the periods of the loans in some cases by fifteen years, in others

as much as thirty-two years. Practically all bondholders accepted this adjustment.

At the end of 1953 the external public debt amounted to 107.5 million pesos (\$70.7 million at the rate of 1.5 pesos per dollar). Dollar bonds of \$40 million were outstanding at the end of 1952, of which less than one-third were held in the United States.

Following cessation of international lending in the early 1930's, the only external loans received by the Government of Uruguay have been obtained from the Government of the United States and, recently, from the International Bank for Reconstruction and Development.

Of loans negotiated with the Export-Import Bank, \$16.9 million had been drawn upon by the end of 1953 (\$12 million for hydroelectric development, \$2.3 million for highway construction and \$2.6 million for electric locomotives); of the amount thus borrowed, \$4.8 million had been repaid.

In August 1950 the International Bank for Reconstruction and Development authorized a \$33 million loan, maturing in 1974, to an agency of the Uruguayan Government, for electric power development and telephone equipment. As of the end of 1953, \$18.4 million had been drawn upon.

FOREIGN BUSINESS INVESTMENTS

The United Kingdom was the first country making substantial business investments in Uruguay. The bulk of such investments, primarily in railways and public utilities, was made through the London securities market before 1913, at which time the par value of the shares outstanding was about £21 million¹ or some \$100 million at the rate of exchange then prevailing. At the end of 1946 British investments amounted to £27 million, but the subsequent purchase by the Uruguayan Government of a large British railway investment and several public utilities with a par value of £17 million reduced the total to £10 million (about \$29 million) at the end of 1949. These investments are chiefly in a meat-packing plant, banks, insurance companies, wholesale and retail trade and livestock farms.

United States direct investments in Uruguay have been made mainly since 1911, when a packing plant was established at Montevideo. A second packing plant was established later by another American company. Other United States enterprises established in Uruguay are engaged in the production or assembly of motor vehicles,

¹ Shares registered on the London Stock Exchange. See the *South American Journal* (London, 4 March 1950).

office equipment, sewing machines, agricultural equipment, electric bulbs and appliances, cement and chemicals. Two companies distribute petroleum products. A large bank maintains a branch in Montevideo.

The value of United States direct investments reached about \$28 million in 1929. After a decline during the 1930's which is believed to have reflected the depreciation of the Uruguayan peso, they rose again to some \$24 million in 1943. By 1950 the total was estimated at \$55 million. Since no substantial United States-owned enterprises are known to have been established in Uruguay in recent years, it seems that the increase is due mainly to the reinvestment of earnings, particularly by the manufacturing enterprises, which represent the bulk of the direct American investments in the country.

Table 22. United States direct investments in Uruguay, 1929, 1943 and 1950
(Millions of dollars)

Field of investment	1929	1943	1950 ^a
Manufacturing	16	17	33
Distribution	5	3	4
Petroleum distribution.....	3	3	3
Miscellaneous	4	1 ^b	15 ^c
TOTAL	28	24	55

^a Data from United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), December 1952, page 8.

^b Excluding a deficit of \$18.6 million which appeared in the accounts of certain companies. It is believed that the major portion of this deficit related to a company domiciled in Uruguay which is a holding company for investments in several Latin American countries and that only a small part, if any, of the deficit is accounted for by the Uruguayan enterprises owned by the holding company.

^c Including \$12.4 million in finance and insurance.

French capital of perhaps \$9 million at the end of 1948 was invested mainly in cattle raising and banks.² German investments, amounting to an estimated \$2 million before the war, have been transferred to Uruguayan ownership.

INDUSTRIAL DISTRIBUTION OF BUSINESS INVESTMENTS

Railways and public utilities

With a total of about 1,900 miles Uruguay has more railway mileage in proportion to area than any other Latin American country and more in proportion to population than any Latin American country except Argentina. Over 80 per cent of the total mileage of Uruguay's railway system was constructed by British capital. British investment in Uruguayan railways began in 1865 with a concession for building a line from Montevideo to Durazno, about 127 miles to the north, on the Río Negro. This concession was followed by others, and by 1887 all except one of the railway companies had been formed that were later to comprise the privately owned railway system of the country.

² J. F. Rippey, "French Investments in Latin America", in *Inter-American Economic Affairs* (Washington, D.C.) autumn issue, 1948.

The original concessions under which construction of the railways was carried out provided for substantial assistance from the Uruguayan Government. This assistance was mainly in the form of guaranteed earnings for the companies, in most instances for periods of forty years. The amount of the guaranteed earnings varied, but in several cases it was originally 7 per cent on a maximum capital outlay of £5,000 per kilometre of line; this was subsequently reduced to 3½ per cent. Important tax benefits were also granted to encourage railway building. Some concessions provided for reversion of the properties to the Government, without compensation, ninety years after the opening of lines to traffic, or after twenty-five years upon payment of £6,000 per kilometre of line.

A programme of nationalization of the railways was initiated during the First World War. By 1948 the Government operated about a fifth of the railway mileage. Practically the whole remainder came into government ownership through acquisition of the British-owned Central Uruguay Railway, comprising nearly 1,500 miles of track, in accordance with a contract negotiated by representatives of the interested parties, and ratified by the Uruguayan Congress on 31 December 1948. The purchase price was about £7.2 million. At present, the Government is the sole owner and operator of the railways in the country with the exception of a small line owned by a Uruguayan firm.

The streetcars in the city of Montevideo were for many years held by two companies, one British, formed in 1904, and one German-controlled. The latter was absorbed by the British company in 1926. By virtue of an agreement concluded in December 1947, the city of Montevideo purchased the company's property for 11.7 million pesos, about £1.4 million at the rate then prevailing.

The water supply system of Montevideo was developed by the Montevideo Water Works Company, a British company registered in 1878. Under a contract between the company and the Uruguayan Government, the company's properties in Uruguay were bought in 1949 by the Uruguayan Government for £3 million.³

Gas is supplied in the city of Montevideo by the Montevideo Gas and Dry Dock Company, a British company organized in 1872.

The Montevideo Telephone Company, organized as a British concern in 1888, and acquired in 1927 by a United States enterprise, was in turn sold to the Uruguayan Government in December 1944, following an arrangement with the State Electric Power and Telephone Company (*Usinas Eléctricas y Teléfonos del Estado*).

Manufacturing

Foreign capital is represented in the meat-packing industry by three corporations, one British-owned and two American-owned. The former was established in

³ *Diario Oficial* (Montevideo), 31 October 1949.

Uruguay in 1865, and the American concerns in 1912 and 1916. Their significance in the economy of the country is indicated by the fact that under a Uruguayan regulation issued in March 1949 foreign-owned companies are assigned a quota of 65 per cent of the export of meat products from Uruguay. The foreign companies, however, produce only for the export market, the domestic market being reserved exclusively for a packing plant owned by the Uruguayan Government and for domestically owned private plants.

A substantial number of foreign manufacturers have established branches in Uruguay. Most of them do not carry out manufacturing other than assembling in Uruguay; their principal activities are in the fields of importation, distribution and servicing of their products.

Banking and insurance

Towards the end of 1953 foreign banks accounted for about 14 per cent of the capital and reserves and for a sixth of the deposits in all private banks in Uruguay.⁴ Of sixty-nine private banks in Uruguay, eight, all located in Montevideo, are foreign. Of the foreign banks, one is American-owned, one British and one Canadian.

Branches of twelve foreign insurance companies (nine British, two French and one Swiss) operate in Uruguay but are of little importance in the insurance business. This is due to the establishment in 1911 of the State-owned National Insurance Bank (Banco de Seguros del Estado), with authority to monopolize any type of insurance in Uruguay. The bank writes insurance in all fields but has not invoked its monopoly right in some branches, including life, fire and marine insurance.

ENTRY AND STATUS OF FOREIGN CAPITAL

Neither the Uruguayan Constitution nor legislative or administrative action makes any important distinction between nationals and foreigners with respect to ownership of property and the right to establish and operate business enterprises. Private enterprise has been excluded from several activities which are monopolized by the Government, but such exclusion is applicable to nationals as well as foreigners. A minor regulation in the interest of national defence limits the property rights of foreigners in certain so-called "security zones". The right to engage in mining is restricted to Uruguayan citizens or to enterprises domiciled in the country, but such enterprises may be foreign-owned.

In 1949 Uruguay concluded a Treaty of Friendship, Commerce and Economic Development with the United States.⁵ The provisions of the treaty relating to the entry and operation of United States business enterprises are

⁴ Banco de la República Oriental del Uruguay, *Suplemento Estadístico de la Revista Económica* (Montevideo), November 1953. It will be observed that the Banco de la República, which is government-controlled, performs functions of both central and commercial banking.

⁵ See chapter 2 of part I, section on "Treaties and international agreements".

based largely on the principle of "national" treatment and do not conflict with existing Uruguayan legislation. The treaty was ratified by the United States Senate in 1950 but had not been ratified by Uruguay by the end of 1953.

During the war and until 1947, the Banco de la República exercised general control over capital entering through banking channels and authorized such capital import only for investment in activities regarded as beneficial to the national economy. However, even during that period capital movements through exchange brokers (*casas de cambio*) remained free. Since 1947 there have been no restrictions on the inflow of capital.

Private enterprises are not required by law to employ a fixed percentage of Uruguayan nationals or to pay a stated percentage of their wage disbursements to such nationals. However, enterprises contemplating the employment of a large number of workers are sometimes required, under a special clause in their charter of incorporation, to engage a certain percentage of Uruguayan nationals, the percentage varying from 60 to 90 per cent. In foreign-owned banks at least 50 per cent of the employees must be Uruguayans. There are no specific restrictions on the immigration or employment of foreign technical, managerial or administrative personnel, nor is there any limitation on foreign membership on the board of directors of an enterprise. Extensive social legislation exists in Uruguay but is applied without discrimination as to nationality of ownership of the enterprise.

EXCHANGE CONTROL

The Uruguayan Government has exercised control over foreign exchange transactions since 1931, primarily on transactions arising from the export and import of commodities, with respect to which a system of multiple rates has been established.

All exports are subject to licensing, and proceeds must be surrendered to the monetary authorities. Most of the imports require licences, which are granted according to the availability of the respective currency and according to their degree of "essentiality". Depending on the nature of the goods concerned, imports are effected at the official rates of 1.90 pesos or 2.45 pesos per dollar and exports at 1.519 pesos or 2.35 pesos per dollar. In some cases the latter rates are used in varying proportions in order to stimulate certain exports. Furthermore, from time to time part of the proceeds of certain exports can be sold in part at the free market rate. Payments for non-merchandise transactions are effected at the free market rate which during 1953 fluctuated between 2.78 pesos and 3.05 pesos per dollar (end of month quotations). Payments at the free market rate can be made without limitation and are not subject to official control.

