

EXTERNAL FINANCING IN LATIN AMERICA



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EXTERNAL FINANCING IN LATIN AMERICA



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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

EXPLANATION OF SYMBOLS

A minus sign (−) indicates a deficit or a decrease.

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

Three dots (...) indicate that data are not available or are not separately reported.

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

Use of a hyphen (-) between dates representing years, e.g. 1948-53, normally signifies an annual average for the calendar years involved, including the beginning and end years.

A blank space in a table indicates that the item is not applicable.

A slash (/) indicates a crop year or fiscal year, e.g. 1954/55.

“Tons” and “dollars” are metric tons and United States dollars, respectively, unless otherwise stated.

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UNITED STATES AND INTERNATIONAL PUBLIC LENDING AGENCIES

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INTRODUCTION

The primary aim of the present study is to estimate capital flows between Latin America and the rest of the world as from the end of the Second World War. Accordingly, the balance-of-payments data for the individual Latin American countries, as compiled by the International Monetary Fund (IMF), had to be consolidated, in order to obtain a relatively homogeneous time series covering the region's capital operations. The method used in this process of consolidation is explained in the general note on methodology prefixed to Annexes I and II.

On the basis of the figures thus obtained, it was possible to analyse capital transactions between Latin America and other parts of the world, and then to define the role of these transactions in the region's external payments. Although in principle this twofold analysis relates only to the post-war years, one of the requisite steps was to assemble earlier data, so that comparisons might be drawn with previous periods. It also seemed useful to supplement the statistical survey with a cursory review of the policy pursued by foreign financing institutions vis-à-vis Latin America.

The foregoing considerations account for the plan adopted in the present study. Part One deals with the role of foreign capital in Latin America up to the end of the Second World War. For want of sufficient basic data, this analysis is qualitative rather than quantitative in character. In Part Two, the evolution of Latin America's external payments during the post-war period is described and analysed, with special attention to the question of capital flows. Part Three discusses the part played by autonomous capital movements in the stabilization of the Latin American countries' balances of payments over the long and short terms. Lastly, Part Four comprises a review of the policy pursued in relation to Latin America by the leading United States and international financing centres. In view of the inadequacy of the basic data

available on Western Europe's contribution to the external financing of the region, attention was principally devoted to the role of international institutions and of private firms and official agencies in the United States.

In the content of the methodology applied, two notes of warning must be sounded :

(1) For each of the post-war years, Latin America's balance of payments was compiled by aggregation of the external payments data for the individual Latin American countries. In theory, intraregional transactions are mutually compensatory if the balances on current and on capital account, respectively, are taken into consideration, together with the sub-balances for separate items, since these comprise assets and liabilities. In practice, the transactions in question do not entirely compensate one another, because of discrepancies in the entries corresponding to them in the balances of payments of the various Latin American countries. These discrepancies would have to be eliminated if the regional balance of payments were to be constructed on a more reliable basis. The element of error thus introduced, however, can be regarded as relatively negligible, since up to now the volume of intraregional transactions has remained at a comparatively low level.

(2) Statements valid for Latin America as a whole have often had to be expressly qualified as excluding Cuba. This procedure was unavoidable because from 1960 onwards there are no statistical data available for that country.

With these reservations, it is thought that the present study may be of some value not only on the elucidation of the complex problems deriving from Latin America's external financing, but also for the purposes of drawing useful conclusions as to the future of the region in this respect.

Part One

BACKGROUND INFORMATION

Chapter I

FOREIGN CAPITAL IN LATIN AMERICA FROM THE BEGINNING OF THE XIXTH CENTURY UNTIL THE DEPRESSION

A. GENERAL OUTLOOK: MAIN PERIODS IN THE HISTORY OF FOREIGN INVESTMENTS IN LATIN AMERICA BEFORE THE DEPRESSION

The *Pax Britannica* that lasted for almost a hundred years, the gradual breakdown of the complicated system of mercantilist trade restrictions and the universal adoption of the gold standard, made the XIXth century an exceptional period, when conditions in international economic relations were not very different from the famous "rules of the game" as defined almost at the same time by the classical economists. The inevitable dislocations produced by the expansion of a freer world trade were partially offset by a shift of productive factors from the regions relatively rich in man power and capital to those which were poorer in these resources, so that there occurred a form of international division of labour, characterized by the industrialization of Europe and the development of complementary activities in the peripheral areas. Consequently, Latin America, like the other "new countries", received a large number of immigrants and a substantial amount of capital from the Old Continent.

Nevertheless the shift of factors of production from Europe to the peripheral areas was neither regular nor continuous. International economic relations were not always in keeping with the ideal norms defined by the Liberal School, because of local wars, transitory revivals of trade restrictions, or temporary suspension of the gold standard. Cyclical crises, which periodically affected the European economies, disturbed international trade and capital movements but "automatic readjustments" did not occur as quickly as the liberal theoreticians expected. The growing returns on capital, due to the increasing scale of output, were sometimes more important in the long run in the industrialized countries than in the peripheral areas because they required substantial investments in overhead facilities. Finally the losses occasionally suffered by the lenders as the results of a subjective evaluation of risks, often prevented further capital inflows into the countries. Consequently, the history of foreign investments in Latin America, as in the other under-developed areas during the XIXth century, is much more complicated than might have been expected if a more simplified and idealized view of international economic affairs were now taken. Unfortunately, this history is not well known because of a lack of quantitative data. On the basis of the information available the main periods of expansion and contraction of foreign capital inflows into Latin America can only be determined roughly.

1. EARLY BOOMS AND SLUMPS (1822-74)

The roots of foreign investment in Latin America stretch far in time, since the region began to import substantial amounts of capital in the early XIXth century.

The London merchant-banks and financial houses, which had replaced Amsterdam as a world financial centre during the period of the Continental Wars (1793-1815), took a keen interest in the Latin American countries as soon as they became independent. Concurrently with some commercial firms, they issued several series of bonds in 1822-25 on behalf of various Latin American Governments in need of funds with which to discharge substantial debts resulting from the acquisition of arms during the last stages of the wars of independence. These issues exceeded 21 million pounds sterling in three years; they generally bore in nominal interest of 6 per cent and an actual interest of 8 to 10 per cent since the bonds had been offered at prices below the face values.¹

At the same time more than forty joint-stock companies were incorporated to exploit the economical possibilities of the Latin American countries. They had widely different interests, such as pearl fishing, the opening of a canal in the Central American isthmus and the establishment of settlers in the River Plate countries. But the most numerous, if not the most dependable, of these companies were dedicated to working the gold and silver mines that were believed to exist in the former Spanish colonies. Accordingly, a General South American Mining Association, that was subdivided later into twenty-one companies with an aggregate capital of 25 million pounds sterling, was floated to prospect almost all the Latin American countries.²

Nevertheless the early enthusiasm shown for Latin American securities waned rapidly. The government bonds had been offered to the British public purely as a speculation since participating merchant-bankers and speculators had withheld large amounts of securities in order artificially to inflate market quotations. When high peaks enabled intermediaries to make substantial profits, the prices of the bonds dropped sharply; for example, the Peruvian bonds which had been issued at 85 per cent

¹ J. Fred Rippy, *British Investments in Latin America, 1822-1949*, University of Minnesota Press, Minneapolis, 1959, pp. 17-22.

² *Ibid.*, pp. 22-25.

Table 1. Latin America: security issues by Governments on the London Stock Exchange, 1822-80

(Nominal values in thousands of pounds sterling)

Country	1822-25		1826-50		1851-80	
	Total	Percentage of the total	Total	Percentage of the total	Total	Percentage of the total
Argentina	1,000 ^a	4.7	—	—	13,804 ^b	10.4
Brazil	3,200	15.1	1,444	7.8	24,420 ^c	18.4
Chile	1,000	4.7	750	4.1	9,819	7.4
Mexico	6,400	30.3	2,018	11.0	12,864	9.7
Peru	1,816	8.6	3,776	20.5	46,194	34.9
Other countries	7,713	36.6	10,401	56.6	25,262 ^d	19.2
TOTAL	21,129	100.0	18,389	100.0	132,363	100.0

SOURCE: J. Fred Rippy, *British Investments in Latin America, 1822-1949*, University of Minnesota, Minneapolis, 1959, pp. 17-22 and 26-32.

^a Issued by the Province of Buenos Aires in 1824.

^b Including small issues by the Provinces of Entre Ríos in 1872 and Santa Fe in 1874.

^c Including a small issue by the state (or the municipality) of São Paulo in 1865.

^d Including an issue by the municipality of Montevideo in 1864.

of their nominal values in 1824, soared to 89 per cent and then dived to 23.5 per cent, all within a few months. The greatest beneficiaries of these violent fluctuations were banks and issue houses, while the Latin American Governments received only a small portion of the funds disbursed by the British public, who suffered heavy capital losses.³ Furthermore the issuing firms had over-estimated the volume of Latin American exports to Great Britain and therefore the sterling earnings of the region's Governments, which were forced to discontinue servicing the bonds as early as 1827.

The financial panic created by this unfortunate experience with Latin American Government securities produced a sharp decline in the quotations of the shares and bonds issued by the joint-stock companies operating in the region; as a matter of fact, most of these companies went into liquidation two or three years after their floatation.

For almost three decades thereafter English capitalists were reluctant to invest additional funds in the Latin American countries. New issues of government bonds totalled 18 million pounds in 25 years (1825-50), according to generous estimates. These bonds were solely for the purpose of allowing the Governments of the region to resume the service of the 1822-25's debt, but new defaults often occurred. Furthermore, no new stock company was formed to operate in Latin America. The cessation of British investments in Latin American countries is noteworthy, particularly since it is in sharp contrast to English capital investment in other countries outside the region, which roughly doubled during the

second quarter of the XIXth century.⁴ The losses suffered during the period 1822-25 had apparently destroyed the British public's trust in Latin American ventures.

This situation changed by the middle of the century. Exports of British capital had previously been facilitated by a permanent surplus in the balance of trade, although they were seriously handicapped by lack of funds, the slow rate of growth of domestic savings and the archaic credit and banking system. But after 1850 most of these obstacles were reduced. The sharp increase in the means of payments resulting from the gold boom in California, the acceleration of the internal savings' growth rate owing to the progress in industrialization, and a general improvement of banking and credit facilities were factors which helped to expand the market in securities and to encourage investments in foreign countries. Strictly speaking, this expansion of the British capital abroad could have been hampered by the increasing deficit in the balance of trade, but this deficit was more than offset by the surplus in the balance of trade in invisibles (freight, investment income, etc.) which financed capital outflows as well as excessive imports.

These developments led English capitalists to become interested in certain productive investments in the region, including the railways, whose era began in 1849 with the incorporation of the Panama and Copiapo companies; the tramways, whose first line was built in Recife in 1868; and other public utilities. Nevertheless they continued to finance national treasuries directly. There was a new boom in Latin American government bonds, whose issues reached more than 130 million pounds sterling on the London Stock Exchange between 1851 and 1880. Peru, which ranked first with 34.9 per cent of the total, was

³ According to J. Fred Rippy, *op. cit.*, p. 22, the British public disbursed roughly 19 or 20 million pounds sterling, but the Latin American Governments only received amounts corresponding to issue-values after deduction of commissions, fees, discounts and printing costs were made, leaving a sum of approximately 12 million pounds sterling; the difference between these two figures represents the financial intermediaries' profits.

⁴ According to Albert H. Imlah, *Economic Elements in the Pax Britannica*, Cambridge, 1958, pp. 70-75, the aggregate amount of British investments abroad rose from 97.8 million pounds sterling in 1825 to 208.7 million pounds sterling in 1850, i.e., an increase of more than 110 per cent in 25 years.

followed by Brazil (18.4 per cent), Argentina (10.4 per cent), Mexico (9.7 per cent) and Chile (7.4 per cent).⁵ While investments in production brought good returns at the outset (7 per cent and over), investments in government bonds produced virtually the same disastrous results as in the 1820s: 58 per cent of the new Latin American public debt to Great Britain was in default by the end of 1880.⁶

This second boom in foreign investments in the region, though more substantial than that of the beginning of the century, was relatively limited. On the one hand, British capitalists viewed Latin America as a secondary area and made most of their foreign investments in Continental Europe.⁷ On the other hand, their European competitors did not risk capital in the Latin American region during the period 1850-70. For example, France's financiers maintained a "wait and see" attitude towards Latin America during the first half of the XIXth century, except for a 30-million-franc issue by the Government of Haiti in 1825 the purpose of which was to pay an indemnity to the former French planters of Saint Domingue, and the floatation of a mining company which soon went bankrupt.⁸ This attitude did not change substantially during the Second Empire. From 1851 until 1870 only a few minor issues of Latin American securities were transacted on the Paris Stock Exchange. These included a series of bonds floated by the Maximilian Government at the time of the French expedition to Mexico, and two loans granted to two Latin American republics just before the Franco-Prussian War of 1870 — the Honduran loan of 1869 and the Peruvian loan of 1870, with a nominal capital of 298 million francs, carrying a 6 per cent rate of interest, and destined to finance the construction of the Callao-Oroya and Arequipa-Puno railways.⁹

2. THE GOLDEN AGE OF FOREIGN CAPITAL (1874-1914)

The golden age of foreign capital investment in Latin America began in the second half of the 1870s and lasted for about forty years, ending in 1914. The threat of continental wars, the greater degree of technological and financial independence acquired by some European countries, the need to increase agricultural production in the new countries to enable them to supply food to the growing urban population of Great Britain, the generally accepted view that investment conditions in these countries provided a greater measure of security than in the past, induced British investors to turn from Europe and to concentrate on the peripheral areas. While preference was naturally given to the United States and the British Dominions or colonies, Latin America was not neglected by the English investors, this being particularly true of Argentina, where conditions were somewhat similar to those in the new countries settled by

English-speaking people (Canada, Australia, New Zealand and South Africa). Argentina aroused keen interest among the financial firms connected with the London Stock Exchange. The example set by Great Britain was quickly followed by investors in other countries. French, German, American and, to a lesser extent, Belgian, Dutch and Swiss capitalists began to invest in Latin America. By the eve of the First World War the region had become the target of keen competition among the great international financial centres.

(a) *British investments*

The history of British investments is relatively better known than that of other foreign investment. In a recent study, Professor J. Fred Rippy was able to estimate the amount of English assets invested in public and private Latin American securities at the end of some selected years on the basis of data published in the annual reports of the Council of the Corporation of Foreign Bondholders, the Stock Exchange Yearbooks and the South American Journal.

These estimates are clearly inadequate for several reasons: (i) they cover only the securities publicly offered on the London Stock Exchange and thus do not include securities sold privately; (ii) they provide only a rough idea of the English portfolio of Latin American securities since part of the securities issued and quoted on the London Stock Exchange could be purchased by foreigners, and conversely British residents could buy Latin American securities floated in foreign countries (for example, Latin American dollar bonds); (iii) they relate to nominal values of securities which are quite different from market values and, as far as investments in private firms are concerned, from book values.

In any case, Professor Rippy's estimates reveal that English capital inflow into the region fluctuated widely before the First World War and can be divided roughly into three principal periods:

1. From 1880 to 1890, British investments in the region increased considerably. Railways aroused such enthusiasm that the nominal value of British assets in this sector increased by 147 million pounds sterling in ten years, mainly in Argentina, Brazil, Chile, Venezuela and Mexico. There was also a boom in other public utilities (submarine cables, gas plants, waterworks, telephones and tramways), the mining companies and the corporate real estate enterprises. Besides, the government debt to Great Britain increased to more than 70 million pounds sterling in spite of a reduction of public indebtedness in some countries, as, for example, Costa Rica, Mexico, Peru and Bolivia. As a matter of fact, returns on English capital were very satisfactory throughout the decade. The irregular yields in real estate enterprises and mining companies were more than offset by handsome earnings in railways, public utilities, banks and industrial firms.¹⁰

¹⁰ According to J. Fred Rippy, *op. cit.*, pp. 42-45, only half of the British-owned land companies, 9 of the 69 mining companies and 3 of the 20 nitrate firms, paid dividends on their ordinary shares in 1890; but all the railway corporations paid interest, ranging from 4.5 to 10.0 per cent, on their debentures and preferred shares; and three-fourths of them also served their ordinary shares; banks and most of the industrial plants paid interest ranging from 5 to 15 per cent.

⁵ J. Fred Rippy, *op. cit.*, pp. 26-32. Nevertheless the purpose of part of these issues was to refund old debts in default.

⁶ *Ibid.*, p. 31.

⁷ Herbert Feis, *Europe the World's Banker 1870-1914*, Reed, New York, 1961, pp. 17-18.

⁸ Bertand Gille, *La Banque et le Crédit en France de 1815 à 1848*, Paris, 1959, p. 229.

⁹ Alphonse Courtois fils, *Manuel des fonds publics et des sociétés par actions*, 8th ed., Paris, 1883.

In addition the interest paid on government bonds (about 5 per cent) was generally higher than that paid in Europe and the volume of loans in default decreased substantially (from 70 million pounds sterling in 1880 to less than 8 million in 1890).

2. From 1890 to 1900 British capital inflow into the region slackened. As a matter of fact the nominal value of English investments increased only by 114 million pounds sterling between 1890 and 1900 as compared to 246 million pounds sterling between 1880 and 1890, and this slowing down is even more apparent if the increases are calculated as percentages of the outstanding amounts of investments at the beginning of each period (27 per cent of increase in 1890-1900 instead of 137 per cent in 1880-90). Returns on British investments in Latin America, as in the other new countries, were apparently lower in the 1890s than they had been in the previous decade. The reason for this was that the increase in agricultural production in the countries concerned caused a sharp drop in the price of many commodities. Furthermore, the financial crisis of 1893 forced the Argentine Government to suspend the service of its external debt, while the political revolution and monetary disorders reduced the creditworthiness of Brazil.

3. From 1900 to 1914, British investments in Latin America expanded rapidly. They rose from 540 million pounds at the end of 1900 to roughly 1,000 million at the end of 1913, thus doubling in less than fifteen years. While English capitalists invested primarily in railways, public utilities, mines and nitrate fields, they also became increasingly interested in petroleum extraction and refining. At the same time the Latin American public debt to Great Britain increased by more than 110 million pounds sterling in a decade and a half. As a matter of fact returns on capital improved substantially during the 1900s and reached a level often higher than that experienced during the 1880s.¹¹ (See table 2.)

In spite of these sharp fluctuations over the medium term, the long-term trend of British capital inflow into the region was clearly upward during the three decades preceding the First World War. The nominal value of English assets in Latin America rose from less than 180 million pounds sterling in 1870 to approximately 1,000 million pounds in 1913; i.e., they increased five times in three decades. Nevertheless the actual capital inflow was probably less than the difference between these two figures (about 820 million pounds sterling), since the Latin American securities were generally offered on the London Stock Exchange at less than face value. On the basis of issue-values¹² the securities may be estimated roughly at 600 million pounds, i.e., 2,900 million dollars. (See table 3.)

¹¹ According to J. Fred Rippey, *op. cit.*, pp. 72-74, the average returns on English investments was 4.7 per cent at the end of 1913. It was approximately 4.4 per cent in government securities, but it varied substantially in private securities from one sector to another; it was only 4.2 per cent in railways but it reached 6.2 per cent in shipping, between 6 and 10 per cent in mining, about 11 per cent in nitrate and between 12 and 20 per cent in banking.

¹² The issue-values entered on this table have represented between 70 and 75 per cent of the securities' nominal values.

Table 2. United Kingdom: amount of investment in Latin American securities at the end of some characteristic years,^a 1880-1928

(Millions of pounds sterling)

Year	Public ^b securities	Private ^c securities	Total
1880.	123.0	56.4	179.3
1890.	194.3	231.4	425.7
1900.	228.0	312.0	540.0
1913.	316.5	682.9	999.4
1928.	340.9	857.6	1,198.5

SOURCES: J. Fred Rippey, *British Investments in Latin America 1822-1949*, *op. cit.*, pp. 25, 37, 45, 68 and 78, according to Council of the Corporation of Foreign Bondholders, *Annual Reports 1877-1891*, *Stock-Exchange Yearbooks*, 1881-1891, and *South American Journal 1880-1932*.

^a The figures correspond to the nominal values of the Latin American securities issued on the London Stock Exchange and not reimbursed at the end of every year.

^b This item covers the bonds issued by the Governments, states and municipalities of Latin America on the London Stock Exchange.

^c This item covers the bonds and shares issued on the London Stock Exchange by private English or foreign corporate firms which had their main activity in Latin America.

It may be observed that English assets increased more rapidly in Latin America than in other foreign countries, the share of the region in total British investments abroad rising from 10.8 per cent in 1870 to 20.2 per cent in 1913. Consequently British investors occupied first place among foreign investors in the area throughout the period 1870-1914. In fact, it seems that at the outset of the First World War they owned approximately two-thirds of the total foreign investments in Latin American countries.¹³

As British investments grew, substantial changes occurred in their geographical distribution (see tables 4 and 5).

First, the share of the largest countries (Argentina, Brazil and Mexico) increased from 50 per cent of the total in 1880 to 66 per cent in 1890 and 72 per cent in 1913, while that of the medium-size countries (Chile, Colombia, Peru and Venezuela) decreased from 30.5 per cent in 1880 to 13.2 per cent in 1890 and 10.2 per cent in 1913. Very little was invested in the smaller countries.

Secondly, countries in the temperate zone exporting agricultural products (Argentina, Uruguay and, to a lesser extent, Paraguay) replaced the mining countries as main recipients of British capital, while the countries exporting tropical products continued in a secondary position. The share of the first group of countries in the total of English investments in the region rose from 16 per cent in 1880 to 40 per cent in 1890 and 1913, while that of the second group of countries dropped from 44 per cent in 1880 to 24 per cent in 1890 and 1913, and that of the third remained roughly 30 per cent. The reasons for the progressive concentration of British assets in the agricultural countries of the temperate zone are well known. Since 1880 the inflow of English capital permitted the large-scale application of some technological inno-

¹³ Frederic M. Halsey, *Investments in Latin America and the British West Indies*, United States Department of Commerce, Washington, 1918, pp. 19-22.

Table 3. United Kingdom : geographical distribution of overseas investment, 1870, 1885 and 1913 ^a
(Millions of pounds sterling)

Country or region	1870		1885		1913	
	Total	Percentage of the total	Total	Percentage of the total	Total	Percentage of the total
British Empire	270	34.4	675	51.9	1,780	47.3
Europe and the Near East	230	29.3	175	13.5	471	12.4
Latin America	85	10.8	150	11.5	757	20.2
United States	200	25.5	300	23.1	755	20.1
TOTAL	785	100.0	1,300	100.0	3,763	100.0

SOURCES :

1870, Alexander K. Cairncross, *Home and Foreign Investment 1870-1913*, Cambridge University Press, 1953, p. 183, according to C. K. Hobson, *The Export of Capital*, London 1914, p. 132; L. H. Jenks, *The Migration of British Capital to 1875*, New York 1927, pp. 219, 225, 425; *Fenn on the Funds*, 12th ed., London 1874;

1885, Alexander K. Cairncross, op. cit., p. 183, according to *The Economist*, 9 February 1884 and 23 January 1886.

1913, H. Feis, op. cit., p. 23, and Alexander K. Cairncross, op. cit., table 42, according to Sir George Paish, *Statist Supplement*, February 1914.

^a The figures relative to British investments in Latin America cannot be compared with those in table 2 because of some discrepancies in the respective methods of evaluation. As a matter of fact the figures entered in table 2 have been estimated by J. Fred Rippey, op. cit., pp. 25, 37, 45, 68 and 78, on the basis of the nominal values of the Latin American securities issued and quoted on the London Stock Exchange. On the contrary, the figures entered in the present table correspond to the issue values which were generally well below par.