The large measure of freedom available in Uruguay for capital transactions, as well as political stability in the country, have made it an important international

financial centre. Several measures have been taken in post-war years in order to maintain that position. Uruguayan banks are free to open accounts in any currency, including dollars. Gold can be freely imported, and the requirement of a licence for the export of gold has recently been abolished. No taxes are levied on the movement of gold, except on imports for industrial use.

TAXATION

For tax purposes no distinction is made in Uruguayan law between foreign and domestic nationals or enterprises. The Uruguayan tax system is notable for the absence of an income tax of the type found in most countries. There is, however, a tax on business profits, which is based on the return on invested capital. For purposes of this law taxable profits are defined to include all increases in the assets of the enterprise, after deduction of operating costs and depreciation. For firms with an invested capital exceeding 500,000 pesos, the tax rate varies from 20 per cent on profits ranging between 12 and 15 per cent of the capital, to 80 per cent on any profit in excess of 60 per cent of the capital. Firms whose capital is less than 500,000 pesos pay lower rates. Profits below 12 per cent of invested capital are free of tax in both categories. The tax applies only to profits on business operations conducted within Uruguay. There is also a moderate "business operations tax" applicable to commercial and industrial enterprises and to incomes from professional activities.

The executive authorities may grant various privileges to newly established manufacturing enterprises, including exemption from certain taxes for a specified period. Enterprises in the "free zones" of Colonia and Nueva Palmira are tax exempt for the first ten years of their existence. Indefinite tax exemption is enjoyed by independent governmental agencies or by so-called mixed enterprises organized jointly with government and private capital.

In order to strengthen Uruguay's position as an international financial centre, a holding company law was adopted in June 1948. Under this law holding companies which have invested abroad at least 90 per cent of their current assets are exempt from Uruguayan taxes. The only tax to which they are subject in Uruguay amounts to 3 pesos per thousand yearly on capital and reserves.

GOVERNMENT PARTICIPATION IN ECONOMIC ACTIVITIES

During the past four decades the Government of Uruguay has to an increasing extent participated directly in economic life through public ownership and operation of utilities and various industrial, commercial and financial enterprises. The Government has in some cases established monopolies and in others enterprises competing with private ones.

Government participation in business is exercised mainly through autonomous entities organized under special legislation with a view to promoting efficiency

and to assuring independence from political control. These are usually operated as independent corporations under the management of a board of directors (appointed by the President,⁶ with the consent of the Senate) and with separate budgets.

The State Electric Power and Telephone Company (UTE) was organized in 1912 and given monopoly rights to supply electric light and power throughout the country. By 1936 it had made electric power available to all cities and to larger towns. In some instances this enterprise absorbed privately owned plants already in operation. By 1947 all electric power service in the country was owned and operated by the company. In 1931 the company was also granted rights over the telephone service of Uruguay. By 1947 control over the nation's entire telephone system, including telephonic communication by cable, had been effected.

The telegraph services of Uruguay are entirely government-owned and are operated as a public monopoly by the Office of Communication under the supervision of the Ministry of Defence. This Office also operates a commercial radio service.

The State Railway Administration (Ferrocarriles y Tranvías del Estado) now owns and operates practically all railways in the country.

A National Port Administration (Administración Nacional de Puertos), created in 1915, has since 1932 exercised a monopoly over the services of the port of Montevideo. The Port Administration also manages the other Uruguayan ports. In 1930 it undertook the operation of a steamer service on the Uruguay River, and since 1941 it has operated ocean shipping services, using ships of foreign registry taken over by the Government during the Second World War, as well as some vessels purchased especially for its use.

The State Packing Plant (Frigorífico Nacional) was organized in 1925 and authorized to exercise a monopoly of slaughter and packing of meat for distribution in Montevideo. The purpose of its establishment was to raise livestock prices while improving the distribution of fresh meat in Montevideo. It accounts for about a fourth of the export market for meat. Both the Frigorífico Nacional and the privately owned packing houses are controlled by a governmental body (Nacional Meat Council), which fixes quotas for slaughter and export. Several contracts for meat have been concluded with the United Kingdom.

Another state enterprise, Oceanographic and Fisheries Service (Servicio Oceanográfico y de Pesca), organized in 1933, sells fresh fish to wholesalers and in the retail market in Montevideo. The service operates several trawlers and fishing boats, a warehouse, a processing plant and an ice factory. In addition to fresh fish, it sells dried and canned fish, and fish oil and meal.

⁶ Subsequent to a recent constitutional change, the Executive Power of the Government is entrusted to a national governmental council.

The National Co-operative of Milk Producers (Cooperativa Nacional de Productores de Leche) was created in 1935. All producers of milk may join this organization, which is owned jointly by governmental and private capital. The co-operative exercises a monopoly over milk processing and distribution in Montevideo, as well as milk exports.

The National Fuel, Alcohol and Cement Administration (Administración Nacional de Combustibles, Alcohol y Portland), created in 1931, exercises a monopoly over the import and sale of coal and over the refining of petroleum. All gasoline consumed in Uruguay is refined at the Administration's refinery near Montevideo and almost half of the retail sales of gasoline are made by it. By an agreement of 1938, private companies retailing their own brands of gasoline are permitted to import the crude oil necessary for their operation,

but the refining must be done by the Administration's plant. Sales quotas are fixed for each company.

The Administration also maintains a monopoly on alcohol distillation and is the exclusive supplier of cement for public works. Since 1929 it has been able to supply the domestic requirements of sulphuric acid, and its plants also produce copper sulphate, fertilizers and caustic soda.

The National Insurance Bank was founded in 1911 for the purpose of gradually establishing a monopoly over all types of insurance. By 1926 it had extended its activities so far that a formal monopoly could be decreed for insurance on risks other than those covered by life, fire and marine insurance. In the last mentioned fields the insurance bank competes with private insurance companies. However, under a law of 1926 no new private insurance companies of any type may be formed to underwrite risks in competition with the bank.

VENEZUELA

EXTERNAL PUBLIC DEBT

After seceding from "Greater Colombia", of which it had been a part, Venezuela became responsible in 1834 for part of the original debt of that State. Its share consisted of £1.9 million of principal and £0.9 million of interest arrears. No interest was paid on this debt until 1841, when a settlement was made with the bondholders. Subsequently, defaults occurred repeatedly and in 1880, after another settlement, Venezuela's foreign indebtedness amounted to £6.4 million. By the end of the century, the accumulation of interest arrears and new borrowing abroad resulted in a substantial increase. Under a settlement in 1905, £5.2 million of new bonds were issued for conversion of the outstanding debt. From then on, all payments due for the service were made regularly, and by the end of 1930 the entire debt was repaid.

Since 1941 six loans have been made by the Export-Import Bank of Washington to agencies of the Venezuelan Government and to private enterprises in Venezuela. As of the end of 1953 loans totalling \$14.2 million had been disbursed by the bank, of which \$5.4 million had been repaid.

FOREIGN BUSINESS INVESTMENTS

A survey made by the Central Bank of Venezuela showed that foreign business investments in that country amounted to an estimated 8,800 million bolívares (\$2,823 million)¹ at the end of 1950. The survey included all foreign-controlled enterprises in the petroleum industry, banking and insurance. Only partial survey figures, amounting to 290.8 million bolívares, were available in other fields, in which an estimated

¹ An exchange rate of 3.09 bolívares per dollar has been used for investments in the petroleum industry and a rate of 3.35 for investments in other fields.

872.2 million bolívares was invested by foreign residents. The industrial distribution of investments, in millions of bolívares, was as follows:

Petroleum industry.....	7,817.4
Banking	33.1
Insurance	76.8
TOTAL, ABOVE INDUSTRIES	7,927.3
Manufacturing	392.5*
Construction industry.....	174.5*
Trade	78.5*
Service industries.....	130.8*
Mining	87.2*
Agriculture	8.7*
TOTAL	8,799.5*

Source: Central Bank of Venezuela, *Memoria correspondiente al ejercicio anual 1952* (Caracas, 1953), page 128.

* Estimate, including figures from partial survey.

Figures for foreign business investments according to country of origin are available for the petroleum industry only, as shown in table 23.

United States investments

Over the period 1919 to 1952, United States direct investments in Venezuela increased from some \$20 million to nearly \$1,200 million. The first large expansion occurred in the 1920's, when large-scale petroleum production began. After a halt during the early 1930's, investments were resumed on a more limited scale before the Second World War, and in a very substantial amount during the post-war years. After 1945 the petroleum industry initiated a long-range investment programme to meet increasing world demand and to expand its refining capacity. In recent years United States capital has also been absorbed in development of Venezuela's iron ore resources and in manufacturing. The distribution of United States direct investments (in

Table 23. Foreign investments in the petroleum industry in Venezuela, by country of origin, end of 1950

Country of origin	Direct investments	Portfolio investments	Total	Total	Per cent of total
	(millions of bolívares)			(millions of dollars)	
United States	4,364.9	48.4	4,413.3	1,428.3	55.5
Netherlands	2,285.0	—	2,285.0	739.5	29.2
United Kingdom	1,061.6	4.5	1,066.1	345.0	13.6
Spain	38.5	—	38.5	12.5	0.5
Canada	—	13.9	13.9	4.5	0.2
Other countries	—	0.5	0.5	0.2	—
TOTAL	7,750.0	67.4	7,817.4	2,649.5	100.0

Source: Central Bank of Venezuela, *op. cit.*, page 126.

millions of dollars) in Venezuela in selected years was as follows:

	1929	1943	1950
Petroleum	226	341	857
Manufacturing	"	1	24
Public utilities, transportation.....	"	8	10
Finance	"	16	13
Miscellaneous	6	7	89
TOTAL	232	373	993

* Included in "Miscellaneous".

The Central Bank of Venezuela estimated the value of United States investments in Venezuela in 1950 as amounting to 5,003.4 million bolívares (equivalent to \$1,493.5 million at the rate of 3.35 bolívares per dollar). The difference between this figure and the estimate given above, based on United States official data, was attributed by the bank to the fact that its estimate had taken into account the gross value of investments and, mainly, that it included the depreciation reserves accumulated by the petroleum companies.

United Kingdom investments

In 1880 the nominal value of British investments was £1.1 million, of which £600,000 was in railways and £500,000 in mining.² In 1913 the nominal value of securities quoted on the London Stock Exchange (other than sterling bonds) amounted to £3.7 million (\$18.5 million),³ representing chiefly investments in railways. Between 1936 and 1950, the British-owned railways were sold to the Venezuelan Government. In the 1920's investment in petroleum production became important and today accounts for the larger part of British capital. The nominal value of British investments in Venezuela in 1949 is stated by the Bank of England to have been £16.2 million, a figure which, however, appears to exclude most British oil investments.⁴ The Central Bank of Venezuela has estimated the book value of United Kingdom investments in the petroleum industry alone at £109.8 million at the end of 1950.

Other foreign investments

Netherlands investments, estimated at \$40 million in 1940, and thought to have increased several times since then, are primarily in petroleum production. The Royal Dutch-Shell group, which represents both British and Netherlands capital, is the second largest producer in the country. Some Canadian capital is invested in the petroleum industry; further, three Canadian insurance companies and the Royal Bank of Canada have branches in Venezuela.

² J. F. Rippy, "Early British Investments in the Latin American Republics", *Inter-American Economic Affairs* (Washington, D.C.), summer issue, 1952.

³ *South American Journal* (London), 18 March 1944.

⁴ The Shell Caribbean Petroleum Company is controlled by the Batavian Petroleum Company, which is registered in the Netherlands and in which Netherlands, United Kingdom, and United States investors have substantial interests. This form of British participation is not included in the Bank of England figure for United Kingdom investments in Venezuela.

INDUSTRIAL DISTRIBUTION OF FOREIGN INVESTMENTS

The petroleum industry

Petroleum extraction and refining are largely concentrated in the hands of three groups of enterprises, two American and one Anglo-Dutch. The largest operating company is the Creole Petroleum Corporation, an affiliate of Standard Oil Company of New Jersey. Another United States enterprise is the Mene Grande Oil Company, which is a subsidiary of the Gulf Oil Corporation, which accounts for about 14 per cent of output.

The Anglo-Dutch group, which accounts for 30 per cent of the output, is represented by the Royal Dutch-Shell Company. The two major operating companies of this enterprise are the Venezuelan Oil Concessions, Ltd., and the Shell Caribbean Petroleum Company, Ltd.

Besides the concerns already listed, several United States companies, including Socony Vacuum Oil, Sinclair Oil, and the Texas Petroleum Company, also have operating units in Venezuela, as have the "British Controlled Oilfields"—a small independent company incorporated in Canada—and the Caracas Petroleum Company, which is owned by Ultramar Ltd., a British corporation, with British, United States, French, Swiss and some Venezuelan participation.

Oil refining in Venezuela was on a small scale until the end of the Second World War. The Petroleum Law of 1943 provided that at least 10 per cent of all petroleum produced on concessions granted after the law became effective must be refined in the country. In 1949 the first large refineries began operations. Refining capacity, which was 124,000 barrels daily at the beginning of 1948, rose to 318,000 barrels by the end of 1951 and was expected to reach nearly 500,000 barrels in 1954. Of the two largest refineries, one was erected at an estimated cost of \$150 million by the Royal Dutch-Shell group, and the other by the Creole Petroleum Corporation. Two more refineries were completed in 1950 and 1951. The construction of these four refineries represented a capital outlay of over \$400 million.

Investments by the oil industry in Venezuela are not confined to oil production and refining. A variety of general services are furnished by the oil companies: electric power generation, pipelines, railways and roads, port facilities, low-cost housing and other services requiring large investments. At the beginning of 1950 investment in housing for 21,000 workers' families and ancillary facilities totalled \$172 million; in hospitals and dispensaries \$9 million and in educational and recreational facilities \$15 million. Furthermore, about 2,000 kilometres of roads built by the companies had cost some \$22 million.⁵

The petroleum companies have reported that their net investments in the period 1946 to 1949 increased by \$957 million. The following data derived from a private

⁵ Ministry of Mines and Hydrocarbons, *National Petroleum Convention* (Caracas, 1951), pages 171 to 177.

study⁶ give an indication of the financing and earnings of the oil industry in Venezuela during the years 1943 to 1948. The "capital employed" in the industry rose during this period from \$477 million in 1943 to \$1,359 million in 1948. The net income during these six years (after taxes) totalled \$971 million, or on the average over 19 per cent of the capital employed. Close to half (\$444 million) of the net income during the period was distributed as dividends, which on the average represented 10 per cent annually of the capital employed. Reinvestment thus amounted to \$527 million (54 per cent of the net income) and accounted for 59 per cent of the increase in the capital employed. Earnings and dividends have varied appreciably among the companies concerned—some of them had operating losses even during the generally prosperous years 1947 and 1948. The proportion of reinvestment to net earnings also varied—while in the case of the Creole Petroleum Corporation it amounted to about half, it was as high as 75 per cent in 1947 and 88 per cent in 1948 for all the other companies taken together.⁷

As a result of the development of petroleum production, Venezuela now accounts for 16 per cent of the world's production of crude petroleum (excluding output of the USSR) and is the foremost exporter of that commodity. This is reflected in the value of Venezuelan exports, which rose from \$41 million in 1924 to \$182 million in 1937 and \$1,552 million in 1952. The oil industry contributes to the Venezuelan economy chiefly through payment by the oil companies of wages, royalties and taxes and their other expenditures in the country. During the period 1946 to 1951 such payments amounted to between 47 and 76 per cent of the value of the oil exported by the companies. The remainder of the export proceeds was accounted for by the companies' expenditure payable abroad, principally for imports of equipment and other goods, for freight and insurance charges on exports and imports, and return on their investments in Venezuela. In 1951 the local currency expenditures of the oil companies represented 51 per cent of the value of their exports, and equalled 28 per cent of Venezuela's national income.⁸

The high level of government revenue, amounting to nearly 2,300 million bolívares⁹ in 1951, enables the Government to spend considerable amounts for economic development, either directly or by means of grants to autonomous agencies. During the three years 1949, 1950 and 1951, government expenditure on capital account was estimated to have averaged 43 per cent of gross domestic investment (excluding investment by the oil companies).

⁶ Joseph E. Pogue, *Oil in Venezuela* (Chase National Bank, New York), June 1949.

⁷ According to the Central Bank of Venezuela, reinvestment of net profits in the petroleum industry was 45.2 per cent in 1950, 26.6 per cent in 1951 and 41.9 per cent in 1952.

⁸ Central Bank of Venezuela, *Memoria correspondiente al ejercicio anual 1951* (Caracas, 1952).

⁹ The par value of the bolivar in 1954 was 0.2985 United States dollars.

Mining

Gold mining was developed by British and French capital in the latter part of the nineteenth century. The gold output reached 8.2 metric tons in 1885, but is now of small importance. In 1946 the major producer, owned by British capital, was sold to a Canadian company, which discontinued operations in 1950; its assets were expropriated by the Government against compensation.

Investment in iron ore mining is being undertaken by two large United States concerns: the Bethlehem Steel Company and the United States Steel Corporation. The former in 1933 obtained a concession to work deposits at El Pao and organized a subsidiary for that purpose. An investment of \$65 million, mainly in transportation facilities, was made prior to the start of operations in 1950. In 1951 the first shipments of ore were made and, when full production is reached, exports will amount to 3 million metric tons per year. The United States Steel Corporation obtained a concession in 1948 to exploit, through a subsidiary, deposits at Cerro Bolívar estimated at over 1,000 million tons. In addition to railway and highway construction, the project included dredging a section of the Orinoco River. The construction programme, started in 1951, involves an estimated outlay of \$170 million. The first shipment of ore was made in January 1954 and exports from this concession may reach 5 million tons yearly by 1956.

Railways

Venezuela's first railway line was opened in 1877 by the British-owned Bolívar Railway Company. Most of the country's railways were built chiefly with British capital. A German-owned company, established in 1894, was responsible for the construction and operation of one major line, the Gran Ferrocarril de Venezuela. The original investment in common carrier railways, exclusive of one line put in operation in 1942, has equalled \$60 million, of which \$52 million represented foreign capital.

In 1936 the bankrupt British-owned Ferrocarril Central de Venezuela was expropriated by the Venezuelan Government, against compensation. The remaining three British-owned railways were sold to the Venezuelan Government in 1950. The German-owned line was expropriated in 1943, and compensation of 7 million bolívares is being paid. At the present time only one railway company, controlled by Venezuelan nationals, remains in private hands, in addition to the industrial lines of the newly established iron ore mining companies.

Electric power and telephones

Of an estimated total of 300,000 kilowatts of installed generating capacity in Venezuela in 1951, 13 per cent was controlled by public authorities, about 40 per cent by the oil companies, and the rest by public service companies. Among these the most important is owned

by Venezuelan nationals and the second, the Luz Eléctrica de Venezuela, is a subsidiary of the American and Foreign Power Company, though some of its shares are held by Venezuelan nationals.

The telephone systems of Caracas and some of the larger towns in Venezuela are operated by *Compañía Anónima Nacional Teléfonos de Venezuela* which was controlled by Telephone Properties, Ltd., of London. The company accounted in 1950 for 97 per cent of all telephones in operation in Venezuela. In 1953 the assets of this company were acquired by the Venezuelan Government.

Manufacturing

Manufacturing activity in Venezuela has expanded, in particular since the early 1940's when scarcities and high prices stimulated production. Employment in manufacturing and building almost doubled between 1941 and 1948. The volume of manufacturing output rose by 80 per cent during the period 1948 to 1952. After the Second World War, as foreign competition became more acute, a series of locally produced manufactures received increased protection in the form of higher import duties and quantitative restrictions. In recent years, manufacturing has attracted substantial amounts of foreign capital. United States investments in this field amounted to only \$1.3 million in 1943; by the end of 1950 they had grown to \$24 million. Foreign capital from other sources is quantitatively of less importance in manufacturing.¹⁰

Three United States companies producing toilet preparations have established factories in Venezuela. Seven foreign-controlled plants produce pharmaceuticals, and one factory, insecticides. One United States enterprise, in co-operation with Venezuelan capital, is erecting a plant for the manufacture of detergents. A company for the manufacture of matches under government licence was established by Cuban and Brazilian capital, with Venezuelan participation, in 1949, and began production in 1951.

The most important foreign-controlled food processing plant, financed by Swiss and United States capital, produces dried and evaporated milk. Several United States soft-drink manufacturers maintain bottling plants in the country. One of the largest breweries was purchased in 1951 by a newly established company controlled by Netherlands interests. Of two major cigarette factories, one is controlled by a British-American enterprise; the other, as well as several small factories, is domestically owned.

Subsidiaries of two United States companies are engaged in the manufacture of rayon products. Cotton and wool manufacturing is chiefly in domestic hands. Two plants assemble light-weight commercial vehicles,

and passenger cars of United States make; one is owned by a United States company, the other by the Venezuelan distributors. A United States-owned automobile tire and inner-tube plant was established during the Second World War; its production increased greatly after import quotas were set for tires and tubes.

ENTRY AND STATUS OF FOREIGN CAPITAL

Foreigners may engage, on the same basis as Venezuelan nationals, in practically all significant types of economic activity, including industries requiring governmental concessions, such as mining and petroleum extraction. For security reasons, the President of the Republic may prohibit the transfer to foreign companies or individuals of lands or buildings located within twenty-five kilometres of the frontier.¹¹ Banking activities may be engaged in by foreign enterprises only if they establish legal domicile in the country. Domestic air transportation is reserved for aviation companies organized under Venezuelan law, but the Government may permit airlines organized abroad to engage in such service temporarily for reasons of "general interest or special advantages to the country".¹² Foreign companies are free to engage in the insurance business but must make higher initial deposits of funds or securities than domestic companies as guarantee of financial responsibility.