Table 4. United Kingdom : amount of investment in Latin American securities ^a by country at the end of some characteristic years, 1880-1928
(Millions of pounds sterling)

Country	1880			1890			1913			1928		
	Public ^b securities	Private ^c securities	Total	Public ^b securities	Private ^c securities	Total	Public ^b securities	Private ^c securities	Total	Public ^b securities	Private ^c securities	Total
Argentina	11.2	9.1	20.3	72.0	85.0	157.0	81.6	276.2	357.8	65.5	354.9	420.4
Bolivia	1.7	—	1.7	—	0.5	0.5	—	0.4	0.4	—	3.0	3.0
Brazil	23.1	15.8	38.9	37.0	31.7	68.7	117.4	106.5	223.9	165.0	120.7	285.7
Chile	7.8	0.7	8.5	9.5	14.8	24.3	34.7	29.3	64.0	29.2	47.7	76.9
Colombia	2.1	1.0	3.1	1.9	3.5	5.4	3.4	3.3	6.7	2.1	5.4	7.5
Costa Rica	3.3	—	3.3	2.0	3.1	5.1	2.0	4.7	6.7	1.5	4.0	5.5
Cuba	—	1.2	1.2	24.4	2.4	26.8	9.7	34.8	44.5	6.2	37.6	43.8
Dominican Republic	0.7	—	0.7	0.7	0.7	1.4	...	...	...	—	0.7	0.7
Ecuador	1.7	0.1	1.8	1.8	0.4	2.2	0.2	2.6	2.8	0.4	3.6	4.0
El Salvador . . . . .	...	...	...	0.3	—	0.3	0.8	1.4	2.2	0.8	1.1	1.9
Guatemala	0.5	—	0.5	0.9	—	0.9	1.4	9.0	10.4	2.0	5.0	7.0
Haiti . . . . .	...	...	...	...	...	...	...	...	...	...	...	...
Honduras	3.2	—	3.2	3.2	0.7	3.9	3.2	—	3.2	2.0	—	2.0
México	23.6	9.2	32.8	20.6	39.2	59.8	28.6	130.4	159.0	38.8	160.2	199.0
Nicaragua	—	0.2	0.2	0.3	0.1	0.4	1.2	—	1.2	0.7	—	0.7
Panama . . . . .	...	...	...	...	...	...	...	...	...	—	1.1	1.1
Paraguay	1.5	—	1.5	0.8	1.1	1.9	0.8	2.2	3.0	1.0	2.8	3.8
Peru	32.7	3.5	36.2	—	19.1	19.1	1.7	23.9	25.6	2.9	23.3	26.2
Uruguay	3.5	4.1	7.6	16.2	11.6	27.8	25.6	20.6	46.2	21.3	19.8	41.1
Venezuela	6.4	1.2	7.6	2.7	7.2	9.9	4.2	3.7	7.9	1.5	24.9	26.4
Investments not distributed by country ^d	—	10.3	10.3	—	10.3	10.3	—	33.9	33.9	—	41.8	41.8
TOTAL	123.0	56.4	179.4	194.3	231.4	425.7	316.5	682.9	999.4	340.9	857.6	1,189.5

SOURCES : As for table 2.

^a The figures correspond to the nominal values of the Latin American securities issued on the London Stock Exchange and not reimbursed at the end of every year.

^b This item covers the bonds issued by the Latin American Governments, states and municipalities on the London Stock Exchange.

^c This item covers the bonds and shares issued on the London Stock Exchange by private English or foreign corporate firms which have their main activity in Latin America.

^d Mainly investments in shipping and banking.

Table 5. United Kingdom : geographical distribution of investment in Latin America, 1880-1928
(Percentage of the regional total)

	1880	1890	1913	1928
I. Distribution among the main geographical areas :				
Central America	22.8	22.9	21.7	21.8
South America	69.4	73.2	72.6	74.7
Undistributed investment	7.8	3.9	5.7	3.5
	100.0	100.0	100.0	100.0
II. Geographical distribution according to the main economic activity of the recipient country :				
Tropical product-exporting countries ^a	28.5	26.6	29.6	30.0
Mineral product-exporting countries ^b	43.6	23.8	23.9	25.5
Temperate agricultural product-exporting countries ^c	16.0	43.4	40.0	39.0
Venezuela	4.1	2.3	0.8	2.0
Undistributed investment	7.8	3.9	5.7	3.5
	100.0	100.0	100.0	100.0
III. Geographical distribution according to the economic size of the recipient country :				
Argentina, Brazil and Mexico	50.0	66.0	72.0	75.5
Chile, Colombia, Peru and Venezuela	30.5	13.2	10.2	11.4
Bolivia, Costa Rica, Cuba, Dominican Republic, El Salvador, Ecuador, Haiti, Honduras, Nicaragua, Panama, Paraguay and Uruguay	11.7	16.9	12.1	9.6
Undistributed investment	7.8	3.9	5.7	3.5
	100.0	100.0	100.0	100.0

SOURCES : As for table 2.

^a Brazil, Colombia, Costa Rica, Cuba, Dominican Republic, El Salvador, Ecuador, Guatemala, Haiti, Honduras, Nicaragua and Panama.

^b Bolivia, Chile, Peru and Mexico.

^c Argentina, Paraguay and Uruguay.

Table 6. United Kingdom : sectoral distribution of investment in Latin America ^a
(Millions of pounds sterling)

Sector	1880		1890		1900		1913		1928	
	Total	Percentage of the total	Total	Percentage of the total	Total	Percentage of the total	Total	Percentage of the total	Total	Percentage of the total
1. Government	123.0	68.6	194.3	45.6	228.0	42.2	316.5	31.7	340.9	28.4
2. Private sector	56.4	31.4	231.4	54.4	312.0	57.8	682.9	68.3	857.6	71.6
Railways	34.4	19.2	166.9	39.2	200.0	37.0	457.8	45.8	491.0	41.0
Public utilities	11.1	6.2	19.9	4.7	30.0	5.6	...	...	...	...
Mining	3.4	1.9	12.6	3.0	10.4	1.9	22.2	2.2	22.5	1.9
Nitrate	—	—	5.4	1.3	9.2	1.7	...	...	...	...
Real estate	0.5	0.3	7.9	1.9	10.8	2.0	...	...	...	...
Banking	3.0	1.7	3.6	0.8	11.7	2.2	18.5	1.8	41.9	3.5
Others	4.0	2.1	15.1	3.5	39.9	7.4	184.4	18.5	302.2	25.2
3. TOTAL	179.4	100.0	425.7	100.0	540.0	100.0	999.4	100.0	1,198.5	100.0

SOURCE : J. Fred Rippey, *op. cit.*, pp. 25, 37, 38, 39, 40, 45, 66, 68 and 75.
^a The figures correspond to the nominal values of the Latin American

securities issued on the London Stock Exchange and not reimbursed at the end of every year.

vations (barbed wire enclosures, meat chilling, etc.), enabling the River Plate countries to increase their meat and grain sales to the United Kingdom. The expansion of exports and, accordingly, the increase in the foreign exchange earnings of these countries encouraged British capitalists to invest more money there.

The distribution of British investments by sectors also experienced some changes as shown in table 6.

The share of the government sector in English investments dropped steadily so that it represented only 31 per cent of the total in 1913 as compared to 42 per cent in 1900, 45.6 per cent in 1890 and 68.6 per cent in 1880.

In spite of this evolution, the volume of the Latin American public debt more than doubled during the 30 years which preceded the First World War, rising from 123 million pounds sterling in 1880 to 316.5 millions in 1913. However, the liabilities of private firms increased much more, rising from 56.4 million pounds sterling in 1880 to 682.9 millions in 1913, or approximately twelve times. Obviously British investors became more interested in the financing of private enterprises than of Governments, notwithstanding the fact that a good part of the funds raised by the latter in Great Britain was used to finance investments in overhead facilities.

Lack of statistical data makes it more difficult to determine the distribution of English capital among the various branches of the private sector. Nevertheless it may be noted that an increasingly larger part of total British funds was invested in Latin American railways (45.8 per cent in 1913 as against 37 per cent in 1900, 39.2 per cent in 1890, and 19.2 per cent in 1880). The share of the public utilities, which ranked second, apparently remained constant between 5 and 6 per cent of total investments in the region, while that of mining enterprises, including nitrate companies, rose slightly from 1.9 per cent in 1880 to 4.3 per cent in 1890, dropping to 3.7 per cent in 1900. Investments in land companies and manufacturing experienced a slight percentage increase, while representing only a small amount in absolute value.

(b) French investments

Information on French investments in Latin America is even scarcer than that regarding English investments.

Nevertheless it was possible to compile two statistical series on the basis of data available from the *Annuaire des Valeurs admises à la Cote officielle de la Bourse de Paris* (see tables 7 and 8). The first of these series indicates the annual amount of Latin American securities issued in France after deduction of amortization and conversion during some selected periods (1870-79, 1880-89, 1890-99 and 1900-13). The second gives an estimate of the outstanding amount of Latin American securities listed on the Paris Stock Exchange at the end of some selected years. These two statistical series suffer from the same shortcomings as the Rippy estimates on English investments because they were compiled by the same method. However, they show that French capital inflow into Latin America experienced almost the same fluctuations as English capital during the three decades preceding the First World War.

The first boom took place between 1880 and 1890. The issues of Latin American securities on the Paris Stock Exchange, notwithstanding sharp annual fluctuations, reached a yearly average of 340 million francs. Funds of French origin financed both public and private activities in the region.

The 1890s were much less favourable to French investments than to British capital. The annual average value of the issues decreased substantially from 340 million francs in 1880-90 to less than 100 million francs in 1890-1900. After deduction of losses, the volume of French investments in the region dwindled. According to the Paris Stock Exchange yearbook, the outstanding

Table 7. Issues of Latin American securities on the Paris Stock Exchange, 1870-1913 ^a

(Annual averages in millions of francs)

Period	Government ^b	Private corporations ^c	Total
1870-79	150.0	3.2	153.2
1880-89	157.4	180.8	338.2
1890-99	51.3	52.8	104.1
1900-13	147.1	358.1	505.2

SOURCE: *Annuaire des Valeurs admises à la Cote officielle*, published by the Compagnie des Agents de Change près la Bourse de Paris, various ed., Paris, 1880-1914.

^a The figures correspond to the par values of new Latin American securities issued on the Paris Stock Exchange, less conversion and amortization.

^b This item covers the bonds issued or guaranteed by the Latin American Governments, states and municipalities so that it includes an important amount of railway bonds.

^c This item covers the bonds and shares issued by the French or foreign corporations which had their main activity in Latin America.

Table 8. France: investment in Latin America, ^a 1880-1913

(Millions of francs)

	1880	1890	1900	1913
Government ^b	1,775.7	2,699.6	2,464.2	5,115.5
Foreign corporations ^c	10.0	2,719.9	505.0	3,035.4
TOTAL	1,785.7	5,419.5	2,969.2	8,150.9

SOURCE: As for table 7.

^a The figures correspond to the outstanding nominal values of the Latin American securities listed on the Paris Stock Exchange at the end of every year.

^b This item covers the bonds issued or guaranteed by the Latin American Governments, states and municipalities, so that it includes an important amount of railway bonds.

^c This item covers the bonds and shares issued by the French or foreign corporations which had their main activity in Latin America.

nominal value of Latin American securities listed on this Stock Exchange decreased by 50 per cent from 1890 to 1900 because of a sharp reduction in the number of private firms operating in Latin America whose bonds and shares were quoted in France. Probably most of the firms whose securities ceased to be quoted went bankrupt.

In spite of this unfortunate experience, French investments in Latin America recovered vigorously at the beginning of the XXth century. The annual value of the new issues was 540 million francs in 1900-13, with a peak of more than 2,500 million francs in 1910. French investors preferred the private sector to the public sector, since the former received about 70 per cent of the new investments.

Over the long term the trend of French investment was also upward. According to table 7 these investments increased more than four times during the period 1880-1913, rising from 1,785.7 million francs in 1880 to 8,150.9 million francs in 1913, i.e., by some 6,400 million francs. However, the actual capital inflow into Latin America was certainly not as high, since the Latin American securities were offered in Paris, as in London, at less than face value. It can be estimated roughly at 4,800 mil-

lion francs¹⁴ or 900 million dollars, i.e., one-third of the English capital inflow as previously estimated in the section of British investments.

As a matter of fact French investors were taking an increasing interest in Latin America around the turn of the century. This tendency can be noted as early as 1880 when the French financial houses began to turn from Europe and to expand their activities in the peripheral areas.¹⁵ However, it was not until the years immediately preceding the First World War that the Latin American securities market aroused the enthusiasm of French investors. According to table 9, the value of the Latin American issues on the Paris Stock Exchange represented

45.1 per cent of all the foreign issues registered in this Stock Exchange in 1910-13 as against 27.0 per cent in 1905-09 and 4.8 per cent in 1898-1904. A marked preference was shown for private Latin American securities. In 1910-13 roughly 70 per cent of the foreign private securities issued in France were floated by firms which operated in Latin America.

Relatively little data are available on the distribution of French investments in the region by country and sector. According to Professor Rippey's estimates (see table 10), during the decade before the First World War these investments were increasingly concentrated in three countries — Argentina, Brazil and Mexico — which represented 60 per cent of the total investments in the region at the end of 1902 and 90 per cent at the end of 1913. French investments were particularly important in the railway industry, which represented 26.3 per cent of the French assets invested in the region at the end of 1913 compared to 4.8 per cent at the end of 1902.

¹⁴ The issue-values can be roughly estimated at 70 per cent on the nominal values.

¹⁵ Rondo E. Cameron, *France and the Economic Development of Europe*, Princeton University Press, 1961, pp. 485-487.

Table 9. Geographical distribution of foreign securities issued on the Paris Stock Exchange, 1892-1913^a
(Annual averages in millions of francs)

	1892-97		1898-1904		1905-09		1910-13	
	Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage
(A) Government								
World	389.0	100.0	527.0	100.0	886.0	100.0	926.0	100.0
Latin America	11.7	3.0	26.8	5.1	172.3	19.4	170.2	18.4
(B) Foreign corporations								
World	131.0	100.0	254.0	100.0	473.0	100.0	958.0	100.0
Latin America	34.7	26.5	10.9	4.3	194.4	41.1	678.1	71.0
(C) TOTAL								
World	520.0	100.0	781.0	100.0	1,359.0	100.0	1,884.0	100.0
Latin America	46.4	8.9	37.7	4.8	366.7	27.0	848.3	45.1

SOURCES: The figures for the World are taken from *Crédit Lyonnais, Emissions de Valeurs Mobilières sur le Marché français, Congrès international pour l'Etude des Problèmes de l'Épargne, Rapports nationaux, I*, pp. 334-353, as quoted by Rondo E. Cameron, op. cit., p. 487. The figures for Latin America have been compiled on the basis of the

Annaires des Valeurs admises à la Cote officielle, published by the Compagnie des Agents de Change près la Bourse de Paris, 1890-1913.

^a The data correspond to the issue-values so that the figures for Latin America cannot be compared with those entered on table 7, which correspond to the nominal values.

Table 10. France: investment in Latin America, 1902 and 1913^a
(Millions of francs)

Country	Total		Government securities		Railways		Others	
	1902	1913 ^b	1902	1913 ^b	1902	1913 ^b	1902	1913 ^b
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. Fred Rippey, "French Investments in Latin America", *Inter-American Economic Affairs*, vol. II, No. 2, autumn 1948, quoted in *Foreign Capital in Latin America*, United Nations publication, Sales No.: 54.II.G.4.

^a The figures correspond to the nominal values of the Latin American securities listed on the Paris Stock Exchange, at the end of year.

^b The estimate of the total French investment in Latin America at the end of 1913 corresponds roughly to the figure entered on table 8, but the sectoral distribution is quite different. As a matter of fact in the present table the item entitled Government Securities covers only the securities issued by the Latin American Governments, whereas on table 8 it covers the securities issued or guaranteed by the Latin American Governments, so that it includes an important amount of railway and other bonds.

(c) *German investments*

Data on German investments are even more inadequate than those concerning French investments. German investors apparently became interested in Latin America as well as in other peripheral areas after the economic crisis of 1891-94. It was then that the Argentine, Brazilian, Mexican, Chilean and Venezuelan Governments issued bonds in Germany. Furthermore some German companies

The situation gradually changed during the 1890s. Political trends towards substitution of American for European capital in the Caribbean countries and in Central America, the consequences of some provisions of the McKinley Tariff related to raw lead and sugar imports, the need for foreign markets as an outlet for the products of the young American industry, the increasing consumption of tropical fruit, the expansion

Table 11. Germany: investment in foreign countries, 1898 and 1904

(Millions of marks)

Region or country	1898		1904	
	Total	Percentage	Total	Percentage
Latin America	2,370-2,970	33.6-38.1	2,880-3,350	35.8-36.2
Central America, North Coast of				
South America and West Indies	1,000-1,250	14.2-16.0	1,080-1,200	13.4-13.0
West Coast of South America . .	370-420	5.2-5.4	500-550	6.2-5.9
East Coast of South America . . .	1,000-1,300	14.2-16.7	1,300-1,600	16.2-17.3
United States and Canada	2,025-	28.8-25.8	2,500-3,000	31.1-32.5
Africa and Turkey	1,370-1,380	19.5-17.7	1,625-1,700	20.2-18.4
Asia	660-690	9.4-8.9	725-775	9.0-8.4
Australia and Polynesia	610-730	8.7-9.5	300-400	3.9-4.5
TOTAL	7,035-7,795	100.0-100.0	8,030-9,225	100.0-100.0

SOURCE: A. Sartorius von Wattershausen, *Das volkswirtschaftliche System der Kapitalanlage in Ausland*, Berlin 1907, pp. 102-103, quoted in Raymond F. Mikesell, *United States Private and Government Investment Abroad*, University of Oregon, 1962, p. 23.

rapidly expanded their activities in the region, especially in banking, public utilities, real estate, etc.

It seems, however, that German investments levelled off quickly. According to estimates given by A. Sartorius von Wattershausen, reproduced in table 11, they rose very slightly from a range of 2,370-2,970 million marks in 1898 to 2,880-3,350 million marks in 1904. In both years, they represented somewhat more than a third of all German assets abroad.

(d) *United States investments*

The history of United States investments in the region began approximately at the same time as that of German investments.

Until 1890 the United States had been forced to borrow considerable amounts of money in Europe, firstly, to finance excess imports and, secondly, to serve foreign capital. It thus did not invest on a large scale in Latin America. Portfolio investments were limited to a Peruvian loan issued in 1860 and retired long before the close of the century, and to two series of bonds that two of Juarez's generals tried to float in the United States during the French expedition in Mexico.¹⁶ Direct investment included only some silver and gold mines in Mexico, a few sugar plantations bought by American trading companies in Cuba during the political disturbances of 1876-78, a railroad in Panama and some trading firms in Peru, Argentina and Colombia.¹⁷

¹⁶ Cleona Lewis, *America's Stake in International Investment*, Washington, 1938, pp. 333-334.

¹⁷ *Ibid.*, pp. 177-181, 201, 202, 264-265 and 315.

of the New York capital market and the growth of internal savings as a result of the industrial boom, were all factors which encouraged American capitalists to invest in Latin America, notwithstanding the fact that the United States continued to import capital from Europe. These investors were primarily interested in direct investments in agriculture (sugar plantations in Cuba and banana plantations in Central America), in mines (copper and lead in Mexico) and, to a lesser extent, in railways. Some Mexican bonds were also issued on the New York Stock Exchange.

Nevertheless, United States capital inflow to Latin America remained relatively small until the end of the XIXth century. But from then on it increased quickly so that the United States investments outstanding, which amounted to only 300 million dollars at the end of 1897, reached more than 1,000 million at the end of 1908 and more than 1,500 million at the end of 1914 (see table 12). On the other hand, direct investments rose from 300 million dollars in 1897 to 1,275 million dollars in 1914, thus increasing more than four times in less than two decades. Most of these investments went to Cuba after the Spanish-American War of 1898 and the establishment of special ties between the island and the United States (Platt Amendment of 1904), and to Mexico because of political stability during the Díaz administration (1876-1911) and special treatment given to foreign investors by the Mexican Government. On the other hand, the portfolio investments which were insignificant in 1897 reached 370 million dollars in 1914 but their relative importance was not too great, representing only 23 per cent of the

Table 12. United States: portfolio ^a and direct investment ^b in Latin America by geographical area, 1897-1929

(Aggregate totals in millions of dollars at end of year)

Year	Caribbean countries ^c			Mexico and Central America			South America			Total		
	Portfolio investment	Direct investment	Total	Portfolio investment	Direct investment	Total	Portfolio investment	Direct investment	Total	Portfolio investment	Direct investment	Total
1897	—	45.0	45.0	—	221.4	221.4	—	37.9	37.9	—	304.3	304.3
1908	30.0	190.2	220.2	258.7	454.3	713.0	25.4	104.3	129.7	334.1	748.8	1,062.9
1914	55.0	274.0	329.0	270.0	676.7	946.7	40.6	325.1	365.7	365.6	1,275.8	1,641.4
1919	38.9	556.9	595.8	267.6	756.1	1,023.7	111.6	664.6	776.2	418.1	1,977.6	2,395.7
1924	108.1	953.3	1,061.4	281.5	878.9	1,160.4	464.1	947.1	1,411.2	853.7	2,779.3	3,633.0
1929	128.4	966.0	1,094.4	301.4	960.1	1,261.5	1,294.1	1,719.7	3,013.8	1,723.9	3,645.8	5,369.7

SOURCE: Cleona Lewis, *America's Stake in International Investments*, Brookings Institute, Washington, D.C., 1938, appendix D, pp. 575-607.

^a Consists mainly of foreign government or private bonds publicly offered in the United States, but also includes shares of foreign corporations owned in the United States by non-controlling interests. 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.

^b Defined as investments 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.

^c Cuba, Dominican Republic, and Haiti. This item covers also a small amount of United States investments in some sectors (mining and smelting, excluding oil, oil distribution, manufacturing and trade) in the rest of the West Indies.

total United States investment in the region and being to a large extent a former direct investment.¹⁸

According to figures on United States investment in Latin America (100 million dollars in 1880 and 1,600 million dollars in 1914), United States capital inflow into the region can be estimated at 1,500 million dollars for the three decades preceding the First World War. This capital represents respectively 50 per cent and 150 per cent of the English and French capital inflows during the same period, as estimated in earlier portions of this study. However, these percentages may lead to an over-estimation of United States investments in Latin America. As a matter of fact the new European investments have been estimated on the basis of securities publicly offered on the Stock Exchange while new United States investments have been estimated on the basis of securities sold both publicly and privately.

In fact, before the First World War, United States capital was confined to a limited area in the region. In 1914, 77 per cent of this capital was invested in the Caribbean Islands, in Central America and in Mexico. Cuba and Mexico alone accounted for 65.8 per cent of total United States investments (see tables 13 and 14) while little was invested in South America. This distribution was in sharp contrast to that of European capital, for economic as well as geographical or political reasons. Obviously American investors were more interested in countries producing minerals and tropical products than in commodities from countries in the temperate zone whose economy was competitive rather than complementary to that of the United States. In 1914, 64.1 per cent and 31.2 per cent of direct United States investments

were located in the first and second groups of countries respectively, and less than one per cent went to the third group.

At the outset of the First World War, the sectoral distribution of direct United States investments was characterized by a clear preponderance of mining activities (43.5 per cent), concentrated mainly in industrial minerals, and agriculture (18.7 per cent), represented mainly by sugar and banana plantations. Railways constituted another important item (13.7 per cent) but to a lesser extent than in English and French investments. Oil production and distribution occupied fourth place with less than 10 per cent of total direct United States investments in the region. (See table 15.)