Investments in the petroleum and mining industries are regulated by concession contracts with the Government (see below). The Venezuelan Constitution provides that disputes and controversies which may arise with respect to such contracts shall be decided by Venezuelan courts.¹³ Under the Constitution the property of both domestic and foreign nationals is subject to expropriation only for reasons of "public or social utility", and prior indemnification is required.

At least 75 per cent of all manual and clerical workers of an enterprise must be Venezuelan nationals, but this proportion may be reduced temporarily if it is necessary to use foreign personnel with specialized technical knowledge.¹⁴ Similarly, foremen and other supervisory personnel must be Venezuelans, but exception is made for technical specialists and higher supervisory personnel, such as office chiefs, department heads and managers. Wage differentials on the basis of nationality are not permitted. In practice foreign-owned enterprises in Venezuela employ substantially more domestic personnel than the legal minimum of 75 per cent.

MINING AND PETROLEUM CONCESSIONS

The basic laws governing mineral production are the Mining Law of 28 December 1944 and the Hydro-

¹¹ Article 17 of the Law of Expropriation of 4 November 1947. The power may be enforced by expropriation of such holdings.

¹² Article 6 of the Civil Aviation Law of 13 June 1944.

¹³ Article 50 of the Constitution of 1936, as implemented by regulations of 5 May 1945.

¹⁴ Labour Law of 16 July 1936, as amended by legislation of 4 May 1945 and 3 November 1947.

¹⁰ Assuming that United States-owned manufacturing enterprises in Venezuela are at least as large as the investments in manufacturing owned by nationals of other foreign countries, there is a considerable discrepancy between the figure given by the United States census of 1950 and the estimate of the Central Bank of Venezuela.

carbons Law of 13 March 1943, the latter supplemented by regulations of 27 August 1943. The Constitution establishes the principle that the states of Venezuela, within their respective boundaries, are the sole owners of mineral deposits. However, the administrative measures relating to such deposits are by law the responsibility of the Federal Government.

Mining

Any competent person may undertake exploration for mineral deposits on public lands not already leased without other formality than a written notification to the Ministry of Mines and to the local authorities. Exclusive right to exploration over an area of not more than 2,000 hectares may be obtained, on application, for a period of up to two years.

The right to exploit mines may be acquired only through a concession granted by the Federal Executive. Concessions may be granted for fifty years in the case of veins or strata, and twenty-five for alluvial deposits. These may be renewed once for a period equal to that of the original concession after payment of a renewal tax equal to five times the annual average of taxes paid. Exploitation must begin within three to five years (according to the type of deposit) of the grant of the concession.

Under the Mining Law, certain mining equipment and materials not produced in Venezuela may be imported duty-free.

The Federal Executive is authorized to exclude from the normal procedure of granting concessions, any or all mineral substances found within the country, or in specified zones termed reserve zones. In such designated areas the Government may, at its discretion, grant concessions for exploration and exploitation under terms considered to be in the national interest. A large part of the area containing iron ore deposits has been declared a reserve zone.

Petroleum

Under the Hydrocarbons Law of 17 March 1943 petroleum deposits may be exploited either directly by the Government or under concessions granted by the Government. No such concessions may be acquired by a foreign government. Concessions for exploration are granted for a period of three years and for exploitation for forty years, subject to renewal for an additional period of forty years. Upon the termination of a concession, the land returns to governmental ownership together with the permanent installations on it.

The law also authorizes the Government to take appropriate measures to develop petroleum refining. Pursuant to this provision, concessions granted after adoption of the law in 1943 require that one-tenth of petroleum production be refined within the country and that none of the remaining nine-tenths be refined in the Caribbean area outside of Venezuela. Although this requirement has not been applied to concessions under previous laws, or to such concessions renegotiated under

the 1943 law, it has prompted the construction of refineries. In 1948, about 9 per cent of the output of crude oil was refined domestically; at the end of 1951, refining capacity equalled 19 per cent of the output.

No new petroleum concessions have been granted since 1945 even though a large number of applications have been submitted.

TAXATION

Venezuelan taxes are levied without distinction as to nationality of the taxpayers. However, since higher rates of taxation apply in the mining and petroleum industries, which are almost exclusively foreign-owned, a large part of foreign enterprise is *de facto* more heavily taxed than domestic enterprise.

The net profits of industrial, commercial and mining (including petroleum) enterprises are subject to a basic tax of 2.5 per cent. A graduated surtax is levied on all taxable income in excess of 9,000 bolívares per annum. Rates range from 1.5 per cent on incomes between 9,000 and 10,000 bolívares to 26 per cent on incomes above 28 million bolívares. Enterprises reinvesting part of their earnings may enjoy certain reductions in the rates.

The petroleum and mining industries are subject to additional taxes. Thus, there is a special levy (royalty) of 16 2/3 per cent of the value of the petroleum produced—a rate which, in the case of concessions issued after the Petroleum Law of 1943 was passed, may be considerably increased¹⁵—and of one to 3 per cent of the value of minerals produced. In addition, there is levied an “initial exploitation tax” in the petroleum industry, and a “prospecting tax” as well as a “surface tax” in both industries.

Furthermore, an additional income tax has been applied in both the petroleum industry and in mining since 1948, computed so as to raise the total amount of taxes paid by the enterprises engaged in either industry to about 50 per cent of their net income before tax. It appears that, under the terms of specific concessions in the mining industry, certain exemptions are permitted in cases when the initial investment was large.

CONTROL OF FOREIGN TRANSACTIONS

Venezuela applies exchange control mainly for fiscal reasons and not as an instrument to balance international payments. There are no restrictions upon exchange payments: capital and earnings may be withdrawn freely and payments for goods and services acquired abroad may be made without limitation.

There is a multiple exchange rate system which in effect constitutes a tax on purchases of bolívares by the oil companies and subsidy to the producers (almost all Venezuelans) of coffee and cocoa.

Petroleum companies, in order to meet their local currency needs are required to sell foreign exchange to

¹⁵ Some of the enterprises pay as much as 33 1/3 per cent.

the Central Bank at the "basic petroleum rate" of 3.09 bolívares to the United States dollar. Most local currency purchases by the petroleum companies are made at this rate. If the amount of foreign exchange offered by the petroleum companies exceeds the amounts sold by the Central Bank to domestic buyers in any one year, the "marginal petroleum rate" of 3.05 bolívares is applied. Since the Central Bank sells dollars at the rate of 3.35 bolívares, it collects and turns over to the Government an exchange profit¹⁶ of 0.26 bolívares and 0.30 bolívares, respectively, per dollar acquired, which equals a levy of 7.7 and 8.9 per cent.

Exports of a few commodities are subject to licensing, as are imports of a small number of products, mostly of the type produced in the country.

The establishment of manufacturing industries to supply the domestic market has been encouraged by high import duties on manufactures, import quotas on selected products, and reductions in, or exemptions from, duties for the equipment and materials needed by local industries.

New manufacturing enterprises, and enterprises being expanded, are eligible for reductions in, or exemptions from, import duties on machinery, tools, equipment, raw materials and other articles necessary for their operation or maintenance, except to the extent that these products are available locally.¹⁷ Until 1943 the petroleum industry was accorded duty-free entry of all equipment and materials necessary for operation. This general exemption was abolished by the Petroleum Law of 1943, but exemptions may be granted in particular cases. Exemption from import duties on machinery and equipment is provided to mining enterprises and railways by general legislation.

GOVERNMENT PARTICIPATION IN INDUSTRY

The Venezuelan Government has participated directly in industry on a limited scale. The Agricultural and Livestock Bank, the principal function of which is to supply credit, operates slaughter-houses, rice, coffee and flour mills and grain storage facilities. It also held shares in the Greater Colombian Merchant Fleet, a shipping company owned jointly with the Governments of Colombia and Ecuador, until 1953 when the Venezuelan Government withdrew from the company. Another government-owned shipping company, primarily engaged in coastwise and inland river shipping, has recently expanded into overseas operation. A government-owned

airline engages in both domestic and international operations. The major railways are owned or operated by the Government through the State Railways Institute.

The importation and sale of matches and cigarette paper are government monopolies. The Government also participates in a limited number of other activities and industries through various agencies and corporations. For example, certain salt mines are operated by government enterprises.

The Venezuelan Development Corporation (Corporación Venezolana de Fomento), a governmental agency, was established in 1946. Modelled after similar agencies established in Chile, Colombia and Mexico, the corporation is intended to stimulate investment in the production of basic commodities and in enterprises providing various public services that are of such a size or nature that they do not attract private enterprise. It may operate its own enterprises or participate in enterprises jointly with private capital. It may also guarantee in whole or in part interest on debentures issued by private enterprises or a minimum dividend on preferred shares. The resources of the corporation are provided from an initial fund of 90 million bolívares (\$27 million) augmented by annual appropriations, which may not exceed 10 per cent of the Federal budget. Thus far, the bulk of the corporation's resources has been devoted to agricultural production for the domestic market, but smaller investments have been made in manufacturing enterprises and in the generation of electric energy. Outstanding loans and investments of the corporation totalled about 350 million bolívares (\$105 million) in mid-1950. In recent years "regional development banks" (Bancos de Fomento Regional) have been established by the Development Corporation, which subscribed 52 per cent of their capital (the remaining 48 per cent was subscribed by private investors). By the end of 1951 there were four such banks, with a capital of 5 million bolívares each.

Part of the Development Corporation's operations have been carried out in co-operation with the Venezuelan Basic Economy Corporation (VBEC), a subsidiary of the International Basic Economy Corporation, a private enterprise organized in the United States. In 1946 and 1947 the Development Corporation, the main petroleum companies operating in Venezuela and certain private Venezuelan investors bought shares in a number of enterprises organized by VBEC, engaged mainly in the production and distribution of foodstuffs. Some of them, particularly farms and fishing enterprises, were not financially successful. The Development Corporation and the petroleum companies recently sold their stock to Venezuelan Basic Economy Corporation.

¹⁶ This includes the spread of 0.03 bolívares per dollar between the official buying and selling rates; the official buying rate is thus 3.32 bolívares (applicable to the proceeds from exports other than petroleum, coffee and cocoa).

¹⁷ Organic Law of National Finance, 15 July 1938, and resolution No. 95, 6 June 1939.

STATISTICAL APPENDIX

STATISTICAL APPENDIX

Table I. United Kingdom investments in Latin America, 1913^a
(Nominal value)

<i>Country</i>	<i>Millions of pounds sterling</i>	<i>Equivalent in millions of dollars^b</i>
Argentina	319.6	1,555
Brazil	148.0	720
Mexico	99.0	482
Chile	61.0	297
Uruguay	36.1	176
Peru	34.2	166
Cuba	33.2	162
Rest of Latin America.....	25.5	124
Total, Latin America	756.6	3,682
WORLD TOTAL	3,763.3	18,314

Source: H. Feis, *Europe, The World's Banker, 1870-1914* (New Haven, Conn., 1930), page 23.

The estimate by Feis is a slight upward revision of an estimate by Sir George Paish appearing in *The Statist, Supplement*, vol. LXXIX, 14 February 1914 (London).