3. FOREIGN CAPITAL IN LATIN AMERICA ON THE EVE OF THE FIRST WORLD WAR

During the First World War, Frederic M. Halsey, a special agent of the United States Department of Commerce, investigated foreign investments in Latin America and the British West Indies in order to determine whether possibilities existed for United States capital investment. When the figures he collected are checked with data from the creditor countries, the amount of foreign capital invested in the region at the end of 1914 can be roughly estimated. This estimate is reproduced in tables 16, 17 and 18.

The figures so compiled are clearly insufficient for three main reasons:

Halsey's inquiry does not cover two of the main Latin American recipients of foreign capital, Mexico and Cuba, so that it has been necessary to use data from other sources for these two countries;

The data have not all been collected at the same date so that while most of them relate to the end of 1914, some correspond to the end of 1915, 1917 or 1918;

The distribution of investments by creditor country and recipient sector is very conjectural.

¹⁸ According to Cleona Lewis, *op. cit.*, pp. 346-347, the Díaz Government organized in 1908 a national railway company (Ferrocarriles Nacionales de México) which took control of the main United States railroads in Mexico (Mexican Central and National Railroad of Mexico). The American stockholders were indemnified with \$190 million worth of bonds. These bonds represented almost 50 per cent of the United States portfolio of Latin American securities in 1914.

Table 13. United States: direct investment ^a in Latin America by country, 1897-1929
(Aggregate totals in millions of dollars at end of year)

Country	1897	1908	1914	1919	1924	1929
<i>Caribbean countries</i>	45.0	190.2	274.0	556.9	953.3	966.0
Cuba	43.5	184.1	252.6	518.1	877.2	887.0
Dominican Republic	1.5	1.0	11.0	21.5	58.2	65.2
Haiti	—	5.0	10.4	17.3	17.9	13.8
<i>Mexico and Central America</i>	221.4	454.3	676.7	756.1	878.9	960.1
Mexico	200.2	416.4	587.1	643.6	735.4	709.2
Costa Rica	3.5	17.0	21.6	17.8	13.0	20.5
El Salvador	—	1.8	6.6	12.8	12.2	24.8
Guatemala	6.0	10.0	35.8	40.0	47.0	58.8
Honduras	2.0	2.0	9.5	18.4	40.2	80.3
Nicaragua	—	1.0	3.4	7.3	6.8	17.3
Panama	9.7	6.1	12.7	16.2	24.3	49.2
<i>South America</i>	37.9	104.3	325.1	664.6	947.1	1,719.7
Argentina	0.7	1.0	1.2	2.5	4.5	150.8
Bolivia	—	—	2.0	22.0	29.5	44.2
Brazil	1.0	—	3.0	4.0	4.5	108.4
Chile	1.0	31.0	170.8	307.0	331.5	448.4
Colombia	9.2	10.8	24.0	45.0	84.0	182.7
Ecuador	3.0	6.0	7.6	7.6	7.6	11.1
Paraguay	—	—	5.0	6.0	7.5	7.5
Peru	7.0	23.0	58.0	110.5	140.5	161.5
Uruguay	—	—	—	—	—	3.1
Venezuela	2.0	3.5	6.5	20.5	103.5	245.3
<i>Undistributed by country</i>	14.0	29.0	47.0	139.5	234.0	356.7
TOTAL	304.3	748.8	1,275.8	1,977.6	2,779.3	3,645.8

SOURCE: As for table 12.

^a Same definitions of direct investment as in table 12.

Table 14. United States: geographical distribution of investment in Latin America, 1897-1929

	1897	1908	1914	1919	1924	1929
I. Distribution of United States portfolio ^a and direct ^b investment by geographical area:						
Caribbean countries ^c	14.8	20.3	20.0	24.9	29.2	20.3
Mexico and Central America	72.8	67.7	57.7	42.7	31.9	23.5
South America	12.4	12.0	22.3	32.4	38.9	56.2
	100.0	100.0	100.0	100.0	100.0	100.0
II. Distribution of United States direct investment by geographical area:						
Caribbean countries	14.8	25.4	21.5	28.2	34.3	26.5
Cuba	14.3	24.6	19.8	26.2	31.6	24.3
Others	0.5	0.8	1.7	2.0	2.7	2.2
Mexico and Central America	72.8	60.7	53.0	38.3	31.6	26.3
Mexico	65.8	55.6	46.0	32.5	26.5	19.4
Central America	7.0	5.1	7.0	5.8	5.1	6.9
South America	12.4	13.9	25.5	33.5	34.1	47.2
	100.0	100.0	100.0	100.0	100.0	100.0
III. Distribution of United States direct investment according to the main economic activity of the recipient country:						
Tropical products-exporting countries ^a	38.3	32.7	31.2	36.7	46.3	41.7
Mineral products-exporting countries ^b	68.4	62.8	64.1	54.8	44.5	37.4
Temperate agricultural products-exporting countries	0.2	0.1	0.5	0.4	0.4	4.4
Venezuela	0.7	0.5	0.5	1.0	0.4	6.7
Undistributed	7.6	3.9	3.7	7.1	8.4	9.8
	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: As for table 12.

^b Same definition of direct investment as in table 12.

^a Same definition of portfolio investment as in table 12.

^c Same definition of the Caribbean countries as in table 12.

Table 15. United States: direct investment ^a in Latin America, by sector, 1897-1929
(Aggregate totals in millions of dollars at end of year)

Branch of economy	1897		1908		1914		1919		1924		1929	
	Total	Percentage	Total	Percentage	Total	Percentage	Total	Percentage	Total	Percentage	Total	Percentage
Agriculture	56.5	18.6	158.2	21.1	238.5	18.7	500.1	25.3	830.6	30.0	877.3	24.1
Sugar	24.0		57.0		115.0		354.0		668.0		643.5	
Fruit	8.5		28.2		57.5		67.1		86.1		153.8	
Others	24.0		73.0		66.0		79.0		76.5		80.0	
Mining and smelting	79.0	26.0	302.6	40.4	552.2	43.3	660.8	33.4	713.0	25.7	801.4	22.0
Precious ores and stones	58.0		141.6		176.2		144.5		151.0		164.3	
Industrial minerals	21.0		161.0		376.0		516.3		562.0		637.6	
Petroleum	10.5	3.5	68.0	9.1	130.0	10.2	326.0	16.5	533.0	19.2	731.5	20.1
Production	3.5		55.0		107.0		286.0		473.0		654.0	
Distribution	7.0		13.0		23.0		40.0		60.0		77.5	
Railroads	129.7	42.6	110.0	14.7	175.7	13.8	211.2	10.7	261.3	9.4	230.1	6.3
Public utilities	10.1	3.3	51.5	6.9	98.4	7.7	101.0	5.1	161.9	5.8	575.9	15.8
Manufacturing	3.0	1.0	30.0	4.0	37.0	2.9	84.0	4.2	127.0	4.6	231.0	6.3
Trade	13.5	4.4	23.5	3.1	33.5	2.6	71.0	3.6	93.0	3.3	119.2	3.3
Others	2.0	0.6	5.0	0.7	10.5	0.8	23.5	1.2	59.5	2.0	79.4	2.2
TOTAL	304.3	100.0	748.8	100.0	1,275.8	100.0	1,977.6	100.0	2,779.3	100.0	3,645.8	100.0

SOURCE: As for table 12.

^a Same definition of direct investment as in table 12.

Table 16. Latin America: external public debt at the end of 1914
(Millions of dollars) ^a

Debtor countries	Creditor countries					Total
	United Kingdom	France	Germany	United States	Others	
Argentina ^b	398	111	15	19	241	784
Bolivia ^c	—	11	—	3	2	15
Brazil	598	110	—	5	4	717
Chile ^d	128	16	19	1	10	174
Colombia	16	2	—	5	—	23
Costa Rica	8	7	2	—	—	17
Dominican Republic	—	—	—	5	—	5
Ecuador	1	—	—	—	—	1
El Salvador	4	—	—	—	—	4
Guatemala	7	—	—	—	—	7
Haiti	—	—	—	1	—	1
Honduras	16	10	—	—	—	26
Mexico	140	—	—	12	—	152
Nicaragua	3	—	—	—	3	6
Panama	—	—	—	5	—	5
Paraguay	4	—	—	—	—	4
Peru ^d	8	5	—	2	2	17
Uruguay	90	30	—	—	—	120
	<i>Subtotal I</i>	<i>1,421</i>	<i>302</i>	<i>36</i>	<i>58</i>	<i>2,079</i>
Venezuela	10	—	11	—	—	21
	<i>Subtotal II</i>	<i>1,431</i>	<i>302</i>	<i>47</i>	<i>58</i>	<i>2,100</i>
Cuba	50	—	—	35	—	85
	TOTAL	1,481	302	47	93	2,185

SOURCES: Frederic M. Halsey, *Investments in Latin America and the British West Indies*, Special Agents Series No. 169, United States Department of Commerce, 1918; Cleona Lewis, op. cit., appendix D, pp. 575-607, and E pp. 623-629 and 652-655; J. Fred Rippy op. cit., pp. 25, 37, 45, 68 and 78.

^a The figures in European or Latin American currencies have been converted into dollars on the basis of the gold exchange par at the end of 1914. The figures correspond to the amounts outstanding on 31 December unless otherwise indicated.

^b Outstanding amount as of 31 December 1918.

^c Outstanding amount as of 31 December 1917.

^d Outstanding amount as of 31 December 1915.

Table 17. Latin America: foreign private investment at the end of 1914

(Millions of dollars) ^a

Debtor countries	Creditor countries					Total
	United Kingdom	France	Germany	United States	Others	
Argentina ^b	1,502	289	235	40	1,151	3,217
Bolivia ^c	17	25	...	2	...	44
Brazil	609	391	...	50	146	1,196
Chile ^d	213	...	56	225	...	494
Colombia	31	1	...	21	1	54
Costa Rica	3	...	...	41	...	44
Dominican Republic	—	...	...	11	...	11
Ecuador	29	2	...	9	...	40
El Salvador	6	...	...	7	2	15
Guatemala	44	...	12	36	...	92
Haiti	—	...	...	10	...	10
Honduras	1	...	...	15	...	16
Mexico	635	...	...	542	...	1,177
Nicaragua	2	...	...	4	...	6
Panama	—	...	...	23	...	23
Paraguay	18	...	...	5	...	23
Peru ^d	121	1	...	58	...	180
Uruguay	154	...	2	—	199	355
<i>Subtotal I</i>	<i>3,385</i>	<i>709</i>	<i>305</i>	<i>1,099</i>	<i>1,499</i>	<i>6,997</i>
Venezuela	30	2	15	38	60	145
<i>Subtotal II</i>	<i>3,415</i>	<i>711</i>	<i>320</i>	<i>1,137</i>	<i>1,559</i>	<i>7,142</i>
Cuba	170	...	...	216	...	386
<i>Subtotal III</i>	<i>3,585</i>	<i>711</i>	<i>320</i>	<i>1,353</i>	<i>1,559</i>	<i>7,528</i>
Undistributed by debtor country	—	—	—	41	—	41
TOTAL	3,585	711	320	1,394	1,559	7,569

SOURCES: As for table 16.

^a The figures in European or Latin American currencies have been converted into dollars on the basis of the gold exchange par at the end of 1914. The figures correspond to the amounts outstanding on 31 December unless otherwise indicated.

^b Outstanding amount as of 31 December 1918.

^c Outstanding amount as of 31 December 1917.

^d Outstanding amount as of 31 December 1915.

Table 18. Latin America: foreign private investment by sector at the end of 1914

Recipient sectors	A. Amount of investment by creditor countries in millions of dollars ^a					Total	B. Percentage distribution
	United Kingdom	France	Germany	United States	Other, and undistributed by creditor country		
Agriculture	12	...	...	239	4	255	3.4
Mining	101	3	...	415	11	530	7.1
Petroleum	4	...	...	136	...	140	1.9
Railways	1,667	152	15	305	203	2,342	30.9
Public utilities	546	17	75	127	149	914	12.0
Manufacturing	83	...	...	17	462	562	7.4
Trade	2	...	...	34	449	485	6.4
Other and undistributed by recipient sector	1,170	539	230	121	281	2,341	30.9
TOTAL	3,585	711	320	1,394	1,559	7,569	100.0

SOURCES: As for table 16.

^a The figures in European or Latin American currencies have been converted into dollars on the basis of the gold exchange par at the end of 1914.

In spite of these shortcomings, some relatively interesting conclusions may be drawn :

(a) The outstanding amount of the long-term foreign capital invested in the region at the beginning of the First World War can be roughly estimated at 10,000 million (9,754 million) current United States dollars. The external debt of the national, state, provincial and municipal governments, which was a little more than 2,000 million (2,185 million) dollars, represented roughly 22 per cent of the total. The rest (78 per cent) was capital invested in domestic or foreign-controlled private firms.

It must be noted, however, that part of the funds in private sectors was not invested in shares but in bonds often issued by the corporations concerned and guaranteed by the Government. For example, a large amount of the foreign capital invested in the railways — perhaps 50 per cent of the total — consisted of this type of bond. Accordingly, the figures for the external public debt must be increased by the amount of the railways' debts to provide an accurate estimate of the official and semi-official indebtedness of the region. The external public debt plus the long-term foreign liabilities of the railway corporations can be roughly estimated at 3,300 million dollars, representing approximately 30 per cent of the total foreign investments in the region. An attempt will be made hereunder to determine the pressure of this indebtedness on Latin America's external payments, in order to compare the situation in 1914 with that obtaining at present.

(b) The external public debt was very unevenly distributed among the debtor as well as the creditor countries. Two-thirds of this debt (67.7 per cent) were held by England which was by far the main creditor of the Latin American countries. France was second with 13.8 per cent of the total, followed by the United States (4.3 per cent) and Germany (2.2 per cent). Great Britain's share is probably over-estimated because part of the Latin American bonds issued and quoted on the London Stock Exchange had in fact been bought by persons living on the Continent, but this error only affects the distribution of the Latin American debt between the European countries. The latter provided more than 95 per cent of the long-term credits granted to the Latin American official sector, the remaining 5 per cent representing United States assets.

The two main debtors were Argentina and Brazil which had to serve, respectively, 35.9 per cent and 32.8 per cent of the region's external public debt. Chile (8.0 per cent), Mexico (7.0 per cent), Uruguay (5.5 per cent), and Cuba (3.9 per cent) were the only other Latin American countries which had a sizable amount of official foreign liabilities. Accordingly, these six countries accounted for 93.1 per cent of the total public external debt of Latin America.

(c) The geographical distribution of foreign private investments differed slightly from that of the public debt.

On the side of the creditor countries the United States held a greater share of private investments (18.4 per cent) than of the public debt (4.3 per cent), so that it ranked second after England, which owned 47.4 per cent of the

total foreign capital invested in the Latin American private sector. However, the United States share was larger than that of France and Germany, which owned only small portions of this capital (9.3 per cent and 4.2 per cent respectively). The relative importance of the United States as a private investor in the region may possibly have been over-estimated because of the different methods used to estimate United States and European investments respectively.¹⁰ Nevertheless it is quite clear that American investors were mainly interested in private enterprise and their European competitors in public loans.

On the side of the debtor countries, the six republics (Argentina, Brazil, Chile, Mexico, Uruguay and Cuba) which had to serve the greatest part of Latin America's total public external debt were also the main recipients of foreign private investments. Nevertheless they accounted for a slightly smaller share of private investments (90.1 per cent) than of the public debt (93.1 per cent). Thus, the share of the other countries was accordingly slightly larger for private than for official investments (9.9 per cent instead of 6.9 per cent). As a matter of fact, some South American countries (Paraguay, Peru and Venezuela), whose Governments did not have many external liabilities, had received a substantial amount of foreign capital in their private sectors. Furthermore, United States investors had invested substantial amounts in some Central American and Caribbean countries (El Salvador, Guatemala and Haiti) whose public debt to Europe was small.

(d) The distribution of foreign private investments by economic sector is not well known since the item in table 18 on undistributed investments accounts for some 30 per cent of the total.

However, railroads and public utilities were undoubtedly the main recipients of the capital invested in Latin American private activities since they held, respectively, 30.9 per cent and 12 per cent of the total, i.e., 42.9 per cent for these two sectors combined. Primary activities (agriculture, mining and petroleum) accounted together for only 11.4 per cent of the total. The shares of manufacturing and trade were relatively small : they represented 7.4 per cent and 6.4 per cent of the total respectively.

Such a sectoral distribution of foreign investments in private activities requires some comment.

It is generally conceded that, the most "successful" investments for the borrowers during the "golden age" of foreign capital had been in over-head facilities, because these investments not only promoted exports by reducing transport and other costs but also led to a broadening of the domestic market and to the growth of "residential" industries. On the other hand, the investments in primary activities had contributed to the growth of the export sector without a similar expansion of the internal market

¹⁰ Frederic M. Halsey has apparently estimated European investments on the basis of the nominal values less amortization of the securities publicly offered on the main European stock exchanges. His figures for United States investment had been checked with the figures compiled by Cleona Lewis on the basis of the nominal value of publicly and privately offered securities for portfolio investments and on the basis of the account value for direct investments.

so that these investments gave rise to a process of development marked by disequilibrium.²⁰

The sectoral distribution of foreign investments in the region shows clearly that this view cannot go unchallenged, since the Latin American economies were far from integrated on the eve of the First World War, in spite of the fact that the bulk of the capital received from abroad was used to finance the development of the railways and public utilities.

As a matter of fact, the role of foreign investment from the point of view of balanced growth process depends upon many factors. Among these, the nature of the projects financed by external funds in every sector is perhaps a more important factor than the distribution of these funds by sector. For example, the main purpose of the railways built in Latin America at the end of the last century, with the help of foreign investors, was to provide the areas in which the export industries had been established with outlets to the ports and harbours. Accordingly, they were responsible for a sharp increase in exports and external activities but did not contribute directly to the broadening of the internal market and the growth of internally geared industries.

4. THE FIRST WORLD WAR AND THE TWENTIES

The First World War severely dislocated Latin America's external payments. At the beginning of the conflict the region's exports were abruptly interrupted because of the lack of shipping for civilian purposes so that many Latin American republics were confronted with a serious trade deficit (Argentina, Uruguay, etc.). However, exports recovered more quickly than imports, since the allied countries were soon able to resume shipment of essential supplies from Latin America. Thus several Latin American countries had unusually favourable trade balances, and were no longer as hard pressed for foreign capital as they had been. Furthermore, the main creditor countries were no longer in a position to grant large loans to Latin America since they had to spend most of their resources on financing the war.

Accordingly, the inflow of European capital into the region was completely interrupted and there was an outflow of funds resulting from the fact that German assets had been confiscated in many countries and that French and British investors sold part of their investments in order to supply their respective Governments with foreign exchange. United States investors tried to take the place of their foreign competitors, and thus their investments in the region increased slightly. For example, at the beginning of the war two loans, one for 4 million dollars and the other for 15 million, respectively, were granted to the Province of Buenos Aires and to the Central Argentina Railway to retire sterling debts due in London. It is likely, however, that the inflow of United States capital was not as large as the outflow of European funds, so that the total amount of foreign investments outstanding in the region tended to diminish.

In short, Latin America, which had been a net capital importer since the middle of the XIXth century, became for some years a net capital exporter which used part of its trade surplus to repatriate some of the foreign capital previously invested in the region.

Nevertheless, the interruption of the capital flow towards Latin America was of short duration, for in 1919 the region began once again to receive a substantial amount of external financing. Europe, however, was no longer the main supplier. According to Professor Rippey's figures (see table 4), Latin American security issues owned by United Kingdom residents increased slightly from roughly 1,000 million pounds sterling in 1913 to 1,200 million pounds sterling in 1928, but part of this increase was due to conversion operations. Both France and Germany substantially reduced their respective investment values in Latin America during the twenties, and other European creditor countries are considered to have at best only maintained their aggregate asset values.²¹ Conversely, it was then that the United States held first place in foreign investments in Latin America and it has held that position until today. Thus from less than 1,700 million dollars at the outset of the First World War, United States private direct and portfolio holdings in the area increased more than three times to nearly 5,400 million dollars in 1929 (see table 12).²² Assuming that European investments in the region remained at the same level in 1929 as in 1914, it will be seen that United States capital represented approximately 40 per cent of the total foreign investment in Latin America on the eve of the Depression, as against 17 per cent at the outset of the First World War.

The flow of United States capital to Latin America during the twenties was neither continuous nor regular. Table 19, which covers the net nominal value of Latin American government and private securities publicly offered in the United States, clearly shows that there were three peak periods (1921-22, 1924 and 1926-29) and two lows (1923 and 1924). A sharp decline began in the first months of 1929, when United States investors became aware of Latin America's high level of external indebtedness. The New York Stock Exchange crash in October of the same year naturally strengthened this tendency so that the transfer of new funds to Latin America, after a brief recovery due to some conversions in 1930, was almost completely stopped from 1931 onwards. In spite of these fluctuations, the earlier trend of United States stock market investments in the region was sharply upward since the net nominal value of the new Latin American securities publicly offered in the United States rose from an average of 161 million dollars in 1920-24 to 275 million dollars in 1925-29, an increase of 70 per cent from one period to another. For the twenties as a whole, the aggregate nominal value of these securities reached 2,175 million dollars, so that they represented

²¹ *Foreign Investments in Latin America*, Pan American Union, Washington, D.C., 1955, p. 3.

²² According to the estimate reproduced in tables 16 and 17, outstanding United States investments in the region amounted to roughly 1,500 million dollars at the end of 1914, excluding the shares of Latin American corporations owned in the United States by non-controlling interests.

²⁰ Douglas C. North, "International Capital Movements in Historical Perspective", *U.S. Private and Government Investment Abroad*, edited by Raymond F. Mikesell, University of Oregon, 1962, pp. 33-34.

Table 19. Latin American securities publicly offered in the United States, 1914-39

Year	Net nominal value in millions of dollars ^a			Percentage of total foreign securities offered in the United States
	Government or guaranteed ^b	Corporate	Total	
1914	17.3	—	17.3	39.3
1915	25.0	22.0	47.0	5.8
1916	40.2	104.6	144.8	12.5
1917	5.2	65.5	70.7	10.3
1918	0.8	1.5	2.3	11.0
1919	13.5	20.1	33.6	8.6
1920	—	49.0	49.0	9.8
1921	187.5	42.1	229.6	36.8
1922	159.8	63.9	223.7	29.3
1923	67.5	47.2	114.7	27.3
1924	114.5	72.4	186.9	19.3
1925	109.9	48.8	158.7	14.7
1926	283.5	84.7	368.2	32.7
1927	277.1	62.6	339.7	25.4
1928	238.2	91.9	330.1	26.4
1929	65.5	109.4	174.9	26.0
1930	177.1	17.3	194.4	21.5
1931	—	—	—	—
1932	—	—	—	—
1933	—	0.7	0.7	8.5
1934	—	—	—	—
1935	—	—	—	—
1936	-8.5	—	-8.5	—
1937	-15.3	—	-15.3	—
1938	20.8	30.6	51.4	78.0
1939	—	—	—	—
1914-19	102.0	213.7	315.7	10.2
1920-29	1,503.5	672.0	2,175.5	24.9
1930-39	185.1	48.6	233.7	12.2

SOURCES: For the period 1914-1929, R. A. Young, *Handbook on American Underwriting of Foreign Securities*, United States Department of Commerce, Washington, 1930; for the period 1930-1939, *United States Balance of Payments*, yearly publication by the United States Department of Commerce.

^a Net nominal value is equal to the nominal value of the securities issued every year less the value of the securities converted or amortized during the same year. The new issues were superior to the conversion and amortizations unless marked by a minus sign in which case they were inferior.

^b 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.

roughly 25 per cent of the total new United States stock market investments abroad.

The new United States investments in Latin America during this decade were, in fact, very different from those made before the First World War.

First, the most important part of the new investments was financed by funds raised on United States stock markets while the investments made before 1914 had often been financed directly by funds from United States firms channelled through their Latin American branches or subsidiaries. The value of the new Latin American securities publicly sold in the United States in 1920-29 represented 73 per cent of the increase in the outstanding value of the United States portfolio and direct investments in the region during the same period. As a matter of fact these securities were greatly in demand on the United States stock markets, as they had been on the European stock exchanges at the end of the XIXth and beginning of the XXth century.

Secondly, portfolio investments became more and more important, since a relatively small part of the securities publicly offered on the United States stock markets was destined to finance direct investments. According to Cleona Lewis' estimates (see table 12), the share represented by the former in the total United States investments in the area rose from 17.4 per cent in 1919 to 32.1 per cent in 1929, while the share of direct investments decreased in the same proportions.

Thirdly, there were some changes in the distribution of the United States funds between the economic sectors. The primary activities (agriculture, mining and smelting and petroleum) continued to absorb the largest part of the direct investments (75.2 per cent in 1919, 74.9 per cent in 1924, and 66.2 per cent in 1929), while the portfolio investments were mainly in the sector of the railways and public utilities, so that the share of the over-head facilities in total United States investments undoubtedly increased. From this point of view the pattern of sectoral distribution of United States capital became relatively similar to that of European capital. Nevertheless, there remained a substantial difference between these two patterns of distribution. The bulk of the European funds had financed the construction of railroads, while most of the United States funds were used to finance improvements in public utilities (harbour facilities, tramways, urban electrification, street improvements, etc.).

B. MAIN CHARACTERISTICS OF FOREIGN INVESTMENTS IN LATIN AMERICA BEFORE THE DEPRESSION

Generally speaking it may be said that the main characteristics of foreign investment in Latin America did not change substantially from the middle of the XIXth century until the Depression, as far as the sources and forms of financing, the mechanism of transfer and the destination of the funds are concerned.

1. SOURCES OF FINANCING

The distinction between private and public capital flows naturally depends on the stage of the process of

savings-investment at which such a distinction is made. From the point of view of the *recipient or borrower*, it is quite clear that part of the foreign capital inflow into Latin America before 1929 was public since the official sector received large amounts of funds from abroad. But from the dual point of view of the *saver* and of the *intermediary or lender* this inflow was exclusively private, since it was financed by private savings and the decisions for investing were always taken by private persons or firms. For European investments the major decision-

makers were: the English private banks specializing in the floatation of foreign securities (Rothschilds, Barings, Brown Shipley, Glyn Mills and Currie, and Schrodgers), the French industrial and deposit banks (Banque de Paris et des Pays-Bas, Crédit Lyonnais, Comptoir National d'Escompte, Société Générale, etc.), together with the old issue houses known as the Paris Haute Banque (Rothschild, Hottinguer, Vernes, Mallet, Mirabaus, de Neuflyze) and the four famous German banks called the 4 D's (Deutsche Bank, Diskonto-Gesellschaft, Dresdner Bank and Darmstadter Bank). Later the United States firms that opened branches and subsidiaries in Latin America also played an important role in the external financing of the region.

The decisions of private lenders were obviously often influenced by political considerations. As a matter of fact, the Governments of the lending countries had many means of inducing the private banks to agree or to refuse to float the securities of the borrowing countries. For example, in Great Britain the Government, while it did not attempt formally to regulate capital investment except to prevent fraud and activities judged socially unwholesome, maintained an informal relationship with the major institutions specializing in the floatation of foreign securities, especially through the Board of Governors of the Bank of England.²³ In France the listing of foreign securities on the Paris and provincial stock exchanges was subject to formal approval by the Minister of Finance.²⁴ In Germany "the Government was able to exercise legal control over loan operations through several official institutions".²⁵

Moreover, private lenders have often tried to obtain the support of their Government when they experience difficulties with their Latin American customers, as is shown by the military action taken against defaulting Latin American countries during the XIXth century.

2. FORMS OF FINANCING

External financing of Latin America before the Depression was carried on through direct and portfolio investments. Direct investments can be defined as transfers of capital in favour of enterprises established abroad in a form that allows the authors of the transfers to have control of the enterprises. Conversely, portfolio investments can be defined as transfers of capital which do not allow the authors of the transfers any control on the recipient enterprises or institutions. During the period under consideration, they were mainly constituted by the bonds issued on the European or United States stock markets by the federal, state, provincial and municipal governments of the Latin American countries. They also included a small number of bonds and shares issued by some private firms not controlled from abroad.

The respective share of direct and portfolio investments in the total foreign assets in the region before 1929 is difficult to determine for lack of reliable data. Cleona Lewis' estimates show, however, that the share of port-

folio investments in the total American capital invested in the region rose from less than 25 per cent before the First World War to roughly 50 per cent at the end of 1929 (see table 12). Furthermore, the Latin American securities listed on the London Stock Exchange can be distributed according to whether they had been issued by official institutions or private enterprises (see table 4). Such a distinction does not exactly agree with the distinction between portfolio and direct investments for two main reasons: (i) part of the private securities could have been issued by Latin American firms not controlled from abroad; (ii) some British-controlled firms in Latin America could have been directly financed by English firms without any transaction on the Stock Exchange. Nevertheless the share of public bonds in the outstanding amount of the Latin American securities quoted in London can be taken as roughly representative of the relative importance of portfolio investments in the total English assets in the region. The trend was apparently downward since the public bonds which represented 45.6 per cent of the total Latin American securities listed on the London Stock Exchange constituted only 31.6 per cent of the same total in 1913 and 19.1 per cent in 1928.

In spite of the difference that the available data suggest from one period to another, from one lending country to another and perhaps from one borrowing country to another, the portfolio investments have probably represented between one-fourth and one-third of the total foreign assets in the region before the Depression. According to Halsey's figures (see tables 16 and 17) the external public debt was roughly 23 per cent of the total foreign investments (external public debt plus private investments) in Latin America at the end of 1914. Consequently the share of portfolio investments can be estimated at 25 or 30 per cent because a part of the foreign capital in the private sector was probably invested in enterprises which were not controlled from abroad.

The distribution of foreign capital between the portfolio and direct investments was roughly the same then as it is now. As a matter of fact the relative importance of portfolio investments had diminished during the Depression and the Second World War because of the partial reimbursement of the Latin American public external debt. But the situation subsequently changed since the official and private sectors received a growing amount of long-term loans from abroad during the post-war period. According to the data available it can be estimated that the portfolio investments amounted to approximately 35 per cent of the total foreign investments in Latin America at the end of 1961,²⁶ e.g., a percentage very close to that of 1914.

²⁶ On the one hand the figures reproduced hereunder (see table 166) permit a rough estimate of the official external long-term debt of Latin America (including the private long-term debts guaranteed by the Latin American Governments) — 8,000 million dollars as of the end of 1961. On the other hand, United States direct investments in Latin America amounted to 8,218 million dollars at the end of 1959 and probably 8,500 million dollars at the end of 1961, according to U.S. Department of Commerce data (see *U.S. Business Investments in Foreign Countries*, United States Department of Commerce, Washington, D.C., 1960, table 1, p. 89). On the assumption that 60 per cent of the direct investments in the region were held by United States firms, we can estimate the total amount of these

²³ Herbert Feis, *op. cit.*, pp. 83-95.

²⁴ *Ibid.*, pp. 83-95.

²⁵ *Ibid.*, p. 163.

Nevertheless it must be noted that while the portfolio investments represent the same share of the total foreign assets today as before 1929, their structure has changed. At the end of the XIXth and the beginning of XXth centuries they were constituted by stock exchange assets — for example the bonds issued abroad by the Latin American Governments — and they were held by private — often small — savers. Now they consist almost exclusively of banking assets and are held by public institutions and private banks which grant long-term loans to the region's official and private sectors.

3. MECHANISM OF TRANSFER

As is well known, any foreign investment involves a transfer of money in gold or other short-term assets from the lender to the borrower, and this transfer of money generally gives rise in its turn to a transfer of goods and services from the lending to the borrowing country. But operation of this mechanism differs, depending upon the use that can be made of the funds once they have been transferred. Two of these conditions are of special importance :

1. May the funds be spent in the borrowing as well as the lending country ?
2. May they be used or not in third countries ?

The answers to these two questions were obviously not the same before the Depression as now. First, the funds raised on the European or United States stock markets or directly transferred to the Latin American enterprises by foreign firms before 1929 were largely spent in the lending countries to finance imports of goods and services by the borrowers. For example, at the end of the XIXth and the beginning of the XXth centuries, the main purpose of the Latin American railway bonds issued on the London Stock Exchange was to finance the purchase of English railway equipment by Latin American customers. Later, during the twenties, the United States loans destined to finance public utilities in the region were largely spent to pay off the American construction companies concerned. The companies, therefore, often helped the borrowers to seek financing in the United States. Nevertheless a substantial part of the funds raised abroad was always used in Latin America itself to finance expenses in local currency and thus constituted a source of supply for Latin American foreign exchange markets. Cases in point are the issues of government bonds, the income from which was often used to finance current administrative expenses in the borrowing countries. Thus, foreign funds were put to a far different use then than they are now, when virtually all the long-term loans granted to Latin American official and private sectors

investments at 14,000 million dollars. Consequently, the total foreign assets could have been 22,000 million dollars of which the official debt would have represented 35 per cent. This percentage gives a rough idea of the relative importance of portfolio investments in the total foreign investments since the figure of the external official debt covers not only the debts of the public sector but also those of the private sector when they have been guaranteed by the Government.

generally must be spent on the financing of foreign exchange expenses.

Secondly, before 1929 funds not spent in the borrowing country were not, necessarily used in the lending country and could be used by the borrower to finance purchases of goods and services in third countries. As a matter of fact, capital movements between the great financial centres were entirely unrestricted. The borrowers could thus spend the funds they received on purchases in countries where the prices were the lowest. Here, too the position was quite different from what it is now, when long-term loans granted to the Latin American countries — except for loans from international agencies — are “tied”, meaning that they can only be used in the lending country.

From this standpoint, the changes in international loan conditions have obviously been unfavourable to the Latin American borrowers. On the one hand, any foreign capital inflow which finances additional domestic investments in a recipient country has a dual effect on its level of imports : (a) it immediately provokes an increase in imports of capital goods if the equipment required by the additional investments cannot be produced locally, and (b) it leads in the long run to a general rise in the level of imports to the extent that the additional investments contribute to expansion of national income. If the foreign funds can only be used abroad to pay for the imports of capital goods and services required by the additional investments, they cannot help the borrowing country to finance the increase in imports produced by national income growth. On the other hand, if these funds can be spent in the recipient country to meet the local exchange expenses required by the additional investments, they feed the local foreign exchange market and contribute to the financing of the induced increase in imports. Accordingly, external loans have had a more positive effect on the Latin American balance of payments before the Depression than now.

On the other hand the substitution of “tied loans” for freely disposable loans has considerably reduced the capacity of the borrowers to purchase the capital goods they need at the most advantageous prices and this may affect the foreign terms of trade of the borrowing countries.

4. FINAL DESTINATION OF THE FUNDS

As has been explained above, the foreign funds granted to Latin American countries before 1929 were largely used in over-head investments, the difference being that the European funds mainly financed railway construction while the United States funds were principally absorbed by public utilities. Such a sectoral distribution of foreign capital — particularly when strong emphasis was placed on the building of railways — undoubtedly explained why external loans have contributed to expand exports. But it has not been sufficient to bring about balanced growth of the Latin American economies since most of the over-head investments financed by foreign funds have been aimed at developing the external sector rather than the economic activities geared to the domestic market.

Chapter II

IMPACT OF THE DEPRESSION AND THE SECOND WORLD WAR ON EXTERNAL FINANCING IN LATIN AMERICA

A. NEW FOREIGN INVESTMENT CONDITIONS

The 1929 Depression marks the beginning of a period of about fifteen years during which hardly any foreign capital flowed into Latin America. While the inflow of foreign capital had not been uninterrupted since it began in the second half of the nineteenth century, neither had it ceased for such a long period. Moreover, when resumed after 1945 its characteristics were completely different, so that the Depression and the Second World War were marked not only by the temporary cessation of external financing, but also by a radical change in its structure.

However, foreign investment conditions did not remain constant throughout the years 1929-45, which can be divided into two sub-periods:

(a) From 1929 to 1938 Latin America's exports dropped sharply in terms of value, while the inflow of foreign capital virtually ceased. Consequently, these countries were able to stabilize their balance of payments only by importing less and by suspending the servicing of their external debt.

(b) From 1939 to 1945, exports increased in value more rapidly than imports, Trade surpluses were thus built up which enabled the Latin American countries to pay part of their external debt and even to purchase foreign enterprises established in the region or to repatriate debts.

1. THE DEPRESSION AND LATIN AMERICA'S BALANCE OF PAYMENTS

The prolonged economic recession which followed the stock market crash in 1929, notwithstanding the recovery in world economic activities registered to some extent between 1934 and 1937, was partly responsible for slowing down the short-term, and especially the long-term, flow of foreign capital into Latin America, and this for two main reasons:

(a) On the one hand, the Depression disrupted the banking system in the industrial countries, seriously upset their capital market and created disequilibrium in their balance of payments; hence, mobilization of available savings, and particularly, their remittance abroad, became very difficult;

(b) On the other hand, the balance-of-payments difficulties encountered by nearly all the Latin American countries considerably weakened their international credit.

This second point calls for some explanation.

As is well known, the Depression caused a severe reduction in the value of exports from the region, due not so much to a lower volume of sales as to the sharp drop in the price of primary commodities on the world market.¹ The value of these exports fell from an annual average of 2,782.9 million dollars in 1925-29 to 1,444.9 million in 1930-34, that is, a decline of 48.1 per cent between the two five-year periods (see tables 20 and 21). Admittedly, the trend appears to have reversed itself in 1935-39, when Latin America's sales abroad reached an annual average of 1,916.2 million dollars, an increase of 32.6 per cent in relation to 1930-34. However, this recovery was only apparent as these figures are affected by the gold parity of the dollar which in January 1934 was reduced from 20.67 dollars to 35 dollars per ounce. If Latin America's exports are estimated in dollars at a constant gold parity of 20.67 dollars per ounce — or in the so-called "new" dollars — it will be noted that their value declined steadily from 1929 onwards, dropping from 4,712 million "new" dollars in 1925-29 to 2,149.5 million in 1930-34, and to 1,916.2 million in 1935-39, i.e., a reduction of 54.4 per cent between the first and second five-year periods, and 10.8 per cent between the second and third.

Foreign capital servicing had already absorbed a substantial proportion of export receipts even before the Depression. In the first place, saving of the long-term external debt calculated as a percentage of exports was relatively high in several countries in 1929, because a good many of the loans obtained during the twenties had been used to finance activities which had not contributed directly to the expansion of sales abroad. Secondly, remittances of earnings by foreign enterprises established in the region were already fairly substantial, inasmuch as the United States had greatly increased its direct investments in Latin America between the end of the First World War and the Depression.

As a natural consequence of the decline in the value of exports the increment in the relative burden of foreign capital servicing was such that the Latin American countries found themselves faced with the alternative of suspending service payments or drastically reducing imports.

In actual fact, imports fell more sharply than exports, from an annual average of 2,332.7 million dollars in

¹ *Economic Survey of Latin America, 1949*, United Nations publication, Sales No. : 51.II.G.1, ch. II, pp. 15-19.

Table 20. Latin America: foreign trade, 1925-45 ^a

Year	Millions of current dollars ^b			Millions of "new" dollars ^c		
	Exports ^d	Imports ^e	Balance	Exports ^d	Imports ^e	Balance
1925	2,731.6	2,320.1	411.5	4,625.1	3,928.4	696.7
1926	2,610.4	2,272.2	338.2	4,419.9	3,847.3	572.6
1927	2,852.2	2,292.4	559.8	4,829.3	3,881.5	947.8
1928	3,006.3	2,368.9	637.4	5,090.3	4,011.0	1,079.3
1929	2,714.0	2,409.9	304.1	4,595.3	4,080.4	514.9
1930	2,020.4	1,775.9	244.5	3,420.9	3,006.9	414.0
1931	1,462.5	978.7	483.8	2,476.3	1,657.1	819.2
1932	1,076.6	615.8	460.8	1,822.9	1,042.7	780.2
1933	1,100.2	781.2	319.0	1,446.8	1,027.3	419.5
1934	1,565.0	1,007.0	558.0	1,580.6	1,017.0	563.6
1935	1,745.5	1,232.8	512.7	1,745.5	1,232.8	512.7
1936	1,941.8	1,349.9	591.9	1,941.8	1,349.9	591.9
1937	2,429.0	1,765.1	663.9	2,429.0	1,765.1	663.9
1938	1,745.7	1,491.4	254.3	1,745.7	1,491.4	254.3
1939	1,718.9	1,369.9	349.0	1,718.9	1,369.9	349.0
1940	1,596.2	1,338.2	258.0	1,596.2	1,338.2	258.0
1941	1,930.5	1,446.6	483.9	1,930.5	1,446.6	483.9
1942	2,002.8	1,344.8	658.0	2,002.8	1,344.8	658.0
1943	2,558.2	1,519.6	1,038.6	2,558.2	1,519.6	1,038.6
1944	2,961.6	1,860.6	1,101.0	2,961.6	1,860.6	1,101.0
1945	3,153.4	2,235.8	917.6	3,153.4	2,235.8	917.6
<i>Average</i>						
1925-29	2,782.9	2,332.7	450.2	4,712.0	3,949.7	762.3
1930-34	1,444.9	1,031.7	413.2	2,149.5	1,550.2	599.3
1935-39	1,916.2	1,441.8	474.4	1,916.2	1,441.8	474.4
1940-45	2,367.1	1,624.3	742.7	2,367.1	1,624.3	742.7

SOURCES: League of Nations, *Memorandum on Trade and Balance of Payments*, 1913-1927, and *International Trade Statistics*, various issues 1930-1938; United Nations, *Yearbook of International Trade Statistics*, 1955.

^a Excluding gold.

^b Current dollars without reference to changes in the gold content of the dollar.

^c The statutory price of gold—20.67 dollars per ounce—in effect prior to 31 January 1934 was changed on that date to 35.00 dollars per ounce. Dollars of the gold content fixed on 31 January 1934

are known as "new" dollars. Between 10 March 1933 and 31 January 1934, the foreign exchange value of the dollar was permitted to depreciate as a result of restrictions placed on gold shipments. Conversion factors appropriate for converting current dollars to "new" dollars are as follows (in "new" cents per current dollars): 1925-1932, 169.32; 1933, 132.20/131.52; 1934, 101.00.

^d Exports f.o.b.

^e Imports f.o.b. for Bolivia, Cuba, Dominican Republic, Ecuador, Honduras, Nicaragua, Panama, Paraguay and Venezuela, f.a.s. for Guatemala and c.i.f. for all the other countries.

Table 21. Latin America: percentage changes in the value of exports, imports and the trade balance in relation to the levels prevailing in the five previous years, 1930-45

Period	Current dollars			New dollars		
	Exports	Imports	Trade balance	Exports	Imports	Trade balance
1930-34	-48.1	-55.8	-8.2	-54.4	-60.7	-21.4
1935-39	+32.6	+39.7	+14.8	-10.8	-7.0	-20.8
1940-45	+23.5	+12.6	+56.5	+23.5	+12.6	+56.5

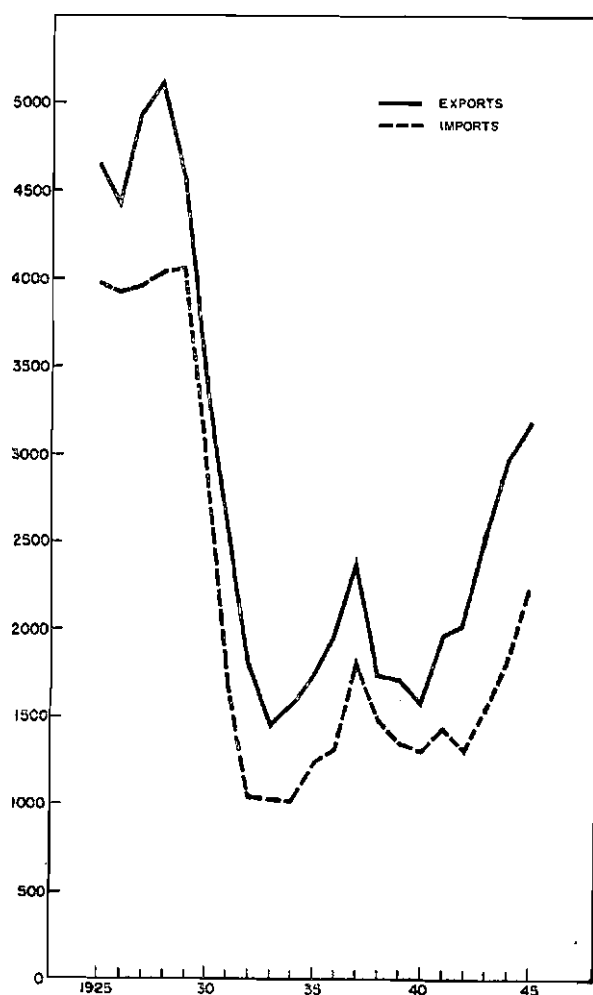
SOURCES: Table 20.

1925-29 to 1,031.7 million in 1930-34, or a drop of 55.8 per cent between the two periods (see again tables 20 and 21). Furthermore, the recovery in the value of imports which took place in 1935-39 should be assessed in terms of the devaluation of the dollar. If purchases abroad are calcu-

lated in new dollars it will be seen that, beginning in 1929, the value of such purchases dropped steadily, from an annual average of 3,949.7 million new dollars in 1925-29 to 1,550.2 million in 1930-34 and 1,441.2 million in 1935-39, that is, a decline of 60.7 per cent between the first two periods, and 7 per cent between the second and third. Import prices did not decline as rapidly as export prices, a circumstance which produced a deterioration of Latin America's terms of trade. The decrease in the value of purchases abroad was due primarily to a voluntary effort on the part of the Latin American countries to reduce the volume of such purchases through the system of import licences and other typical exchange control measures. (See figure I.)

As a result of the action taken to restrict imports, the region as a whole was able to maintain a credit balance for foreign trade. In general, however, this balance was below that registered before the Depression, and in a

Figure I. Latin America : foreign trade, 1925-45
(MILLIONS OF "NEW" UNITED STATES DOLLARS)
Natural scale



SOURCE: Table 20.

few years had shrunk to a very low level as it was extremely difficult to impose severe limitations on purchases abroad for any length of time.

In these circumstances, most of the Latin American countries had to supplement their import restrictions with other measures designed to reduce foreign capital servicing. To that end they imposed strict regulations on remittances abroad of earnings by foreign enterprises and they ceased to service their external debts, except for Argentina — which continued to service its federal debt, if nothing else — Haiti and the Dominican Republic. Naturally, these measures did nothing to encourage foreign capitalists to go on investing capital in the region, although they had the necessary funds.