Note: Figures refer to publicly issued securities currently traded on London Stock Exchange plus estimate of funds privately placed abroad, such as deposits in foreign and colonial banks and investments in unincorporated enterprises not represented by publicly traded securities. Paish estimated that private placements were about one-fifth of the total. The figures do not reflect capital gains, except with respect to stock dividends issued. To the extent that the issue price of foreign bonds was substantially below their nominal value—which was common in many nineteenth century issues—the actual amount of capital supplied is overstated. Foreign holdings of foreign sterling securities (estimated by Paish at 10 per cent of the total) are excluded. The estimates are not adjusted, however, to take account of foreign holdings in Britain itself.

^a End of year.

^b Conversion rate: £1 = \$4.87.

Table II. French investments in Latin America, 1902 and 1913^a
(Nominal value, in millions of French francs)^b

<i>Country</i>	<i>Total</i>		<i>Government securities</i>		<i>Railways</i>		<i>Other</i>	
	1902	1913	1902	1913	1902	1913	1902	1913
Argentina	923	2,000	310	640	100	601	513	759
Brazil	696	3,500	490	880	40	1,391	166	1,229
Mexico	300	2,000	...	750	—	195	300	1,055
Rest of Latin America..	1,334	875	161	321	18	16	1,155	538
TOTAL	3,253	8,375	961	2,591	158	2,203	2,134	3,581

Source: J. F. Rippy, "French Investments in Latin America", *Inter-American Economic Affairs*, vol. II, No. 2, autumn 1948 (Washington, D.C.).

^a End of year. The estimates refer to securities listed on the Paris Stock Exchange. For general comment on such estimates see footnote to appendix table I. It does not appear that an adjustment was made to take account of holdings by other than French residents.

^b The French franc was equal to \$0.193 in both years.

**Table III. United States investments in Latin America, by area,
1897, 1908 and 1914**

(Millions of dollars)

Country	Direct investments ^a			Total investments ^b		
	1897	1908	1914	1897	1908	1914
Cuba and other West Indies countries.....	49	196	281	49	226	336
Mexico	200	416	587	200	672	854
Other Central American countries.....	21	38	90	21	41	93
South America.....	38	104	323	38	130	366
Total, Latin America	308	754	1,281	308	1,069	1,649
WORLD TOTAL	635	1,639	2,652	685	2,525	3,514

Source: Cleona Lewis, *America's Stake in International Investments* (Brookings Institution, Washington, D.C., 1938), page 606.

^a Defined as investment in which United States nationals and enterprises held a "controlling" interest, usually representing 25 per cent or more of the equity capital. Direct investments are shown at book value, others at nominal value.

^b Including portfolio holdings of governmental obligations and other securities. Mexican railway securities were over half the portfolio investments.

Table V. United States private long-term investments abroad, selected years

(Millions of dollars)

End of year	Latin America			World total
	Direct ^a	Portfolio ^b	Total	
1914.....	1,281	368	1,649	3,514
1919.....	1,988	418	2,406	6,456
1924.....	2,819	854	3,673	9,954
1930.....	3,634	1,610	5,244	15,170
1937.....	2,918	1,183	4,101	11,074
1940.....	2,771	1,003	3,874	10,591
1950.....	4,735	610	5,285	19,435 ^c

Source: Figures for 1914, 1919, 1924: Cleona Lewis, *America's Stake in International Investments*, page 606; figures for 1930, 1937, 1940, 1950: United States Department of Commerce, various publications.

^a Book values of controlled enterprises.

^b Nominal values; consisting mainly of foreign bonds publicly offered in the United States, but also including shares of foreign corporations owned in the United States by non-controlling interests. Nominal values of foreign bonds considerably exceeded market values of the securities in 1951 (see appendix table XI). Dollar securities held outside the United States are excluded, except in the figures for Latin America in 1930. The figures for 1914, 1919 and 1924 include all Mexican obligations (\$266 million, \$265 million and \$270 million, respectively), though a large portion of such obligations was in default. Defaulted Mexican obligations are excluded in later years, but other defaulted Latin American dollar bonds are included in data for 1937, 1940 and 1950.

^c No allowance is made in this figure for the value of direct investments damaged during the war, written off, or expropriated without compensation.

Table IV. United States direct investments in Latin America, by industry, 1897, 1908 and 1914^a

(Millions of dollars)

Industry	1897	1908	1914
Agriculture	58	162	243
Mining	79	303	549
Petroleum production.....	5	57	110
Railways and public utilities.....	141	162	274
Manufacturing	3	30	37
Distribution	20	37	57
Miscellaneous	2	3	11
TOTAL	308	754	1,281

Source: Cleona Lewis, *America's Stake in International Investments*, appendix D.

^a For definitions, see footnote a, appendix table III.

Table VI. Latin American securities publicly offered in the United States, 1920 to 1929

(Nominal value, in millions of dollars)

Country	Total	Government or guaranteed ^a	Corporate
Argentina	663.2	597.0	66.2
Brazil	379.7	369.7	10.0
Chile	425.2	304.2	121.0
Colombia	216.9	172.1	44.8
Cuba	461.4	95.7	365.7
Other Latin American countries	456.6	279.0	177.6
Total nominal capital	2,603.0	1,817.7	785.3
Refunding	427.3	314.1	113.2
TOTAL NET NOMINAL CAPITAL	2,175.7	1,503.6	672.1 ^b

Source: United States Department of Commerce, *Handbook on American Underwriting of Foreign Securities*, (Washington, D.C., 1930).

^a Including issues of private corporations when official guarantees were stated in the prospectus of the offering or when a government held "financial ownership or control of sufficient importance . . . to warrant the inference of an implicit, as contrasted with a contractual, guarantee".

^b Securities of United States corporations were \$606.9 million and of foreign corporations \$65.2 million.

Table VIII. Industrial distribution of United States direct investments in Latin America, 1914, 1919, 1924 and 1929^a

(Millions of dollars)

Industry	1914	1919	1924	1929 ^b
Agriculture	243	506	839	885
Precious metals	173	145	151	164
Industrial minerals	376	517	563	638
Petroleum production	110	291	505	706
Petroleum distribution	23	40	60	78
Railways	176	211	261	230
Public utilities	98	101	162	576
Manufacturing	37	84	127	231
Trade	34	71	95	119
Miscellaneous	11	22	56	78
TOTAL	1,281	1,988	2,819	3,705

Source: Cleona Lewis, *America's Stake in International Investments*.

^a For basis of valuation, see appendix table V.

^b The figures for 1929 exceed those reported in the first official United States census of that year by \$186 million, owing largely to the use of nominal rather than book value in the case of companies affiliated with a large petroleum corporation.

Table VII. Status of foreign dollar bonds, 1935^a

(Nominal value, in millions of dollars)

Country	Principal outstanding	Issues in default (per cent)	Issues held in United States (per cent)
Argentina	351.2	27.3	56
Bolivia	59.4	100.0	83
Brazil	349.2	100.0	82
Chile	308.0	100.0	85
Colombia	156.1	100.0	75
Costa Rica.....	8.8	100.0	85
Cuba	123.8	83.3	90
Dominican Republic....	16.3	100.0	90
El Salvador.....	12.6	100.0	55
Guatemala	2.2	100.0	90
Haiti	9.8	—	90
Mexico	295.6	100.0	30
Panama	18.6	77.6	60
Peru	91.3	100.0	70
Uruguay	63.4	100.0	66
Total, Latin America	1,866.3	84.5	68
Canada and Newfoundland	2,618.5	3.1	50
Europe	2,376.1	51.5	55
Asia and the Far East..	629.1	0.9	41
WORLD TOTAL	7,490.0	38.5	55

Source: Madden, Nadler and Sauvain, *America's Experience as a Creditor Nation* (New York, 1937).

^a End of year. Including only publicly offered dollar bonds. Most dollar bonds issued prior to 1920 and after 1930 are excluded. Bonds of United States corporations operating abroad and foreign corporations are included. Default is defined as failure to pay either interest, sinking fund or principal in full in dollars.

Table IX. United States direct investments in Latin America, 1914, 1919, 1924 and 1929^a

(Millions of dollars)

Country	1914	1919	1924	1929 ^b
Cuba and other West Indies countries	281	567	993	1,025
Mexico	587	644	735	709
Central America	90	112	144	251
South America	323	665	947	1,720
Total, Latin America	1,281	1,988	2,819	3,705
WORLD TOTAL	2,652	3,880	5,389	7,553

Source: Cleona Lewis, *America's Stake in International Investments*.

^a For basis of valuation, see appendix table V.

^b See appendix table VIII, footnote ^b.

Table X. United Kingdom investments in Latin America, 1913, 1930, 1938 and 1951

(Nominal value, in millions of pounds sterling)

Country	All securities				Government and municipal loans		
	1913	1930	1938	1951	1930	1938	1951
Argentina	320	360	368	38	33	40	3
Brazil	148	151	164	46	73	83	15
Chile	61	49	63	37	21	25	17
Uruguay	36	84	23	5	7	13 ^b	8 ^c
Peru	34		25	22			
Rest of South America.....	26 ^a		37	29			
Cuba	33	50	28	24	...	12 ^d	1 ^d
Mexico	99		66	38	...		
Central America .....	...		8	5	...		
TOTAL	757	694	754	245	...	173	44

Source: Figures for 1913: Sir George Paish, *The Statist, Supplement*, 14 February 1914; 1930: Sir Robert Kindersley, "British Overseas Investments in 1931", *Economic Journal*, June 1933; 1938 and 1951: Bank of England, *United Kingdom Overseas Investments, 1938 to 1948* (London, 1950), and *United Kingdom Overseas Investments, 1950 and 1951* (London, 1953).

Note: Except for 1913 data, all figures relate to the nominal capital value at the end of the year, of securities owned by residents of the United Kingdom in the form of securities quoted on, unofficially dealt in or "otherwise known" to the London Stock Exchange. The bonds in the 1913 data are given at their issue price, which was often much below nominal value. Included are dollar bonds and other non-sterling securities in Latin America owned by United Kingdom residents. Securities owned by non-residents of the United Kingdom are excluded. Securities denominated in other currencies are converted into sterling at the current exchange rate. This appears to account for an increase recorded in investments in Mexico between 1948 and 1951 and, in general, affects the comparability of the figures for 1951 and the earlier years shown in the table.

The figures for 1913 and 1930 differ from those for 1938 and 1951 in several respects. Those for 1913 and 1930 include several shipping companies, whereas those for 1938 and 1951 exclude all shipping and insurance companies. The 1930 data classify companies according to country of registration, while those for 1951 relate to country of operation (to the debtor country in the case of dollar securities), which may be different. The data for 1938 and 1951 include securities denominated in United States and Canadian dollars not quoted in the London Stock Exchange official list and excluded from the 1913 and 1930 data.