While it is true that the unilateral suspension of external debt servicing and the limitation of monetary convertibility were by no means new in Latin America, prior to the Depression these financial difficulties had never affected all the republics at once, but only a few of them and at different times: for example, Chile from 1878 to 1883, Peru from 1880 to 1890, Argentina from 1885 to 1891, Colombia from 1899 to 1905, Mexico from 1913 onwards, etc. Moreover, such difficulties had nearly always been brought about by external or internal wars (the Pacific

War between Chile and Peru, the 1899-1903 civil war in Colombia, the 1910 revolution in Mexico, and so on). Hence foreign investors could expect the financial situation of the countries in which they had invested funds to improve once peace or order was restored. Indeed, around the end of the nineteenth century and the beginning of the twentieth several Latin American republics had little difficulty in obtaining new loans from Europe or the United States, in spite of recent serious political crises which had compelled them to restrict the convertibility of their currency and/or to suspend the servicing of their external debt. While the external credit of the Latin American countries might thus have been temporarily weakened, it quickly reverted to normal, even if foreign capitalists naturally tended to differentiate between countries which were scrupulous in meeting their external commitments (Brazil, Argentina, Uruguay, Chile, etc.) and those which had to suspend external debt servicing for fairly long periods (Paraguay, Guatemala, Honduras, Haiti and the Dominican Republic).

But the situation altered completely during the Depression, since the region's external financial difficulties were far more serious than before. In the first place, these difficulties affected nearly all countries simultaneously, and, secondly, the situation was not brought about by transitory political disturbances, but by a world economic depression whose solution did not depend on action by the Latin American Governments.

2. THE SECOND WORLD WAR AND LATIN AMERICA'S BALANCE OF PAYMENTS

The region's external financial situation improved considerably during the Second World War.

Exports, which had increased in some measure in 1936-37, as a result of the economic recovery, fell again during the 1938 recession, and declined still further in 1939 and 1940 when the European markets were partially or completely closed as soon as hostilities broke out (see again tables 20 and 21 and figure I). However, this trend was sharply reversed from 1941 onwards, when the value of Latin America's exports began to increase rapidly as a result of the steep rise in the unit price of export items, which was accompanied by increment in the volume of purchases from the region by the United Kingdom and, in particular, the United States. Finally, sales abroad reached an annual average of 2,367.1 million dollars during 1940-45, that is, an increment of 23.5 per cent in relation to the previous five-year period. This evolution was particularly evident in the countries exporting tropical commodities, as the United Kingdom and the United States were forced to turn to the Latin American countries when the war against Japan caused them to lose their traditional suppliers in South-East Asia.

Imports also increased in value, though more slowly than exports. They rose from an annual average of 1,441.8 million dollars in 1935-39 to 1,624.3 million in 1940-45, for an increment of 12.6 per cent between the two five-year periods. However, goods imported in Latin American ports rose sharply, thus causing a deterioration in Latin America's terms of trade.

On the other hand, the volume of imports was strictly limited: the region's only supplier, the United States, adopted a system of export quotas, especially in regard to hydrocarbons and equipment which, in principle, had to be reserved for the war industry and strategic stock-piles.

With exports increasing more rapidly than imports, Latin America's foreign trade credit balance, which had shrunk drastically during the Depression, went up appreciably. As foreign capital servicing had been suspended in many Latin American countries, the balance on current account probably showed a substantial credit balance in favour of the region. The existence of this credit balance and the fact that the industrialized and traditionally capital exporter countries had to keep their financial resources for the war effort, make it quite clear why capital inflows, which had almost ceased during the Depression, were not resumed during the Second World War.

In fact, during the war the Latin American countries accumulated sufficient monetary reserves not only to

resume external debt servicing at the end of the war, but also to purchase important foreign enterprises established in the region. According to data gathered by the International Monetary Fund, Latin America's gross monetary reserves (gold in the hands of the monetary authorities plus their short-term foreign exchange assets) rose from slightly over 800 million dollars (814 million) at the end of 1937 to 3,844 million at the end of 1945, that is to say, they more than quadrupled between those two years (see table 22). This expansion was particularly vigorous in countries exporting tropical commodities, such as Brazil, whose reserves increased 13.3 times; Colombia, 8.4 times and Cuba, where they went up from one million dollars at the end of 1937 to 232 million at the end of 1945. It was also significant in some ore exporting countries such as Mexico, whose reserves increased in the same proportion as Brazil's and, to a lesser extent, in countries exporting temperate-zone agricultural commodities, like Argentina, which nearly tripled its reserves.

Table 22. Latin America: gross monetary reserves, 1937-50

(Millions of dollars)

Country	1937			1945			1950		
	Gold	Foreign exchange assets	Total	Gold	Foreign exchange assets	Total	Gold	Foreign exchange assets	Total
Argentina	552.0	6.0	558.0	1,197.0	466.0	1,663.0	210.0	445.0	655.0
Bolivia	3.1	3.9	7.0	21.7	13.7	35.4	22.8	6.8	29.6
Brazil	32.0	18.0	50.0	354.0	312.0	666.0	318.0	348.0	666.0
Chile	29.8	1.9	31.7	82.3	27.7	110.0	40.3	14.6	54.9
Colombia	16.0	4.0	20.0	127.0	50.0	177.0	74.0	27.0	101.0
Costa Rica	—	1.1	1.1	6.0	1.6	7.6	2.1	16.7	18.8
Dominican Republic	—	—	—	—	—	—	4.0	15.3	19.3
Ecuador	2.8	1.5	4.3	21.4	11.7	33.1	18.8	18.6	37.4
El Salvador	5.3	1.3	6.6	13.2	14.9	28.1	23.0	17.9	40.9
Guatemala	5.4	2.4	7.8	28.5	11.5	40.0	27.2	10.1	37.3
Haiti	—	2.4	2.4	2.6	6.6	9.2 ^a	2.6	5.3	7.9
Honduras	0.1	0.7	0.8	0.1	1.6	1.7	0.1	10.6	10.7
Mexico	24.0	1.0	25.0	292.0	52.0	344.0	208.0	89.0	297.0
Nicaragua	0.3	0.5	0.8	4.9	1.8	6.7	2.8	0.3	3.1
Panama	—	—	—	—	—	—	—	—	—
Paraguay . . . . .	...	...	...	1.0	9.2	10.2	0.2	...	0.2
Peru	20.5	5.0	25.5	27.9	10.2	38.1	31.0	22.6	53.6
Uruguay	75.0	-3.0 ^b	72.0	195.0	57.0 ^b	252.0	236.0	76.0 ^b	312.0
<i>Subtotal I</i>	<i>766.3</i>	<i>46.7</i>	<i>813.0</i>	<i>2,374.6</i>	<i>1,047.5</i>	<i>3,422.1</i>	<i>1,220.9</i>	<i>1,123.8</i>	<i>2,344.7</i>
Venezuela	—	—	—	169.0	21.0	190.0	373.0	1.0	374.0
<i>Subtotal II</i>	<i>766.3</i>	<i>46.7</i>	<i>813.0</i>	<i>2,543.6</i>	<i>1,068.5</i>	<i>3,612.1</i>	<i>1,593.9</i>	<i>1,124.8</i>	<i>2,718.7</i>
Cuba	1.0	—	1.0	191.0	41.0	232.0	271.0	147.0	418.0
TOTAL	767.3	46.7	814.0	2,734.6	1,109.5	3,844.1	1,864.9	1,271.8	3,136.7

SOURCES: IMF, *International Financial Statistics*, various issues and supplement to 1962/63 issues.

^a Gross monetary reserves at end of 1948.

^b Foreign exchange assets less foreign liabilities of the Banco de la República.

B. THE EVOLUTION OF LATIN AMERICA'S EXTERNAL DEBT, 1929-45

The evolution of Latin America's external debt from 1929 to 1945 is fairly well known from the data assembled by creditor countries whose interests were directly affected by the unilateral suspension of service payments on the debt. From 1929 onwards the amount owed by a number of Latin American countries can be worked out in pounds sterling, and in other currencies as well, although with less accuracy, from the annual reports of the Corporation of Foreign Bondholders of London — an association formed in 1883 to defend the interests of

English purchasers of foreign bonds. Another and more complete source of information is provided from 1935 onwards by the annual reports of the Foreign Bondholders Protective Council of New York, a United States association set up in 1935 for the same purpose as its English counterpart.

With the aid of the data supplied by the two associations rough estimates could be made of the region's external debt in 1929, 1935 and 1945. These estimates, which are given in table 23, are not wholly comparable owing to some discrepancies that were impossible to eliminate. Three main conclusions may, however, be drawn from them.

Table 23. Latin America : external public long-term debt ^a outstanding at end of 1929, 1935 and 1945

(Millions of dollars) ^b

Country	1929	1935	1945
Argentina	1,202.4 ^c	1,281.0 ^c	308.2 ^d
Bolivia . . . . .	...	59.4	60.6
Brazil	1,059.0 ^e	1,186.1	712.4
Chile	499.2 ^f	433.9	261.2
Colombia	88.2 ^g	156.7	148.7
Costa Rica	18.0	17.2	14.5
Dominican Republic	18.8 ^f	16.3	12.1
Ecuador	20.1	16.4	12.7
El Salvador	19.2 ^f	16.3	11.6
Guatemala	13.8	7.1	10.9
Haiti . . . . .	...	9.8	8.0
Honduras	27.3	...	...
Mexico	826.2 ^h	362.9 ⁱ	541.5 ^j
Nicaragua	2.9	...	...
Panama . . . . .	...	18.6	15.6
Paraguay	3.9	...	...
Peru	113.0 ^f	107.3	99.3
Uruguay	138.2	138.4	104.4
<i>Subtotal I</i>	<i>4,050.2</i>	<i>3,827.4</i>	<i>2,321.7</i>
Venezuela	3.9	...	...
<i>Subtotal II</i>	<i>4,054.1</i>	<i>3,827.4</i>	<i>2,321.7</i>
Cuba . . . . .	...	88.9	95.8
TOTAL	4,054.1	3,916.3	2,417.5

SOURCES: Corporation of Foreign Bondholders, *Annual Reports, 1928-45*, London; Foreign Bondholders Protective Council, *Annual Reports, 1935-45*, New York.

^a The figures cover foreign currency bonds (whether publicly offered or not), issued and/or guaranteed by Latin American Governments and political sub-divisions.

^b The figures covering the non-dollar debt have been converted into dollars at the par value of gold in 1929 and 1935 and at the official exchange rate in 1945.

^c Including the bonds of the Banco Hipotecario Nacional.

^d Excluding the bonds of the Banco Hipotecario Nacional, whose amount at the end of 1945 is not known.

^e Balance outstanding at end of 1930 excluding municipality debts.

^f Balance outstanding at end of 1929, excluding State debts.

^g Balance outstanding at end of 1930.

^h Balance outstanding at end of 1929 including railway debts even when these were not formally guaranteed by the Mexican Government.

ⁱ Balance outstanding at end of 1935, including only the dollar part of the railway debt not formally guaranteed.

^j Including the balance of the debt arising from the expropriation of the railways in 1937 and of the oil properties in 1938.

(a) Latin America's long-term external public debt, in other words the debt of the Governments, states or provinces and municipalities plus private debts guaranteed by these same public bodies, is estimated to have been 4,054.1 million dollars at the end of 1929. If this sum is compared with the figure of roughly 2,185 million dollars given in table 16 as the region's external public debt at the end of 1914, it will be seen that its indebtedness doubled during the twenties. Such a sizable increment seems very probable in view of the fact that the Latin American Governments' long-term dollar liabilities alone increased by some 1,500 million dollars between 1920 and 1929 (see again table 19).

(b) The external public debt had not decreased to any appreciable extent by the end of 1935, when it stood at 3,916.3 million dollars, since nearly all the Latin American countries suspended service payments beginning in 1930 or 1931.

(c) The debt was, however, not more than 2,500 million dollars at the close of 1945, i.e., only a little over its 1914 level. There were two main reasons for this. On the one hand, some countries had begun to meet their external commitments during the last years of the war. On the other, European currencies had been more heavily devalued than the dollar, which meant, in terms of dollars, a considerable reduction in Latin America's debt to Europe.

The debt consisted of two broad categories of bonds: (i) bonds in pounds sterling or other European currencies, usually issued before the First World War; (ii) dollar bonds, issued mainly between 1920 and 1929 (see again table 19). According to table 24, which quotes an estimate by the Foreign Bondholders Protective Council, liabilities in pounds sterling represented 50.3 per cent of the region's aggregate debt, liabilities in dollars 44.8 per cent and bonds in other currencies only 4.9 per cent. United States investors, who had sunk some 80 per cent of their investment funds into Latin American securities, were obviously far more heavily involved in Latin America than their English counterparts, for whom Latin America represented less than 15 per cent of their investment portfolio (see table 28 below).²

² See W. Feuerlein and E. Hannan, *Dollars in Latin America*, New York, 1940.

Table 24. Latin America: structure of the external public long-term debt outstanding at year end, 1935
(Millions of dollars)

Country	Dollar bonds	Sterling bonds	Other foreign currency bonds	Total
Argentina	351.2	864.5	65.3	1,281.0
Bolivia	59.4	—	—	59.4
Brazil	346.6	774.4	65.1	1,186.1
Chile	264.4	134.8	34.7	433.9
Colombia	143.6	13.1	—	156.7
Costa Rica	8.8	8.0	0.4	17.2
Dominican Republic	16.3	—	—	16.3
Ecuador	15.3	0.5	0.6	16.4
El Salvador	12.6	3.7	—	16.3
Guatemala	7.1	—	—	7.1
Haiti	9.8	—	—	9.8
Honduras . . . . .	...	...	...	...
Mexico	256.7	88.7	17.5	362.9
Nicaragua . . . . .	...	...	...	...
Panama	18.6	—	—	18.6
Paraguay . . . . .	...	...	...	...
Peru	91.3	16.0	—	107.3
Uruguay	63.4	67.1	7.9	138.4
<i>Subtotal I</i>	<i>1,665.1</i>	<i>1,970.8</i>	<i>191.5</i>	<i>3,827.4</i>
Venezuela . . . . .	...	...	...	...
<i>Subtotal II</i>	<i>1,665.1</i>	<i>1,970.8</i>	<i>191.5</i>	<i>3,827.4</i>
Cuba	88.9	—	—	88.9
TOTAL	1,754.0	1,970.8	191.5	3,916.3

The servicing of the public debt became more difficult with the decline in the value of exports. There were two reasons for this:

(a) In the first place, export taxes were the Latin American Governments' biggest source of fiscal revenue. With the currencies of Latin American countries depreciating more rapidly than those of the creditor countries, revenue from export taxes tended to shrink, while the local currency amount involved in servicing the foreign debt went up in nearly every Latin American country.

(b) Secondly, the drop in export revenue was a major obstacle to external debt payment remittances, even when the Latin American Governments were able to secure the necessary sums in local currency.

In order to bring out the second point more clearly an attempt has been made to assess the burden laid upon the region's balance of payments by the servicing of the external public debt in some representative years (1925, 1935 and 1945). To do this the sum of the payments was first estimated on the assumption that their proportion of the external debt had remained between 7 per cent (3 per cent amortization and 4 per cent interest) and 8 per cent (3 per cent amortization and 5 per cent interest). The percentage of export revenue represented by service payments was then calculated.

The results of the double calculation, which are given in table 25, shows that at the end of 1929 servicing of the long-term public debt was absorbing between 11 and 12.6 per cent of the region's total export earnings. The

Table 25. Latin America: estimated service payments on the external public long-term debt as a percentage of export earnings at year end, 1929, 1935 and 1945^a

	1929		1935		1945	
	Hypothesis A	Hypothesis B	Hypothesis A	Hypothesis B	Hypothesis A	Hypothesis B
Argentina	9.3	10.6	17.9	20.5	3.0	3.4
Bolivia . . . . .	...	...	12.0	13.5	4.8	5.5
Brazil	16.2	18.6	25.0	27.9	7.6	8.7
Chile	12.6	14.4	31.2	35.6	8.9	10.2
Colombia	5.1	5.7	13.7	15.6	7.4	8.5
Costa Rica	7.1	8.2	15.1	17.7	8.6	10.3
Dominican Republic	5.1	6.3	7.1	8.4	1.8	2.1
Ecuador	8.1	9.3	10.3	12.1	4.0	5.0
El Salvador	7.2	8.2	12.1	14.3	4.3	4.8
Guatemala	4.0	4.4	4.0	4.8	2.6	2.9
Haiti . . . . .	...	...	9.8	11.3	3.5	4.1
Honduras	7.7	9.0	...	...	...	...
Mexico	20.3	23.2	12.3	14.0	14.9	17.0
Nicaragua	1.9	2.0	...	...	...	...
Panama . . . . .	...	...	32.0	36.5	24.4	28.8
Paraguay	2.7	2.8	...	...	...	...
Peru	5.9	6.7	10.2	11.7	6.6	7.6
Uruguay	10.6	12.0	12.7	14.5	6.0	6.8
<i>Subtotal I</i>	<i>11.7</i>	<i>13.4</i>	<i>18.2</i>	<i>20.8</i>	<i>6.9</i>	<i>7.9</i>
Venezuela	0.03	0.04	...	...	...	...
<i>Subtotal II</i>	<i>11.0</i>	<i>12.6</i>	<i>18.2</i>	<i>20.8</i>	<i>6.9</i>	<i>7.9</i>
Cuba . . . . .	...	...	4.8	5.5	1.6	1.9
TOTAL	11.0	12.6	17.1	19.5	6.1	7.0

^a The figures entered in the table are the product of two successive estimations. First, the calculations of external long-term public debt servicing were based on the assumption that it represented a constant percentage of the outstanding amount of the debt: 7 per cent (3 per cent for amortization and 4 per cent for interest) according to Hypothesis A, and 8 per cent (3 per cent for amortization and 5 per cent for interest) according to Hypothesis B. Secondly, the figures resulting from the estimate were calculated as a percentage of the exports earnings of the Latin American countries.

payments must thus have risen considerably since the end of 1913, as was only to be expected, since the amortization periods had tended to shorten during the twenties and part of the loans obtained then had not been used for activities directly connected with export industries. But the payments had not yet become a crushing burden for the Latin American countries. Only four — Argentina, Brazil, Mexico and Uruguay — had to earmark more than 10 per cent of their export revenue for servicing their external public debt. The particularly large sums that Mexico, of these four, had to pay were due to its failure to meet its external financial commitments during fifteen years or so, which meant that its arrears were added to the original debt.

However, the situation changed completely with the decline in the value of exports during the Depression. If the Latin American countries had actually made the service payments due on their external public debt, at the end of 1935 those payments would have absorbed 17.1 to 19.5 per cent of the region's entire export earnings. The rate of indebtedness was, in fact, less than 10 per cent in only three of the sixteen countries on which data can be obtained, 10 to 20 per cent in nine, 20 to 30 per cent in two (Argentina and Brazil) and more than 30 per cent in the other two (Chile and Panama).

The increasing difficulty of securing the necessary funds, whether in local currency or foreign exchange, compelled the Latin American Governments to suspend interest and/or amortization payments. To take the case of the dollar bonds issued by official agencies in Latin America, those in which interest had not been paid, or the principal had not been reimbursed upon maturity, or both, represented 72.2 per cent of the total at the end of 1935 and 85.1 per cent at the end of 1937 (see table 26). The percentage is probably higher for bonds issued in European currencies. This wholesale suspension of

servicing on Latin American government securities naturally led to a sharp drop in their market value abroad. The Latin American Governments obviously could not fail to take advantage of so suitable an opportunity to meet some of their financial commitments abroad on favourable terms.

In some countries the sums earmarked for the payment of interest on government securities were not all remitted to foreign creditors, but placed in special funds created for the purpose of redeeming the bonds, the market price of which was dropping precisely because the whole of the interest due was not being paid. For instance, an act passed in Chile in 1935 stipulated that half the fiscal revenue deriving from sales of nitrate abroad, from taxes on copper exports and from part of the taxes on imports of fuel by the big copper mining companies, was to be used for redeeming the securities issued by the Government and other official agencies on foreign markets, while the other half was to pay the interest on them. The public debt with the United States consequently dropped from about 264 million dollars at the end of 1935 to some 176 million dollars at the end of 1940, being reduced by about 88 million through payment of only 13 million dollars, i.e., 15 cents for each dollar of nominal capital withdrawn. During the same period interest payments on the debt did not exceed 1.5 per cent.

From the legal point of view, the commitments entered into by the Latin American public agencies had various kinds of guarantees; in some cases fiscal revenue was earmarked for servicing them, and, above all, their principal had to be reimbursed in foreign currency that had a certain parity with gold. But when the European and United States Governments went off the gold standard, they officially repealed the clause requiring their own debts to be settled in gold (e.g. the United States in 1933). They could not therefore expect the Latin American Governments to be more mindful of the clause than they themselves had been.

With respect to trade, the system of bilateral payments agreements theoretically provided creditors with the assurance that their loans would be reimbursed or at least the interest thereon paid, to the extent that the debtor countries' trade surpluses were used for that purpose. For instance, the United Kingdom was able to continue to collect interest on the loans granted to Argentina under the Roca-Runciman agreements of May 1933. But other European nations, such as Germany and Italy, allowed trade surpluses to accumulate in their favour in order to stimulate their exports to Latin America. In addition, the United States remained true to the principle of multilateralism for payments, and therefore concluded only customs agreements with Latin American countries.

The only course of action still open to creditors was to refuse to grant additional loans to Latin American debtors until they had resumed servicing their previous debts. This weapon had been effectively wielded in the nineteenth century by the Corporation of Foreign Bondholders of London, which could, *de facto* if not *de jure*, have prevented foreign governments failing to honour their financial commitments from obtaining fresh loans in the United Kingdom. But their control lost much

Table 26. Latin America : status of dollar bonds at year end, 1935-45 ^a

(Millions of dollars)

Year	Amount in service	Amount in default ^b	Balance outstanding (1 + 2)	Amount in default as percentage of balance outstanding
	(1)	(2)	(3)	(4)
1935.	487.3	1,266.7	1,754.0	72.2
1936.	372.6	1,168.8	1,541.4	75.8
1937.	236.9	1,356.7	1,593.6	85.1
1938.	366.7	1,233.8	1,600.5	77.0
1939.	367.0	1,243.3	1,610.3	77.2
1940.	355.1	1,216.1	1,571.2	77.4
1941.	396.2	1,159.8	1,556.0	74.5
1942.	405.1	1,096.2	1,501.3	73.0
1943.	397.8	1,068.4	1,466.2	72.8
1944.	502.2	862.0	1,364.2	63.2
1945.	525.9	791.2	1,317.1	60.0

SOURCE: Foreign Bondholders Protective Council, *Annual Reports*, 1935-45, New York.

^a The figures cover the dollar bonds publicly or non-publicly issued and/or guaranteed by the Latin American Governments and political sub-divisions.

^b Debt in default as far as interest and/or amortization of the principal of the loans is concerned.

of its force when the European and United States stock exchanges began to play a more important part. What is more, the Foreign Bondholders Protective Council of New York, formed in October 1933 with the aid of the Federal Government on the lines of the British corporation, was paralysed by lack of funds (it had to collect nearly 2,000 million dollars in outstanding debts on an annual budget of 100,000 dollars) and by the antagonism between the commercial banks granting short-term credits and the holders of long-term securities. In actual fact, the ban on new issues instituted by foreign stock exchanges did not greatly affect the Latin American Governments since the bond markets in Europe and the United States were in such a state of disorganization as a result of the Depression that it would in any case have been virtually impossible to float new bond issues.

The holders of Latin American bonds abroad consequently suffered serious losses, since the prices of the bonds on the stock exchanges fell sharply. However, if account is taken of the sums paid in respect of interest and repayments before the servicing of the bonds was suspended, it is clear that the losses were not as great as would appear from the decline in the prices quoted. For example, the dollar bonds issued by the Governments of the region between 1920 and 1931, whose nominal value was 1,935 million dollars at the time of issue, were worth only 491 million dollars at market prices at the end of 1935, but the owners of these bonds had already received, by that date, 1,386 million dollars in respect of interest and repayment of principal, so that the total loss was only about 58 million dollars (see table 27). Admittedly, the gold content of the dollar was reduced by 40.94 per cent in 1934, and the holders of the bonds at the end of 1935 were not necessarily those who had

received the payments of interest and principal from the time when the bonds were issued.

In any case, when the external financial situation of the Latin American countries improved during the Second World War, they offered their creditors much more favourable terms than those that they had attempted to impose during the Depression.

The procedures for liquidating the debt varied from country to country, but can be grouped in three main categories:

(a) First, the countries that had maintained the servicing of their external debt (Argentina, the Dominican Republic and Haiti) progressively freed themselves from the debt, either by regular amortization at par, or by advance redemption at prices close to par. Thus in Argentina the official bonds issued in Swiss francs were redeemed at the end of 1946, the dollar bonds at the end of 1947, and the bonds in pounds sterling at the end of 1949 (apart from a few small issues that represented only about 5.7 million pounds).

(b) Secondly, some of the countries that had suspended servicing on their debt (Chile, Colombia, Cuba, El Salvador, Guatemala, Panama, Peru and Uruguay) proposed the following arrangement to their creditors: the interest overdue would be paid in the form of additional bonds, service payments would be renewed at a rate lower than the original rate, and the redemption date would be deferred, but without any reduction in the nominal value of the principal of the debt. The Corporation of Foreign Bondholders of London, and the Foreign Bondholders Protective Council of New York, in most cases advised the United Kingdom and United States holders of such bonds to accept these conditions.

(c) Lastly, other Governments asked for a reduction in the rate of interest and in the nominal value of the principal of the bonds. Thus Mexico proposed in 1942 a reduction of 80 per cent in the principal of its external public debt. In 1943 Brazil offered its dollar and sterling creditors the choice between a reduction in the rate of interest and postponement of redemption without reduction of the principle (plan A), and a reduction of the principal with partial payment in cash (plan B). The United Kingdom and United States associations also agreed to these arrangements, although more reluctantly.

As a result of such agreements Latin America's public external debt began to decline during the last years of the Second World War, and continued to decline during the first years of the post-war period. In the first place, the current total of dollar bonds fell from 1,610.3 million dollars at the end of 1939 to 1,317.1 million dollars at the end of 1945 and 766.7 million dollars at the end of 1952, as table 26 shows, i.e., a reduction of 50.5 per cent between 1939 and 1952. In the second place, the total value of sterling bonds issued by the Latin American Governments fell from 179 million pounds at the end of 1939 to 99 million at the end of 1945 and 38.2 million at the end of 1952, a reduction of 78.6 per cent between 1939 and 1952 (see table 28). Lastly, the total amount of the debt fell from 3,916 million dollars at the end of 1935 to 2,417 million at the end of 1945, as table 23 indicates, and probably represented no more than 1,500 million dollars at the beginning of the fifties.

Table 27. Latin America: losses registered up to 31 December 1935 on dollar bonds issued between 1920 and 1931

(Millions of dollars)

Country	Nominal capital invested (1)	Returns (interest and reimbursements) (2)	Outstanding capital at market prices (3)	Balance (3 + 2 - 1) (4)
Argentina	694.8	615.6	258.0	+178.7
Bolivia	58.3	34.2	4.4	-19.5
Brazil	373.2	240.2	72.9	-60.0
Chile	335.5	163.5	37.9	-134.0
Colombia	143.3	97.3	18.6	-27.3
Costa Rica	9.4	4.5	1.9	-2.9
Cuba	109.6	96.4	37.2	+23.9
Dominican Republic	23.5	18.5	9.9	+4.9
El Salvador	7.4	7.5	1.7	+1.8
Guatemala	0.5	0.3	0.1	-0.1
Haiti	15.4	16.7	7.8	+9.1
Panama	22.7	14.3	11.3	+2.9
Peru	89.5	45.0	8.8	-35.6
Uruguay	51.8	31.3	19.9	-0.4
TOTAL ^a	1,935.6	1,386.0	491.1	-58.4

SOURCE: W. Feuerlein and E. Hannan, *Dollars in Latin America*, New York, 1940, p. 16, according to John T. Madden *et al*, *Americans Experience as a Creditor Nation*, New York, 1937, table 25.

^a Totals may not add up because of rounding.

Table 28. Latin America : United Kingdom investments outstanding at year end, 1938-57

Year	Nominal value in millions of pounds sterling			As a percentage of total United Kingdom investment abroad (4)
	Governments and municipalities (1)	Private corporations (2)	Total (1 + 2) (3)	
1938.	172.2	601.8	774.0	21.8
1939.	179.0	579.0	758.0	21.7
1940.	178.1	571.9	750.0	22.4
1941.	176.1	565.9	742.0	23.9
1942.	171.8	556.2	728.0	25.3
1943.	158.4	548.6	707.0	26.2
1944.	107.6	541.4	649.0	25.5
1945.	99.0	529.0	628.0	25.9
1946.	90.7	512.3	603.0	25.8
1947.	78.3	507.7	586.0	25.7
1948.	65.5	248.5	314.0	16.0
1949.	58.2	246.8	305.0	15.0
1950.	48.8	224.2	273.0	13.5
1951.	43.0	195.0	238.0	12.0
1952.	38.2	179.8	218.0	10.9
1953.	32.5	158.5	191.0	9.4
1954.	30.2	154.8	185.0	8.6
1955.	26.9	144.1	171.0	8.0
1956.	23.7	121.3	145.0	6.8
1957.	22.2	117.8	140.0	6.6

SOURCE: Bank of England, *United Kingdom Overseas Investments*, various issues, London, 1950-59.

Thanks to the increase in the value of exports during the war, and to the sharp reduction in the current value of the debt, servicing in fact represented a more tolerable

burden for Latin America by the end of the war; table 25 shows that this servicing absorbed between 6.1 and 7 per cent of all export earnings for the region as a whole at the end of 1945.

Consequently there was a rapid decline in the percentage of the bonds in respect of which interest was not paid and principal not repaid. For dollar bonds, this percentage fell from 77.2 at the end of 1939 to 60 at the end of 1945 and 16 at the end of 1952.³ For sterling bonds the percentage fell to a similar extent (from 61.9 at the end of 1939 to 43.9 at the end of 1949).⁴

Despite the renewal of servicing on the external public debt, its suspension during the Depression and part of the Second World War struck a blow at the external credit of the Latin American Governments. However, it should be noted that the losses suffered by the holders of Latin American bonds were no greater than those suffered by the holders of bonds issued by the Governments of many industrial countries, particularly if the arrangements concluded at the end of the war are taken into account. The fact that the Governments of the region found it almost impossible to issue bonds on the foreign stock exchanges during the fifties was really due less to a specific lack of confidence in Latin America, on the part of investors in industrial countries, than to the long-term world inflation that caused those investors to refrain from investing in long-term securities at fixed interest rates of whatever origin.

³ See *Foreign capital in Latin America*, United Nations publication, Sales No. : 54.II.G.4, p. 157, table 12.

⁴ See J. Fred Rippy, *op. cit.*, p. 86.

C. THE EVOLUTION OF DIRECT FOREIGN INVESTMENT IN LATIN AMERICA, 1929-1945

External financial difficulties obliged the Latin American Governments not only to suspend the servicing of their public debt, but also to exercise a stricter control over direct foreign investment.

This policy was in fact the result of two different motives: the first was to limit the remittance of profits abroad, for the twofold purpose of reducing the pressure of such remittances on the balance of payments and ensuring that the income produced by direct investment was more equitably divided between the recipient country and the foreign investor; the second was to encourage foreign firms to establish new branches and affiliates, whose output could replace imports.

The effects of the measures adopted by the Latin American Governments on investment in the region varied widely. Some measures tended to reduce the profits of foreign companies already established in Latin America. These measures included:

(a) An increase in the taxes paid by such companies, through a rise in export taxes (e.g. in Peru in 1940), or in direct taxation on corporations (e.g. in Chile in 1939).

(b) The enactment of new labour legislation, with the aim of keeping in the country a larger portion of the income of foreign companies.

(c) The establishment of State or para-State enterprises that competed with foreign firms (for example, the founding of a national meat-freezing industry in Argentina, of a State-owned network for the distribution of petroleum in Chile and in Argentina, etc.).

(d) Government control of the activities of foreign firms in the public service sector.

(e) Nationalization or expropriation, which in fact took place only on a small scale (expropriation of the remaining foreign railways in Mexico in 1937, nationalization of petroleum deposits in Mexico in 1938, etc.).

Other measures, on the contrary, encouraged foreign firms to establish themselves in Latin America. Thus the imposition of new customs tariffs setting very high duties on imports of manufactured products (durable or for current consumption) led the foreign enterprises that supplied Latin America with such products to establish plants in the region. This largely explains the migration of a number of United States industries to Latin America that took place during the twenties and continued during the Depression.⁵

⁵ D. M. Phelps, *Migration of industry to South America*, New York and London, McGraw Hill, 1936.

Lastly, certain measures that might have constituted an obstacle to new direct investment proved not to have an unfavourable effect. For example, the control of remittances of profits abroad may have led some foreign capitalists to refrain from investing in the region, but the enterprises already established there were obliged to reinvest their profits, since they were unable to export them.

The total effect of all these measures is in fact difficult to estimate. As regards the period 1929-45, there was undoubtedly a clear declining trend in total direct investment. But the trend seemed to be more marked for European than for American investment.

Thus according to J. Fred Rippy,⁶ *United Kingdom investment* in the Latin American private sector (both direct investment and portfolio investment) declined from 876.2 million pounds sterling in 1928 to 803.8 million in 1939 and to 385.7 million at the end of 1949, a reduction of only 7.4 per cent between 1928 and 1939, but of 52 per cent between 1939 and 1949. The statistics for United Kingdom investment abroad prepared by the Bank of England, on the basis of sounder criteria than those used by J. Fred Rippy, confirms this evolution; these statistics show that the nominal value of the private companies

established in Latin America whose securities were quoted on the London Stock Exchange fell from 574.5 million pounds sterling in 1939 to 238.3 million in 1949, a reduction of 58.5 per cent (see again table 28). Whatever the real total of United Kingdom investments in Latin America may have been, there is no doubt that those investments declined only slightly before 1939, but fell steadily from then on, until the early post-war years.

The small decline during the Depression was due solely to the purchase by United States firms of certain United Kingdom enterprises that were operating in Latin America. In many Latin American countries, for example, the International Telephone and Telegraph Corporation and the Electric Bond and Share Corporation replaced United Kingdom companies that had been furnishing telegraph, telephone and electricity services.

On the other hand, the much sharper decline during the war and the early post-war years was the result of the purchase of many United Kingdom enterprises by Latin American Governments, which used for this purpose sterling reserves that they had accumulated during the war. In 1948, for example, the Argentine Government bought the railways owned by United Kingdom firms for the sum of 150 million pounds sterling. Similarly, in the same year the Brazilian Government bought the Brazilian railways that belonged to United Kingdom companies for 15 million pounds.

⁶ J. Fred Rippy, *op. cit.*, pp. 84-91.

Table 29. Latin America: United States direct investment by country, 1929-50
(Millions of dollars)

Country	1929 ^a	1936	1940	1943	1950
<i>Caribbean countries</i>	1,002	717	612	611	761
Cuba	919	666	559	526	642
Dominican Republic	69	41	41	71	106
Haiti	14	10	12	14	13
<i>Mexico and Central America</i>	917	628	542	569	727
Mexico	682	480	357	286	415
Costa Rica	22	13	24	30	60
El Salvador	30	17	11	15	17
Guatemala	70	50	68	87	106
Honduras	72	36	38	37	62
Nicaragua	12	5	8	4	9
Panama	29	27	36	110	58
<i>South America</i>	1,543	1,458	1,542	1,541	2,957
Argentina	332	348	388	380	356
Bolivia	62	18	26	13	11
Brazil	194	194	240	233	644
Chile	423	484	413	328	540
Colombia	124	108	111	117	193
Ecuador	12	5	5	11	14
Paraguay	11	5	5	9	6
Peru	124	96	81	71	145
Uruguay	28	14	11	6	55
Venezuela	233	186	262	373	993
TOTAL	3,462	2,803	2,696	2,721	4,445

SOURCES: United States Department of Commerce, *American Direct Investment in Foreign Countries, 1940*; *United States Balance of Payments, Statistical Supplement, 1958*; *United States Balance of Payments, Statistical Supplement*, revised edition, 1963.

^a The figures do not correspond to the 1929 figures as reported in chapter I, table 13, according to Cleona Lewis, *America's Stake in International Investments*, Brookings Institute, Washington, D.C., 1938, appendix D., pp. 575-607, because the basic United States Department of Commerce series used by this author was subsequently revised by the Department.

Other European investments declined at least as much as United Kingdom investments. Certain French enterprises, for example, were bought by United States firms during the Depression, and others by the Latin American Governments in the early post-war years (the French railways in Argentina were bought by the Argentine Government for the sum of 5,500 million francs). In addition the enterprises owned by German and Italian nationals were generally confiscated during the war and subsequently liquidated.

Direct United States investment declined less than European investment. According to the data compiled by the United States Department of Commerce, the former fell from 3,462 million dollars in 1929 to 2,696 million in 1940, a reduction of 22.1 per cent (see table 29). But in the following decade the trend altered, and the assets of United States companies in the region increased

by 64.3 per cent between 1940 and 1950, amounting at the end of the period to 4,445 million dollars, a level higher than in 1929. Consequently, for 1929-50 as a whole direct investment by United States investors increased by 28.4 per cent, whereas for the United Kingdom there was a decline of 60 per cent, and for the other European countries the decline was even greater. This increase in the assets of United States companies was probably based more on reinvested profits than on the inflow of new capital.

It is worth noting that the geographical distribution of direct American investment tended to change during the period (see table 30). The proportion going to areas where such investment had traditionally concentrated, the Caribbean, Mexico and Central America, declined, whereas the proportion going to South America increased (from 44.6 per cent in 1929 to 66.6 per cent in 1950).

Table 30. Latin America: geographical distribution of United States direct investment, 1929-50
(Percentages)

Area or country	1929	1936	1940	1943	1950
<i>A. Distribution of United States direct investment by geographical area</i>					
<i>Caribbean countries</i>	28.9	25.5	22.7	22.4	17.1
Cuba	26.5	17.1	13.2	10.5	9.3
Others	2.4	8.4	9.5	11.9	7.8
<i>Mexico and Central America</i>	26.5	22.4	20.1	20.9	16.3
Mexico	19.6	17.1	13.2	10.5	9.3
Central America	6.9	5.3	6.9	10.4	7.0
<i>South America</i>	44.6	52.1	57.2	56.7	66.6
TOTAL	100.0	100.0	100.0	100.0	100.0
<i>B. Distribution of United States direct investment according to the main economic activity of the recipient country</i>					
Countries exporting tropical products	45.3	41.8	42.8	46.2	43.3
Countries exporting mineral products	37.3	38.5	32.5	25.6	25.0
Temperate-zone countries exporting agricultural products	10.7	13.0	15.0	14.5	9.4
Venezuela	6.7	6.7	9.7	13.7	22.3
TOTAL	100.0	100.0	100.0	100.0	100.0

SOURCES: Table 29.

Table 31. Latin America: United States direct investment by sector, 1929-50

Sector	1929		1936		1940		1943		1950	
	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage
Agriculture	817	23.6	400	14.3	359	13.3	385	14.1	a	a
Mining and smelting	732	21.1	708	25.2	512	19.0	405	14.9	628	14.1
Petroleum	617	17.8	453	16.2	572	21.2	618	22.7	1,233	27.7
Railroads and public utilities	887	25.6	937	33.4	962	35.7	875	32.1	927	20.8
Manufacturing	231	6.7	192	6.8	210	7.8	325	11.9	780	17.5
Trade and others	178	5.2	113	4.1	82	3.0	113	4.3	877	19.9
TOTAL	3,462	100.0	2,803	100.0	2,696	100.0	2,721	100.0	4,445	100.0

SOURCES: As for table 29.

a Included in the item Trade and others.

This evolution had two main causes : in the first place, Venezuela obtained an increasing share of United States private capital, and secondly, the trend towards the replacement of European firms by United States firms in the other South American countries, that had begun during the twenties, became more marked during the thirties and forties.

In addition there was a change in sectoral distribution (see table 31). There was a reduction in the share of investment in mining and smelting, railways and public service enterprises, and a higher rate of investment in petroleum (from 17.8 per cent in 1929 to 27.7 per cent in 1950) and manufacturing (from 6.7 per cent in 1929 to 17.5 per cent in 1950).

Part Two

POST-WAR EXTERNAL FINANCING IN LATIN AMERICA

Chapter III

LATIN AMERICA'S POST-WAR BALANCE OF PAYMENTS ON CURRENT ACCOUNT

Two main features distinguish the post-war evolution of Latin America's balance of payments on current account.

First, this balance was almost continuously unfavourable to all the Latin American countries. For the region as a whole there was a surplus in only three of the seventeen years — 1946, 1950 and 1953. As regards the balance on current account of the individual countries, out of twenty countries only two (Dominican Republic and El Salvador) showed a favourable balance accumulated from 1946 to 1960.

Secondly, the deficit on current account tended to increase sharply over the long term. For the region as a whole (excluding Cuba, for which no data have been available since 1959), the said deficit, estimated as a total figure per five-year period, rose from 1,061.5 million dollars in 1946-50 to 3,087.9 million in 1951-55 and 5,307 million in 1956-60. This trend continued in 1961, when the deficit on current account amounted to 1,066.5 million dollars, compared with an annual average of 1,061.4 million for 1956-60, but the situation seems to have changed in 1962, since the preliminary data available appear to show that the current deficit for the year was only 663.7 million dollars.

The existence of a large deficit on current account implies that the flow of domestic or foreign capital produced a continuous surplus in favour of the region exactly equal in amount to the said deficit, thus ensuring the general equilibrium of the balance of payments.

A. GENERAL STRUCTURE OF THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT

To facilitate the analysis, all the operations recorded in the current account are put in one of three groups :

(i) Merchandise transactions (including non-monetary gold) that cover exports and imports estimated on an f.o.b. basis;

(ii) Services, including expenditure and income under the headings of freights, insurance, tourist trade, servicing of capital, etc.;

(iii) Private donations.

Table 32, which uses this classification, shows that merchandise transactions resulted in a surplus of about 16,000 million dollars in favour of Latin America as a whole during the post-war period (1946-60). Transactions under the heading of services and private donations, on the other hand, showed a regional deficit of about 25,000 million dollars for the same period. As this deficit was much higher than the trade surplus, the over-all

Consequently the disequilibrium of current transactions can be regarded as normal, since developing countries like those in Latin America are necessarily net importers of capital. However, the fact that the current deficit rose sharply over the long term shows clearly that the countries of the region have not reached the level of development at which internal financing tends to replace external financing.

From this standpoint, it may therefore be useful to analyse in the present chapter the evolution of the balance on current account with a view to determining the transactions mainly responsible for the increase in the current deficit. Obviously such a study, if exhaustive, would have to cover certain crucial problems, such as the evolution of the terms of trade in Latin America which have already been studied by ECLA on a number of occasions.¹ Since to go over the same ground again would be pointless, and would go beyond the scope of this report on problems of external financing, it seems reasonable to confine this chapter to a descriptive study of the statistical evolution of the main items in the balance of payments on current account.

¹ Some recent ECLA studies relating to this subject include *Towards a dynamic development policy for Latin America* (United Nations publication, Sales No.: 64.II.G.4), part C, ch. I; *The economic development of Latin America in the post-war period* (United Nations publication, Sales No.: 64.II.G.6), ch. IV, and "Methodological Notes. The Concept of Terms of Trade and Methods of Computation", *Economic Bulletin for Latin America*, vol. VIII, No. 1, March 1963.

balance on current account was markedly unfavourable to the Latin American countries, amounting to a deficit of some 9,000 million dollars in fifteen years.

This strictly statistical presentation does not, of course, mean that the whole deficit on current account can be attributed to services and private donations. Analysis of the two five-year periods in the fifties (excluding Cuba, for which no data have been available since 1959) shows that during the first half of the fifties the growing imbalance in this account represented a deficit on the services account (an average of 7.9 per cent a year)²

² In this chapter the rates of increase (or decrease) of the series in the credit, debit and balance entries in the items of the current balance were calculated over the long term by comparing the annual averages for each five-year period with the annual averages for the preceding five-year period and deducting from the five-yearly rates of increase (or decrease) thus obtained the average cumulative annual rates of increase (or decrease).

Table 32. Latin America : a summary of international transactions on current account, 1946-60

(Aggregate totals in millions of dollars)

	1946-50			1951-55			1956-60		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
I. Latin America									
Merchandise f.o.b. ^a	29,762.4	24,289.6	+5,472.8	38,796.4	33,319.5	+5,476.9	40,077.2 ^d	35,221.4 ^d	+4,855.8 ^d
Services ^b	2,860.8	8,807.7	-5,946.9	4,723.0	13,212.9	-8,489.9	7,283.4 ^d	17,000.4 ^d	-9,717.0 ^d
Private donations ^c	50.0	222.4	-172.4	103.1	416.9	-313.8	214.7 ^d	660.5 ^d	-445.8 ^d
TOTAL	32,673.2	33,319.7	-646.5	43,622.5	46,949.3	-3,326.8	47,575.3	52,882.2	-5,307.0
II. Latin America (excluding Cuba)									
Merchandise f.o.b. ^a	26,470.4	21,927.5	+4,542.9	35,468.7	30,254.6	+5,214.1	40,077.2	35,221.4	+4,855.8
Services ^b	2,624.4	8,091.3	-5,466.9	4,462.4	12,459.4	-7,997.0	7,283.4	17,000.4	-9,717.0
Private donations ^c	43.3	180.8	-137.5	94.8	399.8	-305.0	214.7	660.5	-445.8
TOTAL	29,138.1	30,199.6	-1,061.5	40,025.9	43,113.8	-3,087.9	47,575.3	52,882.2	-5,307.0
III. Latin America (excluding Cuba and Venezuela)									
Merchandise f.o.b. ^a	22,035.6	19,044.6	+2,991.0	27,578.9	25,970.8	+1,608.1	27,726.6	28,048.3	-321.7
Services ^b	2,492.9	5,977.5	-3,484.6	4,188.9	8,803.0	-4,614.1	6,691.6	11,036.0	-4,344.4
Private donations	43.3	105.3	-62.0	94.8	214.4	-119.6	214.7	326.1	-111.4
TOTAL	24,571.8	25,127.4	-555.6	31,862.6	34,988.2	-3,125.6	34,632.9	39,410.4	-4,777.5

SOURCE: Annex I.

^a Covering items 1.1 and 1.2 of tables 33 to 37, and therefore including non-monetary gold.^b This item corresponds to items 1.3 to 1.6 of tables 33 to 37.^c This item corresponds to item 2 of tables 33 to 37.^d Excluding Cuba, on which data for 1960 were not available.

greatly in excess of the trade surplus (2.2 per cent a year). During the second five-year period, however, a slight reduction in the trade surplus (1.8 per cent a year) combined with a slight increase in the deficit on the services account (2.3 per cent a year) to produce a still larger over-all deficit on the balance on current account.