The estimates cover companies registered in the United Kingdom, operating entirely, or almost entirely, abroad and companies registered abroad. Excluded are investments abroad by United Kingdom companies that operate both at home and abroad whether through branches or subsidiaries and private placements. In consequence, an important part of British business investments in several Latin American countries, particularly Argentina, Brazil and Venezuela, is excluded. The scope of the estimate is

accordingly not comparable with that for United States figures on foreign direct investments shown in table XV, quite apart from the fact that the latter are expressed in book values rather than nominal values. Sir George Paish, while not referring specifically to Latin America, suggested an addition of about 10 per cent for privately placed investments. According to Sir Robert Kindersley, a substantial block of investments not quoted on the London Stock Exchange was held in Argentina and Brazil in 1930; he suggested, therefore, an upward adjustment of 25 per cent of the estimate of quoted securities, or about £130 million in 1930. It seems likely also that the figures for the "rest of South America" in 1938 and 1951 are too low, owing to the exclusion of part of United Kingdom investments in petroleum production in Venezuela.

The limited coverage of the Bank of England data is indicated by the fact that official United Kingdom balance of payments statistics record dividends and interest received in 1951 from the non-dollar area of Latin America (Argentina, Brazil, Chile, Paraguay, Peru and Uruguay) as £9 million (gross), compared with £6.7 million of interest and dividends paid on securities listed for the same area in the table. Part of the difference, however, is due not to a broader coverage but to the inclusion in the balance of payments of earnings remitted in addition to amounts for interest and dividends: these include management expenses at home of United Kingdom companies, allocations to reserves and taxes on profits.

For certain countries which are not listed separately in the table, the nominal value of investments at the end of 1946, as estimated by *The South American Journal* (London, 1947), was as follows (in millions of pounds): Venezuela, 17.9; Guatemala, 9.0; Colombia, 7.1; Costa Rica, 4.5; Bolivia, 4.4; Ecuador, 3.8; Paraguay, 2.8; Honduras, 0.9; El Salvador, 1.5; and Nicaragua, 0.3.

^a Including an unspecified amount in Central America.

^b Uruguay £6 million; rest of South America £7 million.

^c Uruguay £4 million; rest of South America £4 million.

^d Excluding defaulted Mexican bonds.

Table XI. United States holdings of Latin American dollar bonds, 1930, 1945 and 1951^a

(Millions of dollars)

Country	Nominal value			Market value 1951
	1930	1945	1951	
Argentina	449.3	51.4	—	—
Bolivia	54.4	38.4	38	7
Brazil	346.8	111.6	69	46
Chile	260.1	86.2	63	30
Colombia	171.7	63.1	52	30
Costa Rica	10.2	2.9	3	1
Cuba	130.8	10.4	11	12
Dominican Republic	17.4	3.2	—	—
Ecuador .....	...	0.9	1	—
El Salvador	5.3	4.6	3	2
Guatemala	4.4	0.8	—	—
Haiti	13.3	2.3	—	—
Mexico	— ^b	32.1	27	4
Panama	17.8	9.7	10	10
Peru	75.3	38.4	31	13
Uruguay	53.2	13.7	12	11
TOTAL, LATIN AMERICA	1,610.0	469.7	320	166

Source: United States Department of Commerce.

^a End of year.

^b Certain bond issues of Mexico long in default are omitted.

Table XII. Outstanding publicly offered Latin American foreign dollar bonds, 1935, 1945 and 1952^a

(Nominal value, in millions of dollars)

Country	Principal outstanding			Amount in default ^b		
	1935	1945	1952	1935	1945	1952
Argentina	351.2	183.8	—	95.9	0.8	—
Bolivia	59.4	59.4	59.4	59.4	59.4	59.4
Brazil	349.2	217.4	128.5	349.2	69.8	8.0
Chile	308.0	170.2	115.9	308.0	150.6	9.1
Colombia	156.1	148.7	74.2	156.1	105.8	6.4
Costa Rica	8.8	8.1	8.1	8.8	8.1	8.1
Cuba	123.8	97.1	69.6	103.2	9.4	7.1
Dominican Republic	16.3	12.1	—	16.3	4.3	—
El Salvador	12.6	8.8	5.9	12.6	8.5	0.3
Guatemala	2.2	—	—	2.2	—	—
Haiti	9.8	6.7	—	—	6.7	—
Mexico	295.5	273.6	200.3	295.5	238.6	11.1
Panama	18.6	15.8	—	14.4	1.1	—
Peru	91.3	85.7	64.5	91.3	85.7	17.0
Uruguay	63.4	49.7	40.0	63.4	1.7	0.6
TOTAL	1,866.3	1,337.1	766.7	1,576.4	750.5	127.2

Source: Institute of International Finance, *Statistical Analysis of Publicly Offered Foreign Dollar Bonds*, Bulletin No. 182, 1 June 1953, and earlier bulletins (New York).

^a End of year.

^b Issues in default with respect to contractual payment of interest. In 1952, \$55 million of the outstanding issues in default as to interest were also in default as to principal. When a debt readjustment plan has been put in effect, unassented bonds are considered in default. A small amount of non-governmental obligations (in 1952, \$17 million) is included.

Table XIII. Outstanding Latin American sterling bonds, 1939, 1945, 1951^a

(Nominal value, in millions of pounds sterling)

Country	1939	1945	1951
Argentina	55.2	28.5	4.7
Brazil	159.4	137.0	47.8
Chile	27.0	27.2	21.1
Colombia	2.6	2.8	2.1
Costa Rica	1.7	1.7	1.6
Ecuador	0.1	0.1	0.1
El Salvador	0.9	0.8	0.7
Guatemala	1.5	0.4	0.4
Honduras	2.8	1.8	0.9
Mexico	38.7	15.9 ^b	12.6 ^b
Nicaragua	0.4	0.4	0.3
Paraguay	0.7	0.7	0.3
Peru	3.7	3.1	2.7
Uruguay	19.4	18.3	15.9
TOTAL	314.1	248.7	111.2

Source: Council of the Corporation of Foreign Bondholders, *Annual Report*, 1939, 1945, 1951 (London).

^a Mid-year data. The figures relate to all bonds outstanding, including those repatriated but not retired. The amounts differ slightly from those shown in tabulations by the *South American Journal* (London), which are as follows (in millions of pounds): 1930, £338; 1939, £324; 1945, £245.

According to the Bank of England, the nominal value of government and municipal loans of Latin American countries held by United Kingdom residents was £173, £99 and £44 million at the end of 1939, 1945 and 1951, respectively. These figures exclude sterling bonds held by non-residents but include Latin American dollar and other bonds held by United Kingdom residents. Figures for individual countries at the end of 1951 were as follows (in millions of pounds): Mexico, £1.2; Argentina, £2.6; Brazil, £15.1; Chile, £16.5; Uruguay, £3.5.

^b Excluding £5.4 million of bonds of National Railways of Mexico, payable in dollars at one-fifth of face value pursuant to an agreement of 1946. Other Mexican sterling bonds are included at nominal value pursuant to adjustment plan of 1942.

Table XIV. Liquidation of United Kingdom investments in Latin America, 1946 to 1951^a

(Millions of pounds sterling)

Country	1946		1947		1948		1949		1950		1951		1946 to 1951	
	Nominal reduction	Cash payment	Nominal reduction	Cash payment	Nominal reduction	Cash payment	Nominal reduction	Cash payment	Nominal reduction	Cash payment	Nominal reduction	Cash payment	Nominal reduction	Cash payment
Argentina	5.6	5.2	6.7	6.6	251.7	153.6	2.4	1.6	1.2	1.2	0.9	0.9	268.5	169.1
Brazil	3.4	1.4	1.4	1.2	7.1	8.6	2.8	1.6	10.4	10.7	18.8	13.1	43.9	36.6
Chile	0.8	0.7	1.6	1.1	2.2	1.3	1.5	1.2	2.0	1.1	3.5	2.7	11.6	8.1
Cuba	—	—	0.7	0.3	0.2	0.1	0.1	0.1	—	—	—	—	1.0	0.5
Mexico	11.6	1.3	0.4	0.8	0.1	0.2	-10.1	0.1	8.9	2.6	0.8	1.1	11.7	6.1
Peru	—	—	—	0.1	—	—	—	—	0.1	0.1	—	—	0.1	0.3
Uruguay	0.1	0.1	0.1	0.1	0.1	0.1	14.2	6.5	1.8	2.6	-0.2	—	16.1	9.4
Rest of South America	-0.1	-1.8	0.3	0.2	-3.4	-3.4	0.1	0.1	1.1	-0.4	2.3	1.8	0.3	-3.5
TOTAL	21.4	7.0	11.2	10.4	258.0	160.5	11.0	11.2	25.5	17.9	26.1	19.6	353.2	226.6

Source: Bank of England, *United Kingdom Overseas Investments*, reports issued in 1950, 1951, 1952 and 1953. The figures refer only to investments owned by residents of the United Kingdom. For further details on the estimates, see note to table X.

^a Minus sign indicates addition to investments.

Table XV. United States direct investments in Latin America, 1950^a

(Book value, in millions of dollars)

Country	Agriculture	Mining and smelting	Petroleum	Manufacturing	Public utilities	Trade	Finance and insurance	Miscellaneous	Total				
									1929	1936	1943	1950	1952
Argentina	...	...	...	161.1	76.9	34.9	8.0	7.7	331.8	348.3	380.1	355.6	393
Bolivia	—	6.1	—	...	2.4	1.6	...	...	61.6	18.3	13.2	10.8	...
Brazil	...	...	112.4	284.5	137.6	72.6	21.7	7.4	193.6	194.3	232.7	644.2	1,013
Chile	—	350.6	...	29.0	...	14.5	1.5	1.4	422.6	483.7	328.3	540.1	623
Colombia	...	...	111.6	24.8	29.2	8.8	3.9	3.0	124.0	107.5	117.0	193.4	234
Costa Rica	...	—	3.8	0.4	10.8	0.7	—	...	22.2	13.3	30.4	60.0	61
Cuba	262.7	...	20.4	54.2	270.5	20.8	...	5.6	919.0	666.3	526.3	642.4	686
Dominican Republic	79.1	—	...	9.0	10.7	0.9	...	2.3	69.3	40.7	70.5	105.7	123
Ecuador	...	—	...	0.6	5.3	1.7	3.6	—	11.8	4.9	10.8	14.2	14
El Salvador	—	...	2.3	...	16.8	0.5	...	...	29.5	17.2	14.9	18.5	...
Guatemala	...	...	3.6	...	72.2	3.3	...	—	70.0	50.4	86.9	105.9	108
Haiti	7.9	—	...	...	2.3	...	—	...	14.2	9.7	14.1	12.7	...
Honduras	...	...	...	...	8.8	...	...	...	71.5	36.4	37.0	61.9	81
Mexico	3.0	120.5	12.7	133.0	107.2	29.2	2.3	6.2	682.5	479.5	286.3	414.5	490
Nicaragua	...	...	...	...	0.9	0.6	—	—	13.0	4.5	4.0	9.0	...
Panama	...	—	180.7	1.7	132.5	10.6	4.8	...	28.5	26.7	110.3	348.0	383
Paraguay and Uruguay	—	—	4.2	37.9	1.7	4.3	12.3	0.5	40.5	19.0	14.8	61.0	71 ^b
Peru	...	55.1	...	15.8	...	13.1	...	0.8	123.7	96.1	70.8	144.5	230
Venezuela	...	...	857.1	23.8	10.0	23.6	13.1	6.7	232.5	186.3	372.8	993.0	1,184
TOTAL	519.6	628.4	1,407.8	779.8	1,041.5	242.5	71.1	44.5	3,461.9	2,803.0	2,721.2	4,735.2	5,758

Source: United States Department of Commerce, data for 1929, 1936, 1943 and 1950 from *Foreign Investments of the United States* (Washington, D.C., 1953); data for 1952 from *Survey of Current Business*, January 1954.

Note: The figures are computed from replies to requests to all known holders of reportable investments. Replies relating to 1950 were mandatory under authority of the United States Bretton Woods Participation Act of 1945.

As used in the census the term "foreign direct investment" includes the following:

1. The value of United States equity in foreign business organizations owned to the extent of 25 per cent or more of the voting securities of the foreign corporations, by persons, or groups of affiliated persons, ordinarily resident in the United States, and analogous interests in partnerships and other organizations.

2. United States equity in foreign corporations whose voting stock is publicly held within the United States to an aggregate extent of 50 per cent or more but distributed among stockholders so that no one investor or affiliated group of investors owns as much as 25 per cent.

3. Outright ownership of real property, other than property held solely for the personal use of the owner, or of a sole proprietor type of business enterprise.

4. The net assets of foreign branches of United States companies. A branch is defined as a business enterprise conducted abroad by a United States corporation in its own right and not through a subsidiary foreign company.

The United States equity in these types of controlled foreign enterprises includes the book value of all capital stock held

in the United States, whether by the parent company or others, the equity of these stockholders in surplus and surplus reserves, the net balance of inter-company accounts between the foreign enterprise and its parent organization or United States affiliates of the parent organization, and long-term indebtedness payable to the parent company or non-affiliated United States persons, to the extent that information regarding the latter indebtedness is available.

In consequence of the above definition, the data exclude foreign branches and subsidiaries of enterprises incorporated in the United States but owned by foreigners; and foreign corporations whose shares are widely held in the United States but without United States controlling participation in management.

Certain exploration losses and depletion charges, which appear as capital outflows in the balance of payments, are not included as capital investments in the books of the reporting companies and hence are excluded from the figures.

Assets in 1950 are valued at the amounts carried on the books of the foreign organizations converted into United States dollars. Reports on current assets and liabilities usually applied the exchange rates current at the date of the report. Fixed assets and related depreciation reserves were generally converted at the rate current at the time the assets were acquired.

Enterprises are classified according to their major field of activity. "Petroleum" includes petroleum production, refining and distribution facilities. The item "Public utilities" in this table includes transportation and communications.

^a End of year.

^b Uruguay only; Paraguay included in total.

Table XVI. Industrial distribution of United States direct investments in Latin America, 1943 and 1950*
(Millions of dollars)

Industry	1943	1950	Industry	1943	1950
Agriculture, total	379.9	519.6	Transportation, communication and public utilities, total	870.9	1,041.5
Fruit	...	147.7	Railroads	...	186.4
Sugar	...	346.4	Water transportation	...	145.7
Rubber	...	1.2	All other transportation	...	31.7
All other agriculture	...	24.4	Communication	...	131.5
Mining and smelting, total	404.9	628.4	Electric light, power and gas	...	546.2
Iron	...	63.7	Trade, total	140.5	242.5
Gold, silver and platinum	...	21.7	Wholesale trade	...	191.3
Other metals	...	486.0	Retail trade	...	51.1
Non-metallic minerals	...	57.1	Finance and insurance, total	99.4	71.1
Petroleum, total	570.1	1,407.8	Banking and other finance	...	37.8
Manufacturing, total	322.3	779.8	Holding companies	...	28.6
Food	...	158.2	Insurance	...	4.8
Paper and allied products	...	4.5	Miscellaneous, total	44.3	44.5
Chemicals and allied products	...	205.0	Real estate	...	7.5
Rubber products	...	60.3	Motion pictures	...	16.9
Primary and fabricated metals	...	21.7	All other	...	20.1
Machinery	...	13.0			
Electrical machinery, equipment and supplies	...	78.9			
Motor vehicles and their equipment	...	83.0			
All other manufacturing	...	155.3			
			TOTAL, ALL INDUSTRIES	2,832.3	4,735.2

Source: 1950: United States Department of Commerce, *Foreign Investments of the United States* (1953); 1943: United States Treasury Department, *Census of American-owned Assets in Foreign Countries* (Washington, D.C., 1947).

* End of year. For definitions, see general note to appendix table XV.

Table XVII. Flow of United States long-term capital, and income on United States investments in Latin America, 1946 to 1952*

(Millions of dollars)

Item	1946	1947	1948	1949	1950	1951	1952
1. Private long-term United States capital (net):							
Direct investments ^b	44	325	282	348	40	165	277
(Including Venezuela)	61	130	181	245	-68	-39	48
Reinvested earnings of subsidiaries	89	117	209	147	109	249	303
Other long-term capital	-125	-55	-49	-19	-27	-29	-34
Net flow	8	387	442	476	122	385	546
2. United States government credits: ^c							
Disbursements	87	91	77	84	83	137	100
Repayments	-31	-35	-40	-45	-48	-52	-44
Net flow	56	56	37	39	35	85	56
3. Net movement of Latin American long-term investment in the United States	-6	4	-10	-4	-31	-9	-8
4. Total of items 1 to 3 ^d	58	447	469	511	126	46	594
5. Income received by the United States on direct investments ^e	-314	-451	-525	-425	-522	-652	-599
6. Income accruing to United States direct investments	-403	-568	-734	-572	-616	-888	-888
7. Income received in the United States on portfolio investments	-15	-17	-19	-18	-18	-17	-20

Source: United States Department of Commerce, *The Balance of Payments of the United States, 1949-1951* (Washington, D.C., 1952) and *Survey of Current Business*, September 1952, December 1953 and January 1954.

^a Minus sign indicates outflow from Latin America.

^b Including reinvested earnings of branches but not of subsidiaries. Excluding financing of ship sales to Panamanian and other operators controlled in United States.

^c Mainly on account of Export-Import Bank. United States government grants, excluding military equipment during 1946

to 1952 were as follows in successive years (in millions of dollars): 19, 47, 21, 35, 25, 22, 30.

^d Excluding disbursements from dollar loans of the International Bank for Reconstruction and Development (in millions of dollars): 1949, 36; 1950, 39; 1951, 56; 1952, 66.

^e Including all earnings of branches, and dividends of subsidiaries blocked by exchange restrictions, but not reinvested earnings of subsidiaries.

^f Including reinvested earnings of subsidiaries.

Table XVIII. Flow of United States capital to Latin America for direct investment, by industry, 1949 to 1952

(Millions of dollars)

Year and item	Manufacturing	Mining and smelting	Petroleum ^a	Distribution	Agriculture	Public utilities	Miscellaneous	Total
1949								
Net flow	—	36	277	14	— 3	12	12	348
Reinvested earnings ^b	71	10	37	11	8	7	3	147
TOTAL	71	46	314	25	5	19	15	495
1950								
Net flow	64	29	— 69	18	— 7	— 3	7	40
Reinvested earnings ^b	49	4	14	12	14	9	7	109
TOTAL	113	33	— 55	30	7	6	14	149
1951								
Net flow	116	60	— 75	38	22	— 7	11	165
Reinvested earnings ^b	96	16	82	23	15	10	7	249
TOTAL	212	76	7	61	37	3	18	414
1952								
Net flow	80	120	32	11	— 4	21	18	277
Reinvested earnings ^b	94	15	135	30	11	11	8	303
TOTAL	174	135	167	41	7	32	26	580

Source: United States Department of Commerce, *The Balance of Payments of the United States, 1949-1951; Survey of Current Business*, September 1952 and January 1954.

^a Excluding sales of ships (mostly tankers) to United States controlled enterprises operating under Latin American flags.

^b Undistributed profits of subsidiaries; undistributed profits of branches included in "net flow".

Table XIX. Loans by International Bank for Reconstruction and Development to Latin America, 15 September 1953

(Millions of dollars)

Country and purpose	Number of loans	Amount ^a	Country and purpose	Number of loans	Amount ^a
Brazil:			El Salvador:		
Railway rehabilitation	2	25.0 ^b	Electric power	1	12.5
Highway improvement	1	3.0	Mexico:		
Electric power and telephone equipment	1	75.0	Electric power	3	79.8
Electric power	5	72.3 ^b	Industry	1	0.5
Total		175.3	Total		80.3
Chile:			Nicaragua:		
Electric power and agricultural machinery	1	16.0	Highways	2	7.0
Irrigation and water resources	1	1.3	Grain storage	1	0.5
Wood-pulp and paper industry	1	20.0	Electric power	1	0.5
Total		37.3	Agricultural machinery	1	1.2
Colombia:			Total		9.2
Highways	2	30.9 ^b	Paraguay:		
Railways	1	25.0	Agricultural development	1	5.0
Agricultural machinery	1	4.9	Peru:		
Electric power	3	8.5	Port development	1	2.5
Total		69.3	Agricultural machinery	1	1.3
			Total		3.8
			Uruguay:		
			Electric power and telephone equipment	1	33.0
			TOTAL, ALL COUNTRIES		425.7

Source: International Bank for Reconstruction and Development, *Eighth Annual Report* (1953).

^a Excluding amounts cancelled or refunded.

^b Including loans awaiting final action by debtor country on 15 September 1953.

Table XX. Export-Import Bank credits to Latin American countries, 1934 to 1953

(Millions of dollars)

Country	Authorized ^a	Disbursed	Repaid
Argentina	102.1	100.5	0.5
Bolivia	40.7	37.3	4.6
Brazil	708.0	525.0	106.1
Chile	144.8	141.0	59.6
Colombia	82.6	77.5	46.4
Costa Rica	7.3	7.3	1.2
Cuba	68.2	68.2	56.2
Dominican Republic	3.3	3.3	3.3
Ecuador	30.7	22.2	5.6
Haiti	24.7	13.2	6.9
Honduras	1.0	1.0	1.0
Mexico	278.9	202.6	93.4
Nicaragua	5.3	5.3	4.6
Panama	6.5	6.5	2.8
Paraguay	6.2	6.2	4.7
Peru	24.4	16.0	0.3
El Salvador	1.5	1.5	1.0
Uruguay	17.1	17.1	5.0
Venezuela	19.4	18.4	9.7
Unclassified	30.0	26.0	25.4
TOTAL	1,602.5	1,296.0 ^b	438.2

Source: Export-Import Bank of Washington, *Seventeenth Semiannual Report to Congress for the period July-December 1953* (Washington, 1954).