In addition it should be noted that the relative size of the deficit under services appears smaller if Venezuela is excluded from the regional total, since Venezuela's payments under the heading of foreign investment increased very sharply during the post-war period. On this basis it appears that during the first five-year period the deficit on the services account increased by 6.1 per cent a year, but the considerable reduction in the trade surplus (11.5 per cent a year) was the main cause of the increase in the over-all deficit. During the second half of the period the further increase in the over-all deficit

was attributable almost entirely to the fact that the trade balance was unfavourable for the region as a whole, since the deficit on the services account decreased slightly (from 4,614.1 million dollars in 1951-55 to 4,344.4 million in 1956-60, a decrease of 1.3 per cent a year).

Despite the differences that exist between the various countries of the region, it may therefore be considered that the growing deficit on the current account during the post-war period was due to the increase in the deficit resulting from the transactions under the headings of services and private donations, and to the inadequate growth (or reduction) of the trade surplus. But the first factor played the major role during the first half of the fifties, whereas the second became increasingly important during the last half. The main cause of the recent deterioration of the balance on current account in Latin America is thus the evolution of the trade in merchandise, rather than the trade in services or private donations.

B. MERCHANDISE TRANSACTIONS

Merchandise transactions, according to the definition by the International Monetary Fund (IMF) that has been adopted in the present study, include all transactions involving a change of ownership of goods that cross the frontiers of Latin American countries. They cover both transactions involving no *quid pro quo* (donations) and those involving a *quid pro quo* (commercial transactions); they exclude only purchases and sales of ship's stores, purchases by tourists, and imports and exports by diplomatic missions and their personnel.

The figures for exports and imports, thus defined, which are reproduced in tables 33-37 in the present chapter are those published in the IMF *Balance of Payments Yearbook*.

These figures are obtained from the foreign trade statistics established by the Latin American countries on the basis of the customs records, or the Central Bank exchange records, or both; however, they do not generally coincide with the data recorded in those statistics, which often need to be corrected before being included in the

Table 33. Latin America: international transactions on current account, 1946-60
(Aggregate totals in millions of dollars)

	1946-50			1951-55			1956-60 ^a		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1. Goods and services	32,623.2	33,097.3	-474.1	43,519.4	46,532.4	-3,013.0	47,360.6	52,221.8	-4,861.2
1.1 Merchandise f.o.b.	29,527.9	24,285.0	+5,242.9	38,493.7	33,307.7	+5,186.0	39,928.2	35,169.7	+4,758.5
1.2 Non-monetary gold	234.5	4.6	+229.9	302.7	11.8	+290.9	149.0	51.7	+97.3
Subtotal 1.1 + 1.2	29,762.4	24,289.6	+5,472.8	38,796.4	33,319.5	+5,476.9	40,077.2	35,221.4	+4,855.8
1.3 Freight, insurance and other transportation	646.9	3,266.3	-3,619.4	1,061.9	4,735.5	-3,673.6	1,194.9	4,707.5	-3,512.6
1.4 Travel	1,393.9	905.4	+488.5	2,127.1	1,531.7	+595.4	3,630.0	2,643.6	+986.4
1.5 Investment income	41.1	3,646.1	-3,605.0	127.5	4,923.5	-4,796.0	216.4	6,302.9	-6,086.5
15.1 Direct investment	3.7	3,132.9	-3,129.2	38.4	4,418.7	-4,380.3	134.6	5,336.0	-5,201.4
15.2 Other investment	37.4	513.2	-475.8	89.1	504.8	-415.7	81.8	966.9	-885.1
1.6 Other	778.9	989.9	-211.0	1,406.5	2,022.2	-615.7	2,242.1	3,346.4	-1,104.3
Subtotal 1.3 to 1.6	2,860.8	8,807.7	-5,946.9	4,723.0	13,212.9	-8,489.9	7,283.4	17,000.4	-9,717.0
2. Private donations	50.0	222.4	-172.4	103.1	416.9	-313.8	214.7	660.5	-445.8
TOTAL GOODS, SERVICES AND PRIVATE DONATIONS	32,673.2	33,319.7	-646.5	43,622.5	46,949.3	-3,326.8	47,575.3	52,882.2	-5,307.0

SOURCE: Annex I.

^a Excluding Cuba, on which data for 1960 were not available.

Table 34. Latin America: (excluding Cuba) international transactions on current account, 1946-60
(Aggregate totals in millions of dollars)

	1946-50			1951-55			1956-60		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1. Goods and services	29,094.8	30,018.8	-924.0	39,931.1	42,714.0	-2,782.9	47,360.6	52,221.8	-4,861.2
1.1 Merchandise f.o.b.	26,235.9	21,924.2	+4,311.7	35,166.0	30,242.8	+4,923.2	39,928.2	35,169.7	+4,758.5
1.2 Non-monetary gold	234.5	3.3	+231.2	302.7	11.8	+290.9	149.0	51.7	+97.3
Subtotal 1.1 + 1.2	26,470.4	21,927.5	+4,542.9	35,468.7	30,254.6	+5,214.1	40,077.2	35,221.4	+4,855.8
1.3 Freight, insurance and other transportation	635.0	3,049.4	-2,414.4	1,038.2	4,409.9	-3,371.7	1,194.9	4,707.5	-3,512.6
1.4 Travel	1,295.9	698.5	+597.4	2,017.3	1,376.9	+640.4	3,630.0	2,643.6	+986.4
1.5 Investment income	35.9	3,378.7	-3,342.8	102.0	4,675.7	-4,573.7	216.4	6,302.9	-6,086.5
15.1 Direct investment	2.9	2,902.1	-2,899.2	38.4	4,190.4	-4,152.0	134.6	5,336.0	-5,201.4
15.2 Other investment	33.0	476.6	-443.6	63.6	485.3	-421.7	81.8	966.9	-885.1
1.6 Other	657.6	964.7	-307.1	1,304.9	1,996.9	-692.0	2,242.1	3,346.4	-1,104.3
Subtotal 1.3 to 1.6	2,624.4	8,091.3	-5,466.9	4,462.4	12,459.4	-7,997.0	7,283.4	17,000.4	-9,717.0
2. Private donations	43.3	180.8	-137.5	94.8	399.8	-305.0	214.7	660.5	-445.8
TOTAL GOODS, SERVICES AND PRIVATE DONATIONS	29,138.1	30,199.6	-1,061.5	40,025.9	43,113.8	-3,087.9	47,575.3	52,882.2	-5,307.0

SOURCE: Annex I.

Table 35. Latin America (excluding Cuba and Venezuela): international transactions on current account, 1946-60
(Aggregate totals in millions of dollars)

	1946-50			1951-55			1956-60		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1. Goods and services	24,528.5	25,022.1	-493.6	31,767.8	34,773.8	-3,006.0	34,418.2	39,084.3	-4,666.1
1.1 Merchandise f.o.b.	21,803.6	10,041.3	+2,762.3	27,276.3	25,966.1	+1,310.2	27,580.9	28,013.9	-433.0
1.2 Non-monetary gold	232.0	3.3	+228.7	302.6	4.7	+297.9	145.7	34.4	+111.3
Subtotal 1.1 + 1.2	22,035.6	19,044.6	+2,991.0	27,578.9	25,970.8	+1,608.1	27,726.6	28,048.3	-321.7
1.3 Freight, insurance and other transportation	599.8	2,662.5	-2,062.7	949.9	3,790.5	-2,840.6	1,085.5	3,706.7	-2,621.2
1.4 Travel	1,278.5	623.5	+655.0	2,011.2	1,163.4	+847.8	3,615.6	2,178.2	+1,437.4
1.5 Investment income	35.3	1,849.7	-1,814.4	73.0	2,266.6	-2,193.6	144.7	2,867.1	-2,722.4
15.1 Direct investment	2.6	1,373.2	-1,370.6	9.4	1,783.5	-1,774.1	78.6	1,923.7	-1,845.1
15.2 Other investment	32.7	476.5	-443.8	63.6	483.1	-419.5	66.1	943.4	-877.3
1.6 Other	579.3	841.8	-262.5	1,154.8	1,582.5	-427.7	1,845.8	2,284.0	-438.2
Subtotal 1.3 to 1.6	2,492.9	5,977.5	-3,484.6	4,188.9	8,803.0	-4,614.1	6,691.6	11,036.0	-4,344.4
2. Private donations	43.4	105.3	-62.0	94.8	214.4	-119.6	214.7	326.1	-111.4
TOTAL GOODS, SERVICES AND PRIVATE DONATIONS	24,571.8	25,127.4	-555.6	31,862.6	34,988.2	-3,125.6	34,632.9	39,410.4	-4,777.5

SOURCE: Annex I.

Table 36. Latin America (excluding Cuba): international transactions on current account, 1946-62
(Annual averages in millions of dollars)

	1946-50			1951-55			1956-60			1961			1962 ^a		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1. Goods and services . . .	5,819.0	6,003.7	-184.7	7,986.2	8,543.0	-556.8	9,472.1	10,444.3	-972.2	9,988.6	10,947.0	-958.4	10,380.3	10,947.2	-566.9
1.1 Merchandise f.o.b. . .	5,247.2	4,384.8	+862.4	7,033.2	6,048.6	+984.6	7,985.6	7,033.9	+951.7	8,218.2	7,389.0	+829.0	8,570.5	7,404.0	+1,166.5
1.2 Non-monetary gold . .	46.9	0.7	+46.2	60.5	2.4	+58.1	29.8	10.3	+19.5	30.0	19.4	+10.6	28.5	18.1	+10.4
Subtotal 1.1 + 1.2	5,294.1	4,385.5	+908.6	7,093.7	6,051.0	+1,042.7	8,015.4	7,044.2	+971.2	8,248.2	7,408.6	+839.6	8,599.0	7,422.1	+1,176.9
1.3 Freight, insurance and other transportation . .	127.0	609.9	-482.9	207.6	882.0	-674.4	239.0	941.5	-702.5	320.1	979.0	-658.9	330.4	991.0	-660.6
1.4 Travel	259.2	139.7	+119.5	403.5	275.4	+128.1	726.0	528.7	+197.3	926.8	618.6	+308.2	1,040.1	651.1	+389.0
1.5 Investment income . .	7.2	675.7	-668.5	20.4	935.2	-914.8	43.3	1,260.6	-1,217.3	91.7	1,398.8	+1,307.1	31.1	1,342.0	-1,310.9
15.1 Direct investment	0.6	580.4	-579.8	7.7	838.1	-830.4	26.9	1,067.2	-1,040.3	78.7	1,079.2	-1,000.5	20.0	1,009.9	-989.9
15.2 Other investment	6.6	95.3	-88.7	12.7	97.1	-84.4	16.4	193.4	-177.0	13.0	319.6	-306.6	11.1	332.1	-381.0
1.6 Other	131.5	192.9	-61.4	261.0	399.4	-138.4	448.4	669.3	-220.9	401.8	542.0	-140.2	379.7	541.0	-161.3
Subtotal 1.3 to 1.6	524.9	1,618.2	-1,093.3	892.5	2,492.0	-1,599.5	1,456.7	3,400.1	-1,943.4	1,740.4	3,538.4	-1,798.0	1,781.3	3,525.1	-1,743.8
2. Private donations	8.7	36.2	-27.5	19.0	80.0	-61.0	42.9	132.1	-89.2	65.9	174.0	-108.1	62.4	159.2	-96.8
TOTAL GOODS, SERV- ICES AND PRIVATE DONATIONS	5,827.7	6,039.9	-212.2	8,005.2	8,623.0	-617.8	9,515.0	10,576.4	-1,061.4	10,054.5	11,121.0	-1,066.5	10,442.7	11,106.4	-663.7

SOURCE: Annex I.

^a Preliminary figures.

Table 37. Latin America (excluding Cuba and Venezuela): international transactions on current account, 1946-62
(Annual averages in millions of dollars)

	1946-50			1951-55			1956-60			1961			1962 ^a		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1. Goods and services . . .	4,905.7	5,004.5	-98.8	6,353.6	6,954.7	-601.1	6,883.6	7,816.8	-932.2	7,406.5	8,896.1	-1,489.6	7,745.3	8,903.9	-1,158.6
1.1 Merchandise f.o.b. . .	4,360.7	3,808.3	+552.4	5,455.3	5,193.2	+262.1	5,516.2	5,602.8	-86.6	5,766.2	6,295.2	-529.4	6,053.0	6,344.8	-291.8
1.2 Non-monetary gold . .	46.4	0.7	+45.7	60.5	0.9	+59.6	29.1	6.9	+22.2	30.0	5.2	+24.8	28.5	11.7	+16.8
Subtotal 1.1 + 1.2	4,407.1	3,809.0	+598.1	5,515.8	5,194.1	+321.7	5,545.3	5,609.7	-64.4	5,896.2	6,300.8	-504.6	6,081.5	6,356.5	-275.0
1.3 Freight, insurance and other transportation . .	120.0	532.5	-412.5	190.0	758.1	-568.1	217.1	741.3	-524.2	295.3	815.2	-519.9	311.9	831.6	-519.7
1.4 Travel	255.7	124.7	+131.0	402.2	232.7	+169.5	723.1	435.6	+287.5	923.5	555.8	+367.7	1,036.9	580.7	+456.2
1.5 Investment income . .	7.0	369.9	-362.9	14.6	453.3	-438.7	28.9	573.4	-544.5	75.9	815.5	-739.6	17.1	722.5	-705.4
15.1 Direct investment	0.5	274.6	-274.1	1.9	356.7	-354.8	15.7	384.7	-369.0	64.2	518.5	-454.3	8.1	411.6	-403.5
15.2 Other investment	6.5	95.3	-88.8	12.7	96.6	-83.9	13.2	188.7	-175.5	11.7	297.0	-285.3	9.0	310.9	-301.9
1.6 Other	115.9	168.4	-52.5	231.0	316.5	-85.5	369.2	456.8	-87.6	315.6	408.8	-93.2	297.9	412.6	-114.7
Subtotal 1.3 to 1.6	498.6	1,195.5	-696.9	837.8	1,760.6	-922.8	1,338.3	2,207.1	-868.8	1,610.3	2,595.3	-985.0	1,663.8	2,547.4	-883.6
2. Private donations	8.7	21.1	-12.4	19.0	42.9	-23.9	42.9	65.2	-22.3	65.9	90.2	-24.3	62.4	76.6	-14.2
TOTAL GOODS, SERV- ICES AND PRIVATE DONATIONS	4,914.4	5,025.6	-111.2	6,372.5	6,997.6	-625.0	6,926.5	7,882.0	-955.5	7,472.4	8,986.3	-1,513.9	7,807.7	8,980.5	-1,172.8

SOURCE: Annex I.

^a Preliminary figures.

balance of payments, in accordance with the recommendations in the IMF *Balance of Payments Manual*.³ Thus in several cases the foreign trade series had to be modified because it recorded exports and imports at the moment when the merchandise crossed the frontiers, whereas the balance-of-payments series must record such transactions at the moment when the change of ownership takes place (for example, the export series for Chile and Colombia had to be adjusted because they included changes in stocks abroad of copper and coffee, respectively). Other corrections were made for the purpose of excluding from the trade series some transactions that should not have been included, or conversely, of including transactions not recorded, such as those not involving a *quid pro quo* (donations), or those financed without any help from the national banking system (trade in merchandise between the headquarters of an enterprise and a branch or affiliate), or unregistered transactions (in Bolivia, Chile, Colombia, Honduras, Mexico, etc.). In other cases the volume of exports or imports (or both) of certain products had to be calculated afresh because the recorded price was strictly nominal and did not represent the value of the goods (for example, exports of coffee from Colombia and El Salvador, of bananas from Ecuador, Guatemala, Honduras, etc.). But the most important corrections represented a new estimate based on the f.o.b. value of imports generally recorded on a c.i.f. basis (except for Ecuador and Panama), since the merchandise transactions entered in the balance of payments must in principle

be estimated at the same frontier, that of the exporting country.⁴ However, the difficulties involved in this adjustment led the IMF to maintain the import figures calculated on a c.i.f. basis for six countries: Argentina, Chile, El Salvador, Haiti, Mexico and Uruguay. In order to provide a homogeneous series for the region as a whole, these figures were recalculated approximately on an f.o.b. basis, by the method explained in the General Methodological Note.

In addition it should be noted that, in line with the method followed by IMF, the figures for the trade in non-monetary gold were recorded separately from the export and import series, since this metal clearly constitutes a special type of merchandise.

1. THE EVOLUTION OF THE TRADE BALANCE

Tables 38 and 39 give the figures for exports, imports and the trade balance (excluding non-monetary gold), annually for Latin America as a whole, and for five-year periods by country.

Table 38 shows that up to 1955 the trade surplus for Latin America as a whole (excluding Cuba) increased (the annual average rose from 862.4 million dollars in 1946-50 to 984.6 million in 1951-55), but declined in the next five-year period (from an annual average of 984.6 million dollars in 1951-55 to 951.7 million in 1956-60). This development was in fact largely due to the steady increase of Venezuela's trade surplus during the post-war period.

³ See International Monetary Fund, *Balance of Payments Manual*, Washington, 3rd ed., 1961, paragraphs 116-137.

⁴ *Ibid.*, paragraphs 127 and 128.

Table 38. Latin America: balance of trade,^a 1946-62

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

Year	Latin America			Latin America, excluding Cuba			Latin America, excluding Cuba and Venezuela		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1946	4,697.5	3,334.4	+1,363.1	4,162.9	3,034.6	+1,128.3	3,648.1	2,720.0	+928.1
1947	6,046.2	5,602.5	+443.7	5,273.5	5,082.8	+190.7	4,579.2	4,511.9	+67.3
1948	6,634.5	5,482.0	+1,152.5	5,901.4	4,954.6	+946.8	4,804.6	4,253.7	+550.9
1949	5,494.1	4,872.6	+621.5	4,900.9	4,421.6	+479.3	3,947.6	3,735.5	+212.1
1950	6,655.6	4,993.5	+1,662.1	5,988.2	4,430.6	+1,557.6	4,824.1	3,820.2	+1,003.9
1951	7,823.1	7,056.8	+766.3	7,020.9	6,359.0	+661.9	5,674.1	5,660.6	+13.5
1952	7,075.4	6,839.9	+235.5	6,387.2	6,149.9	+237.3	4,935.0	5,369.1	-434.1
1953	7,609.1	5,961.9	+1,647.2	6,940.2	5,415.2	+1,525.0	5,425.7	4,555.7	+870.0
1954	7,921.1	6,723.0	+1,198.1	7,363.5	6,168.1	+1,195.4	5,690.9	5,216.2	+474.7
1955	8,065.0	6,726.1	+1,338.9	7,454.2	6,150.6	+1,303.6	5,550.6	5,164.5	+386.1
1956	8,766.8	7,138.4	+1,628.4	8,072.3	6,489.4	+1,582.9	5,853.7	5,319.6	+534.1
1957	9,132.0	8,495.3	+636.7	8,287.3	7,682.1	+605.2	5,524.4	5,907.2	-382.8
1958	8,516.1	7,932.1	+584.0	7,752.9	7,124.6	+628.3	5,234.1	5,591.2	-357.1
1959	8,413.8	7,365.7	+1,048.1	7,738.5	6,692.5	+1,046.0	5,345.0	5,166.2	+178.8
1960 . . . . .	...	...	...	8,077.2	7,181.1	+896.1	5,623.7	6,029.7	-406.0
<i>Average</i>									
1946-50	5,905.6	4,857.0	+1,048.6	5,247.2	4,384.8	+862.4	4,360.7	3,808.3	+552.4
1951-55	7,698.7	6,663.9	+1,034.8	7,032.2	6,048.6	+984.6	5,455.3	5,193.2	+262.1
1956-60 . . . . .	...	...	...	7,985.6	7,033.9	+951.7	5,516.2	5,602.8	-86.6
1961 . . . . .	...	...	...	8,218.2	7,389.2	+829.0	5,766.2	6,295.6	-529.4
1962 ^b . . . . .	...	...	...	8,570.5	7,404.0	+1,166.5	6,053.0	6,344.8	-291.8

SOURCE: Annex I.

^a Excluding non-monetary gold.

^b Preliminary figures.

Table 39. Latin America: balance of trade ^a by country, 1946-60

(Aggregate totals in millions of dollars)

Country	1946-50			1951-55			1956-60		
	Exports f.o.b.	Imports f.o.b.	Balance	Exports f.o.b.	Imports f.o.b.	Balance	Exports f.o.b.	Imports f.o.b.	Balance
Argentina	6,517.8	5,168.5	+1,349.3	4,903.8	4,697.1	+206.7	5,000.7	5,047.1	-46.4
Bolivia	415.2	329.5	+85.7	436.9	408.2	+28.7	323.9	367.0	-43.1
Brazil	5,780.0	4,395.5	+1,384.5	7,702.0	7,028.0	+674.0	6,668.0	6,013.0	+655.0
Chile	1,424.6	1,246.3	+178.3	2,071.9	1,689.2	+362.7	2,175.8	2,030.7	+145.1
Colombia	1,458.1	1,462.1	+40.0	2,777.0	2,540.0	+237.0	2,765.1	2,332.1	+433.0
Costa Rica	202.6	190.8	+11.8	378.5	320.3	+58.2	402.2	454.9	-52.7
Dominican Republic	393.5	235.5	+158.0	576.4	443.5	+132.9	713.2	563.7	+149.5
Ecuador	238.7	208.8	+29.9	504.5	366.3	+138.2	682.4	502.1	+180.3
El Salvador	235.0	174.2	+60.8	475.3	354.5	+120.8	582.4	501.3	+81.1
Guatemala	326.4	272.5	+53.9	470.5	403.3	+67.2	568.3	647.9	-79.6
Haiti	154.5	132.0	+22.5	230.7	217.7	+13.0	185.6	189.8	-4.2
Honduras	256.7	160.6	+96.1	312.6	268.8	+43.8	347.5	326.8	+20.7
Mexico	2,237.6	2,914.6	-677.0	3,324.4	4,047.4	-723.0	3,854.6	5,329.1	-1,474.5
Nicaragua	85.4	105.8	-20.4	250.3	230.2	+20.1	309.2	300.4	+8.8
Panama	108.7	313.6	-204.9	243.3	421.4	-178.1	414.5	637.1	-222.6
Paraguay	147.8	118.8	+29.0	169.0	158.8	+10.2	181.7	202.4	-20.7
Peru	814.7	686.7	+128.0	1,252.6	1,200.7	+51.9	1,701.2	1,661.5	+39.7
Uruguay	1,006.3	925.5	+80.8	1,196.6	1,170.7	+25.9	704.6	907.0	-202.4
<i>Subtotal I</i>	<i>21,803.6</i>	<i>19,041.3</i>	<i>+2,762.3</i>	<i>27,276.3</i>	<i>25,966.1</i>	<i>+1,310.2</i>	<i>27,580.9</i>	<i>28,013.9</i>	<i>-433.0</i>
Venezuela	4,432.3	2,882.9	+1,549.4	7,889.7	4,276.7	+3,613.0	12,347.3	7,155.8	+5,191.5
<i>Subtotal II</i>	<i>26,235.9</i>	<i>21,924.2</i>	<i>+4,311.7</i>	<i>35,166.0</i>	<i>30,242.8</i>	<i>+4,923.2</i>	<i>39,928.2</i>	<i>35,169.7</i>	<i>+4,758.5</i>
Cuba	3,292.0	2,360.8	+931.2	3,327.7	3,064.9	+262.8	...	...	...
TOTAL	29,527.9	24,285.0	+5,242.9	38,493.7	33,307.7	+5,186.0	...	...	...

SOURCE: Annex I.

^a Excluding non-monetary gold.

If Venezuela is excluded from the regional total, it can be seen that the trade surplus began to decline over the long-term from 1951 (from an annual average of 552.4 million dollars in 1946-50 to 262.1 million in 1951-55), and that the decline continued after 1955 on a scale resulting in an annual average deficit of 86.6 million dollars during 1956-60.