^a Less cancellations.

^b Including disbursements of \$169 million by commercial banks at Export-Import Bank risk.

Table XXII. Ratio of income received to equity, United States direct investments in Latin America, by country, 1950 and 1951^a

(Percentages)

Country	1950	1951
Argentina	2.3	4.8
Brazil	12.1	13.2
Chile	8.1	9.6
Colombia	9.3	9.3
Cuba	10.8	11.9
Mexico	8.5	10.5
Peru	10.0	23.6
Uruguay	7.2	12.7
Venezuela	33.0	28.3
Other	9.1	14.8
TOTAL	14.2	15.6

Source: United States Department of Commerce, *Balance of Payments of the United States, 1949-1951*, and *Survey of Current Business*, December 1952.

^a Income excludes reinvested earnings of foreign subsidiaries, for which classification by country is not available; the ratios are therefore not comparable with those in appendix table XXI. The countries particularly affected are Brazil, Mexico and Venezuela. In other respects the definitions in the notes to appendix table XXI apply.

Table XXI. Ratio of earnings to equity, United States direct investments in Latin America, by industry, 1948 to 1951^a

(Percentages)

Industry	1948 ^b	1949	1950	1951
Manufacturing	21.9	17.3	15.9	22.5
Distribution	31.4	20.6	25.1	35.4
Agriculture	24.3	16.2	19.2	25.6
Mining and smelting....	18.8	10.0	11.7	14.9
Petroleum	40.3	26.9	26.7	30.6
Public utilities	2.9	2.8	3.6	2.5
Miscellaneous	19.6	20.9	26.4	24.6
TOTAL	21.0	14.9	16.8	20.5

Source: United States Department of Commerce, *Balance of Payments of the United States, 1949-1951*, and *Survey of Current Business*, December 1952.

^a Earnings represent total income accruing to United States investors, including United States equity in the undistributed profits of foreign subsidiaries and earnings blocked by exchange restrictions. Earnings are net of Latin American taxes but before United States income taxes.

Equity represents net worth at book value at the beginning of each year, as reported in the United States census of direct investments at end of 1950, adjusted for earlier years by deducting the estimated net flow of capital and the reinvested earnings in foreign subsidiaries, except for 1948 (see footnote b).

^b Owing to the practice in some industries, particularly petroleum production, of writing off development costs, the estimates of the value of equity based on the 1950 census data become less reliable the earlier the year concerned. For the year 1948 the value of equity has been computed by averaging figures based on the 1943 and 1950 censuses.

Table XXIII. Ratio of earnings to equity, investments in Latin America and the United States, 1948 to 1951^a

(Percentages)

Item	1948	1949	1950	1951
<i>Latin America:</i>				
All industries	22.2	14.9	16.8	20.5
Manufacturing	23.3	17.3	15.9	22.5
<i>United States:</i>				
All industries	13.6	11.0	13.4	11.4
Manufacturing	18.2	13.9	17.1	14.4

Source: For Latin America, see appendix table XXI; for the United States, National City Bank of New York, *Monthly Letter*, April 1952 and April 1950, covering returns of about 3,300 large corporations, including about 1,800 manufacturing enterprises.

^a Latin American yields are net of business taxes paid in Latin America, and United States yields are net of United States business taxes.

Comparison of the series is subject to the following qualifications: the data on earnings and value of investment in Latin America are less exact; and the data for domestic United States corporations include returns from foreign operations. If the relatively profitable petroleum and automotive industries are excluded from the data for United States manufacturing in 1950 and 1951, the rates would be 16.7 per cent and 13.3 per cent, respectively.

Table XXIV. Ratio of local income taxes to net earnings before taxes, United States direct investments in Latin America, 1950^a

(Percentages)

Industry or country	Ratio
<i>Industry:</i>	
Agriculture	19.5
Mining and smelting	41.9
Petroleum	29.0
Manufacturing	24.1
Transportation, communication and public utilities.....	19.6
Trade	25.7
Finance and insurance.....	15.7
All industries	27.7
<i>Country:</i>	
Bolivia	15.8
Brazil	17.9
Chile	45.3
Colombia	56.4
Cuba	26.4
Ecuador	13.8
Guatemala	3.5
Mexico	37.7
Panama	6.7
Paraguay and Uruguay	20.2
Peru	24.1
Venezuela	27.0

Source: United States Department of Commerce, *Foreign Investments of the United States* (1953), pages 53 and 54.

^a Figures for income from abroad are reduced by foreign losses, thus somewhat overstating the foreign tax ratios in relation to comparable United States rates.

Table XXV. Yields of selected Latin American and other dollar bonds, June 1953^a

(Percentages)

Borrower and maturity	Coupon	Yield
Brazil, 1979	3 $\frac{3}{8}$	6.86
Chile, 1993	3	9.34
Colombia, 1970	3	8.68
El Salvador, 1976	3 $\frac{1}{2}$	6.38
Peru, 1997	3	8.35
Uruguay, 1979	4 $\frac{1}{8}$	5.02
International Bank for Reconstruction and Development, 1981	3 $\frac{1}{4}$	3.62
United States long-term government bonds ^b		3.09
United States industrial bonds ^c		3.39

Source: International Monetary Fund, *International Financial Statistics*, September 1953 (Washington, D.C.).

^a Yields are calculated to date of maturity.

^b Unweighted average of yields to first call or maturity of all bonds (fully taxable) maturing or callable in twelve years or more.

^c Unweighted average of yields to first call or maturity of "prime" industrial bonds as compiled by *Moody's Investors Service*.

Table XXVI. Selected items in balance of payments of Latin America, 1925-29, 1949, 1950 and 1952

(Millions of dollars)

Year and area	Exports (f.o.b.) ^a	Imports (f.o.b.)	Investment income (net) ^b	Long-term capital (net) ^{b,c}
<i>1925-29 (annual average):</i>				
United States	990	840	-300	200
Europe	1,460	910	-360	30
TOTAL	2,450	1,750	-660	230
<i>1949:</i>				
United States	2,503	2,624	-550	588
Rest of world	2,592	1,845	-47	-104
TOTAL	5,095	4,469	-597	484
<i>1950:</i>				
United States	3,090	2,658	-748	194
Rest of world	3,020	1,837	-7 ^d	-161
TOTAL	6,110	4,495	-755	33
<i>1952:</i>				
United States	3,591	3,520	-672	336

Footnotes to table XXVI:

Source: 1925-29: United Nations, *A Study of Trade between Latin America and Europe* (sales number 1952.II.G.2), page 6; 1949, 1950: International Monetary Fund, *Balance of Payments Yearbook*, 1949-1950 and 1950-1951 (Washington, D.C.); 1952: United States Department of Commerce, *Survey of Current Business*, June 1953; supplemented by data on disbursements of the International Bank for Reconstruction and Development and Export-Import Bank. Data for "rest of world" are computed as a residual.

^a Including non-monetary gold.

^b Including reinvested earnings of subsidiaries, except in 1952.

^c Including amortization and repurchase of foreign long-term debt and transactions with the international Bank for Reconstruction and Development; excluding government grants.

^d According to estimates by the United Kingdom (Cmd 8808, April 1953) net interest, profits and dividends, excluding undistributed profits retained abroad, remitted to the United Kingdom by the non-dollar area of Latin America (Argentina, Brazil, Chile, Paraguay, Peru and Uruguay) were as follows: 1949, £10 million; 1950, £7 million and 1952, £7 million. These figures exclude earnings of United Kingdom insurance, shipping and oil companies.

Table XXVII. Ratio of Latin American investment income payments to receipts on account of goods and services, by country, 1938, 1947 and 1950^a

(Percentages)

Country	1938	1947	1950
Argentina ^b	26	5	—
Bolivia	22	14	12
Brazil	...	5	7
Chile ^c	18	20	18
Colombia	10 ^d	3 ^{d e}	9 ^d
Costa Rica	11	2 ^{d f}	19
Cuba ^g	15	9	4
Dominican Republic	20 ^h	20	14
Ecuador	...	2 ^d	5
El Salvador	...	3	3
Guatemala	...	7	5
Haiti	...	...	2
Honduras	...	34	37
Mexico	17	13	8
Nicaragua	10	17	16
Panama ⁱ	...	12 ^j	17
Paraguay	...	3 ^j	2
Peru	31	6	5
Uruguay	11 ^k	4	3
Venezuela	31	39	30

Footnotes to table XXVII:

Source: David Finch, "Investment Service of Underdeveloped Countries", *International Monetary Fund Staff Papers*, vol. 2, No. 1, September 1951; supplemented and revised by data in International Monetary Fund, *Balance of Payments Yearbook*, vol. IV (1952) and United Nations, *Balances of Payments, 1939-1945* (1948).

^a The receipts are gross and include merchandise exports, income from services, non-monetary gold and private donations. Investment income payments are net in most cases. It is assumed that the data for investment income exclude blocked earnings and in most cases reinvested earnings. They also exclude amortization payments. For various reasons the data for different countries are not fully comparable.

^b 20 per cent in 1929.

^c 42 per cent in 1929.

^d Probably substantially underestimated.

^e Excluding profits of oil companies; 1950 data include all foreign exchange retained abroad by oil companies.

^f Ratio for 1948: 19 per cent.

^g 17 per cent in 1929.

^h 1939.

ⁱ Excluding transactions of foreign-owned fleets.

^j 1948.

^k 1940.

Table XXVIII. Net outflow of capital from the United States for direct investments in Latin American countries, compared with income, received 1946 to 1951^a

(Millions of dollars)

Country	1946		1947		1948		1949		1950		1951		Total, 1946 to 1951	
	Outflow	Income	Outflow	Income	Outflow	Income	Outflow	Income	Outflow	Income	Outflow	Income	Outflow	Income
Argentina	-85	21	44	37	19	20	1	7	22	8	-13	17	-12	110
Brazil	23	30	69	38	33	38	31	49	24	76	96	83	276	314
Chile	4	31	5	44	-4	56	24	35	23	43	44	51	96	260
Colombia	18	4	3	6	4	10	10	18	14	18	13	18	62	74
Cuba	-10	33	-4	52	-	55	-1	44	16	69	20	76	21	329
Mexico	-1	21	21	42	20	38	-8	13	17	34	28	42	77	190
Peru	1	8	17	9	-4	12	-17	13	-31	14	-1	33	-35	89
Uruguay	1	2	-	4	1	3	1	3	1	4	7	7	11	23
Venezuela	61	102	130	153	181	228	245	161	7	324	-20	278	604	1,246
Other countries	47	60	157	63	71	62	143	77	98	69	13	112	529	443
TOTAL	59	312	442	448	321	522	429	420	191	659	187	717	1,629	3,078

Source: United States Department of Commerce, *Balance of Payments of the United States, 1949-1951*.

^a Income includes all branch profits but excludes reinvested earnings of subsidiaries. Outflow includes reinvested earnings of branches but not subsidiaries. Minus sign indicates inflow.