A year-by-year analysis of the trade balance confirms this trend. If Cuba and Venezuela are excluded from the total it can be seen that in the decade 1946-55 merchandise transactions in Latin America did not result in a deficit except in 1952. But in the next five-year period the region's trade balance was unfavourable in 1957, 1958 and 1960, and there was a surplus only in 1956 and 1959.

Furthermore, there has been no improvement since 1960. On the contrary, if Cuba and Venezuela are excluded from the regional total, it can be seen that the trade deficit in 1961 reached the highest figure recorded for the region at any time in the post-war period (552.2 million dollars), although according to the highly provisional data now available for 1962 the deficit seems to have declined during that year.

The scale of the deterioration in the region's trade balance appears even more clearly from an examination of the data by country shown in table 39.

Admittedly these data show that only two countries (Mexico and Panama) with substantial credit entries under some items in the services account had a constant

trade deficit, and the remaining eighteen countries had a trade surplus, at least for some periods. But if the figures for those eighteen countries are examined, it appears that in ten of them (Argentina, Bolivia, Brazil, Cuba, Dominican Republic, Haiti, Honduras, Paraguay, Peru and Uruguay) the trade surplus had already decreased during the first half of the fifties, whereas it increased in only the eight remaining countries (Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Panama and Venezuela) to which can be added Nicaragua, which had a trade surplus in 1951-55 after having a deficit in 1946-50. The situation worsened during the second half of the decade. Only in four countries (Colombia, Dominican Republic, Ecuador and Venezuela) did the trade surplus increase as a result of an exceptional expansion of exports, or of a reduction in imports resulting from a rigorous policy of restricting purchases abroad, or of both. In the remaining thirteen countries,⁵ the trade surplus either declined sharply (Brazil, Chile, El Salvador, Honduras, Nicaragua, Peru and Uruguay) or turned into a deficit (Argentina, Bolivia, Costa Rica, Guatemala, Haiti and Paraguay).

As a result of this evolution, the number of countries with a trade deficit rose from two in 1951-55 to eight in 1956-60.

⁵ Cuba cannot be included for the period 1956-60 because no data have been available for this country since 1959.

Table 40. Latin America: exports f.o.b. ^a by country, 1946-60

Country	Annual averages in millions of dollars at current prices			Annual rates of growth (Increase +) (Percentage) ^b		
	1946-50	1951-55	1956-60	1946-50 ^c	1951-55	1956-60
Argentina	1,303.6	980.8	1,000.1	+16.2	-5.5	+0.4
Bolivia	83.0	87.4	64.8	+1.4	+1.1	-6.0
Brazil	1,156.0	1,540.4	1,333.6	+18.7	+5.9	-3.0
Chile	284.9	414.4	435.2	+9.3	+7.8	+1.0
Colombia	291.6	555.4	553.0	+20.9	+13.8	-0.07
Costa Rica	40.5	75.7	81.0	+30.0	+13.3	+1.4
Dominican Republic	78.7	115.3	142.6	+17.4	+7.9	+4.3
Ecuador	47.7	100.9	136.5	+24.0	+16.2	+6.2
El Salvador	47.0	95.1	116.5	+20.7	+15.2	+4.1
Guatemala	65.3	94.1	113.7	+24.5	+7.6	+3.8
Haiti	30.9	46.1	37.1	+21.0	+8.4	-4.0
Honduras	51.3	62.5	69.5	+42.5	+4.0	+2.2
Mexico	447.5	664.9	770.9	+17.5	+8.2	+3.0
Nicaragua	17.1	50.1	61.8	+21.0	+24.0	+4.3
Panama	21.7	48.7	82.9	+47.2	+17.3	+11.3
Paraguay	28.9	33.8	36.3	+13.5	+3.2	+1.5
Peru	162.9	250.5	340.2	+20.9	+9.0	+6.3
Uruguay	201.3	239.3	140.9	+17.3	+3.5	-10.1
<i>Subtotal I</i>	<i>4,360.1</i>	<i>5,455.3</i>	<i>5,516.7</i>	<i>+17.3</i>	<i>+4.6</i>	<i>+0.2</i>
Venezuela	886.5	1,577.9	2,469.5	+29.5	+12.2	+9.4
<i>Subtotal II</i>	<i>5,246.6</i>	<i>7,033.2</i>	<i>7,986.2</i>	<i>+19.0</i>	<i>+6.1</i>	<i>+2.6</i>
Cuba	658.4	665.5	...	+15.7	+0.2	...
TOTAL	5,905.0	7,698.7	...	+18.6	+5.5	...

SOURCE: ANNEX I.

^a Excluding non-monetary gold.

^b The annual cumulative rates of growth of exports have been calculated over the long term by comparing the average value of exports for every five-year period with the average value of exports for the five previous years.

^c The f.o.b. value of exports from the Latin American countries in 1946-50, as reported in various issues of the IMF *Balance of Payments*

Yearbook, has been compared with the f.o.b. value of exports from the same countries in 1941-45, as reported in various issues of the United Nations *Yearbook of International Trade Statistics*. It must be noted that these two series are not wholly comparable since the first corresponds to the figures entered in the balance of payments, and the second to the trade returns, which usually have to be re-evaluated before they can be entered in the balance of payments. Accordingly the percentages increases should merely be taken as rough approximations.

2. EVOLUTION OF THE COMPONENTS OF THE TRADE BALANCE

In order to determine the reasons for the evolution of the trade balance, a brief analysis of the evolution of the components of this balance is necessary.

(a) Evolution of exports

Table 40 shows that during the post-war period the growth rate of the value of exports at current prices declined considerably over the long-term.

During the first five years (1946-50) there was a marked recovery in the value of exports, from the very low level recorded during the Second World War (an annual average increase of 19 per cent for Latin America as a whole, excluding Cuba). It is true that the percentages indicating this increase are very approximate, since the export series for 1941-45 and 1946-50 used for the calculation are not fully comparable, as explained in footnote ^c to table 40. It seems likely that in many cases the figures for the five years during the war are under-estimated, since they are based on trade statistics entirely uncorrected for any discrepancy arising out of the period covered by the records, insufficient coverage or inaccurate esti-

mates. Consequently it is probable that in many cases the percentages for the increase in exports between this five-year period and the following five years are exaggerated, particularly as regards the Central American countries, where the recovery of exports was apparently most vigorous. However, there is no doubt that in nearly all the Latin American countries there was a recovery in sales abroad during the first five years after the war, and in many cases those sales more than doubled compared with the war period.

But this improvement was of short duration, and was not maintained during the second five years after the war (1951-55). In the region as a whole (excluding Cuba) it can be seen that the value of exports increased at an annual rate of only 6.1 per cent during that period. Moreover, nearly 40 per cent (38.7) of this increase was attributable to Venezuela, and if that country is excluded from the regional total the growth rate of the value of exports is substantially reduced (to an annual rate of 4.6 per cent).

The decline in the growth rate of exports continued during the third five-year period after the war (1956-60), on a scale that resulted in a virtual cessation in export

growth. Although the value of exports for the region as a whole (excluding Cuba) increased at an annual rate of 2.6 per cent during this period, over 90 per cent of that increase was attributable to Venezuela alone, mainly in respect of sales of petroleum, which accounted for nine-tenths of Venezuela's exports. If Venezuela is excluded from the regional total the annual rate of increase in the value of exports is reduced to only 0.2 per cent.

The analysis by country clearly shows that the weakening in the growth rate of exports (estimated at current prices) was widespread throughout the region. Only one country (Nicaragua), escaped the trend between the first and second five-year periods after the war and one other between the second and third five-year periods. The last-mentioned was Argentina, whose exports had declined sharply between 1946-50 and 1951-55. Thus the number of countries with a relatively high growth rate of exports was greatly reduced, while there was an increase in the number of countries whose exports either rose at only a relatively slow rate, or declined. For example, the number of countries with a 50 per cent cumulative increase in exports during the five-year period, compared with the previous five-year period, was eight (Colombia, Costa Rica, Ecuador, El Salvador, Nicaragua, Panama, Peru and Venezuela) in 1951-55, but only two (Panama and Venezuela) in 1956-60. Conversely, the number of countries where the value of exports declined during the five-year period compared with the previous five years rose from one in 1951-55 (Argentina) to five in 1956-60 (Bolivia, Brazil, Colombia, Haiti and Nicaragua). Despite this evolution, the increase in the growth rate of exports varied widely during 1951-60. From this standpoint the Latin American republics can be classified in three main groups:

(i) The ten countries with the highest export growth rate in both the first and second halves of the decade included Ecuador, El Salvador, Mexico, Nicaragua, Peru and Venezuela, to which Panama can be added, even though the increase in that country's exports is largely attributable to exports from the Colón Free Zone, which are obviously of a special nature (re-exports).⁶

(ii) The seven countries where the growth rate of exports increased the least, or declined, which always included Argentina, Bolivia and Uruguay.

(iii) The relative position of all the other countries was either between these two extremes, or else changed considerably between the first and second half of the decade. The latter group included the three countries (Brazil, Colombia and Haiti) whose exports increased greatly in value during 1951-55 compared with 1946-50, but declined again during 1956-60.⁷

⁶ It is true that the percentages indicating the growth rate of exports in 1951-55 compared with 1946-50 are undoubtedly over-estimated for two of these seven countries (Ecuador and El Salvador) because for the greater part of the period 1946-50 the trade statistics were entered in the balance-of-payments statements without any correction for under-estimation of exports of bananas (from Ecuador) and coffee (from El Salvador).

⁷ It should be noted that, as regards Colombia, the annual growth rate of exports in 1951-55 compared with 1946-50 (13.8 per cent) is undoubtedly incorrect. In fact, the export figures for most of the period 1946-50 were not corrected to take account of the inaccurate estimate of the sales of coffee and exports of contraband goods, and they are therefore probably under-estimated.

It is interesting to note that the countries with the most marked increases in their sales abroad were: (i) those that exported primary commodities whose prices remained relatively stable during the decade (petroleum from Venezuela and bananas from Ecuador); (ii) those that, although exporters of products whose prices tended to decline, were able to compete successfully with the large traditional exporters of the region (El Salvador, with coffee exports); (iii) those that achieved a certain degree of diversification in their sales abroad (Mexico and Peru). Conversely, the countries whose exports increased only slightly, or decreased, were those exporting primary commodities whose prices declined over the long term, including both mineral products (Bolivian tin) or temperate-zone agricultural products (Argentina and Uruguay).⁸ Lastly, the evolution of exports from Brazil, Colombia and Haiti, which increased substantially in the first half of 1951-60, but declined during the second half, probably reflect the sharp fall in the prices of coffee from 1957 onwards.

The decline in the growth of exports estimated at current prices naturally had an unfavourable effect on the growth rate of the domestic product of the Latin American countries.

This phenomenon can be clearly demonstrated by classifying the countries of the region in four main groups, as defined in the ECLA study on economic development in Latin America in the post-war period.⁹ Group A comprises the countries in the south of Latin America (Argentina, Bolivia, Chile, Paraguay and Uruguay) where the long-term growth rate of the gross domestic product in the post-war period was the lowest (an annual rate of 2.4 per cent between 1945-49 and 1955-60). The countries in group B (Colombia, Ecuador and Peru) and in group C (Cuba, Haiti, the Dominican Republic and the Central American countries) had a higher growth rate (an annual rate of 4.4 per cent between 1945-49 and 1955-60 in both groups), but this rate tended to decrease after 1955 in group B and after 1957 in group C. Lastly, group D comprises Brazil, Mexico and Venezuela, where the growth of the domestic product during the post-war period was the highest and relatively steadiest (6.4 per cent a year between 1945-49 and 1955-60).

As might be expected, the above-mentioned study showed that in each of the four groups there was some correlation between the growth rate of the purchasing power of exports and the growth rate of the product.¹⁰ There is in fact a functional relation in any economy between current external purchasing power,¹¹ the import coefficient¹² and the gross domestic product. If the

⁸ This question is discussed in greater detail in *The economic development of Latin America in the post-war period* (United Nations publication, Sales No.: 64.II.G.6), ch. IV, section III, pp. 104-107.

⁹ *Ibid.*, ch. I, pp. 8-9.

¹⁰ *Ibid.*, ch. I, pp. 12-14.

¹¹ *Current external purchasing power* estimated at constant prices represents the quantum of exports plus the profit (or minus the loss) from the evolution of the terms of trade. This concept is different from that of *current capacity to import* (used below in the present study), which represents the value of exports less external factor payments plus the net surplus from other services, and can be calculated at either current or constant prices.

¹² The average import coefficient, which is equal to the ratio of the volume of imports to the gross domestic product for each year.

purchasing power of an economy increases at a given rate, the product will tend to grow at that same rate if there is no change in the import coefficient, and still faster if the latter decreases. Conversely, if purchasing power does not increase, the maintenance of a specific growth rate of the product will depend on the possibility of reducing the import coefficient.

From this standpoint it is worth pointing out here, as may be seen in table 42, that there is a certain relation between the growth rate of the value of exports at current prices and the growth rate of the product. Thus the countries in group A are those where from the beginning of the fifties there was a reduction in the value of exports, which was reflected in particular in the behaviour of the economy in Argentina during 1951-55 and in Bolivia and Uruguay in the following five years. Conversely, in the countries in group D the growth rate of the value of exports was relatively high and sustained, except in Brazil, which had a decline in total exports during 1956-60, but reduced its import coefficient by restricting imports. In the countries in group B and sub-group C.1 (the Central American republics) the growth rate of the value of exports was higher than in the countries in group D during 1951-55 (12.5 per cent a year), but the decline in that rate was also more marked during the succeeding

five years (the value of exports increased only 2.6 per cent during that period). The same evolution took place in the countries in sub-group C.2 (the Caribbean), except for Cuba, where the increase in the value of exports was relatively slight during 1951-55.

(b) *Evolution of imports*

It will be observed from table 41 that the value of imports, like that of exports, tended to grow less rapidly over the long term in the post-war period. This cannot, of course, be confirmed after 1946 since the f.o.b. figures for imports during the war years are not available. But there was undoubtedly a downward trend in the decade 1951-60. If the region is considered as a whole (except for Cuba), it will be seen that purchases abroad, which had increased at the average annual rate of 6.6 per cent from 1951 to 1955, did so in 1956-60 at the rate of only 3.1 per cent. If Venezuela is excluded from the regional total, the growth of imports slows down even more markedly, from 6.4 per cent in 1951-55 to only 1.5 per cent in the period 1956-60.

The weakening of the growth rate of imports, like that of exports, was a familiar phenomenon throughout Latin America. Only four countries remained unaffected by it between the first and second five-year periods in the fifties.

Table 41. Latin America: imports f.o.b. ^a by country, 1946-60

Country	Annual averages in millions of dollars at current prices			Annual rates of growth (increase +) (Percentage) ^b		
	1946-50	1951-55	1956-60	1946-50	1951-55	1956-60
Argentina	1,033.7	939.4	1,009.4	...	-1.9	+1.4
Bolivia	65.9	81.6	73.4	...	+4.3	-2.1
Brazil	879.1	1,405.6	1,202.6	...	+9.8	-3.0
Chile	249.3	337.8	406.1	...	+6.3	+3.8
Colombia	292.4	508.0	466.4	...	+11.7	-1.7
Costa Rica	38.2	64.1	91.0	...	+10.9	+7.3
Dominican Republic	47.1	88.7	112.7	...	+13.5	+4.9
Ecuador	41.8	73.3	100.4	...	+11.9	+6.5
El Salvador	34.8	70.9	100.3	...	+15.3	+7.2
Guatemala	54.5	80.7	129.6	...	+8.2	+9.9
Haiti	26.4	43.5	38.0	...	+10.5	-2.7
Honduras	32.1	53.8	65.4	...	+10.9	+4.0
Mexico	582.9	809.5	1,065.8	...	+6.8	+5.7
Nicaragua	21.2	46.0	60.1	...	+16.8	+5.5
Panama	62.7	84.3	127.4	...	+6.1	+8.6
Paraguay	23.8	31.8	40.5	...	+6.0	+5.9
Peru	137.3	240.1	332.3	...	+11.8	+6.7
Uruguay	185.1	234.1	181.4	...	+4.8	-5.0
<i>Subtotal I</i>	<i>3,808.3</i>	<i>5,193.2</i>	<i>5,602.8</i>	...	<i>+6.4</i>	<i>+1.5</i>
Venezuela	576.6	855.3	1,431.2	...	+8.2	+10.9
<i>Subtotal II</i>	<i>4,384.9</i>	<i>6,048.5</i>	<i>7,034.0</i>	...	<i>+6.6</i>	<i>+3.1</i>
Cuba	472.2	613.0	...	...	+5.3	...
TOTAL	4,857.1	6,661.5	...	...	+6.5	...

SOURCE: Annex I.

^a Excluding non-monetary gold.

^b The annual cumulative rates of growth of imports have been calculated over the long term by comparing the average value of imports for every five-year period with the average value of imports for the five previous years.

They are Guatemala, Panama and Venezuela, whose purchases abroad increased more rapidly in 1956-60 than in 1951-55 in comparison with the preceding five-year period, and Argentina, whose imports, which had declined considerably between 1946-50 and 1951-55, recovered slightly between 1951-55 and 1956-60 (with an average annual increment of 1.4 per cent). As a result of this trend of events, there were fewer with a rapidly rising import rate, and a larger number of countries whose imports expanded more slowly or even decreased. The countries that had a cumulative increment of more than 50 per cent in their foreign purchases between the two quinquennia were nine in 1951-55 and only three in 1956-60. Those whose imports declined during the same period rose from two in 1951-55 to six in 1956-60.

Although the tendency for imports to expand more slowly was common to every country, it differed considerably in tempo from one to another. The countries which developed their imports most intensively, were usually those which also enjoyed the biggest increase in their export trade, and vice versa. Thus, Ecuador, El Salvador, Nicaragua, Peru and Venezuela which, in the first as in the second half of the decade 1951-60, were among the ten Latin American countries with high rates of growth for their sales abroad, were also among the ten whose import rate climbed most rapidly. On the other hand, Argentina, Bolivia and Uruguay, which constantly formed part of the group of seven countries whose exports either expanded very slowly or diminished in 1951-55 and 1956-60 alike, were also among the seven that did little to step up their imports or even reduced them. Lastly, in Brazil and Colombia, whose sales abroad were greatly intensified during the first half of the decade only to diminish during the second half, the trend of imports was the same as that of exports.

The reasons for this correlation between the movements of imports and exports are naturally twofold: (a) the value of exports is still, despite the increase in autonomous capital inflows, the main factor in the region's total capacity to import, on which the real volume of purchases abroad naturally depends; (b) the evolution of the value of exports and imports is moreover, related to some extent to the product and to income.

In the ECLA report quoted earlier¹³ it was demonstrated that in most of the Latin American countries after the war *the volume of imports tended to vary in approximately the same way as the domestic product*, but that the course of the two variables was not strictly parallel because of the fairly substantial change in the average import coefficient of each country in the post-war period. For instance, in the countries of group A, where the growth of the product gradually came to a standstill, the volume of imports failed to expand or even shrank a little between 1945-49 and 1955-60 (0.1 per cent annually) owing to a sharp fall in the import coefficient from 14 per cent in 1945-49 to 11 per cent in 1955-60. In group D, on the other hand, where the product's rate of growth was at its highest and steadiest (6.4 per cent annually between 1945-49 and 1955-60), the volume of imports

also increased substantially over the long term (5.2 per cent annually between 1955 and 1960) although less rapidly than the product because of the intensive import substitution process which considerably reduced the import coefficient. In group B, the volume of imports, and consequently the import coefficient, expanded more than the product in 1945-49, whereas the reverse took place in 1955-60 as a result of the policy of import restriction followed by certain countries such as Colombia. Finally, group C recorded the highest rate of growth for the volume of imports over the long term (6.5 per cent between 1945-49 and 1955-60), although the growth rate of the product was less than in group D, but was hardly affected at all by the process of import substitution. (See table 42.)

(c) *Relation between imports, exports and foreign exchange earnings on current account*

Sub-sections (a) and (b) show that the evolution of the value of imports followed approximately the same trend as that of the value of exports, inasmuch as there was a definite decline in the growth rate of both purchases and sales abroad by the Latin American countries in the post-war period. However, the two movements were not absolutely parallel for two main reasons:

First, the weakening of the growth rate was less marked in regard to imports. As will be shown later, this discrepancy may be explained by the fact that while import prices remained stable or even increased, the level of export prices fell, especially from 1955 onwards. Consequently, purchases abroad during the fifties continued to increase more rapidly than sales. This phenomenon is quite obvious if the region is considered as a whole (excluding Cuba); its imports, estimated at current prices, increased by an annual average of 6.6 per cent in 1951-55 and 3.1 per cent in 1956-60, whereas its exports rose at an annual rate of only 4.6 per cent in 1951-55 and 2.6 per cent in 1956-60. It is clearer still if Venezuela is also excluded from the total, especially during the period 1956-60 when the value of imports went up by an annual average of 1.5 per cent and that of exports by only 0.2 per cent.

Secondly, the evolution of the value of purchases and sales abroad is dependent not only on the movement of prices, but also on changes in the volume of imports and exports.

Within the general trend, referred to above, towards a deterioration of the region's trade balance as a result of imports' expanding more rapidly than exports, there may be very different behaviour patterns of foreign trade between one country and another.

In order to define the scope of this phenomenon, it has been considered useful to calculate imports as a percentage of exports and of total foreign exchange earnings on current account.

The *ratio of imports to exports* makes it possible to measure the degree of balance-of-payments equilibrium or disequilibrium: when this ratio diminishes the equilibrium is considered to have been strengthened (or the disequilibrium reduced); in other words, the balance of payments situation has improved; on the other hand, when the ratio increases, the equilibrium is impaired or the

¹³ See *The economic development of Latin America in the post-war period*, op. cit., pp. 18-20 and 43-68.

Table 42. Latin America: annual rates of growth of exports and imports f.o.b.^a at current prices, and ratio of one to another by groups of countries according to the annual rate of growth of the gross domestic product, 1946-60

Groups of countries ^b	Annual rates of growth (increase -) of exports f.o.b. at current prices ^c			Annual rates of growth (increase -) of imports f.o.b. at current prices ^d			Imports f.o.b. as a percentage of exports f.o.b.		
	1946-50	1951-55	1956-60	1946-50	1951-55	1956-60	1946-50	1951-55	1956-60
<i>Group A</i>	+14.5	-1.5	-1.0	...	+0.9	+1.1	82.0	92.5	102.0
Argentina	+16.2	-5.5	+0.4	...	-1.9	+1.4	79.3	95.8	100.9
Bolivia	+1.4	+1.1	-6.0	...	+4.3	-2.1	79.3	93.4	113.3
Chile	+9.3	+7.8	+1.0	...	+6.3	+3.8	87.5	81.5	93.3
Paraguay	+13.5	+3.2	+1.5	...	+6.0	+5.0	80.4	94.0	113.9
Uruguay	+17.3	+3.5	-10.1	...	+4.8	-5.0	92.0	97.8	128.7
<i>Group B</i>	+21.0	+12.5	+2.6	...	+11.8	+1.8	93.9	90.6	87.3
Colombia	+20.9	+13.8	-0.07	...	+11.7	-1.7	100.3	91.5	84.3
Ecuador	+24.0	+16.2	+6.2	...	+11.9	+6.5	87.5	72.6	73.6
Peru	+20.9	+9.0	+6.3	...	+11.8	+6.7	84.3	95.8	97.7
<i>Group C</i>									
<i>C.1 Caribbean countries</i>	+15.5	+1.5	...	...	+6.4	...	71.0	90.1	...
Cuba	+15.7	+0.2	...	...	+5.3	...	71.7	92.1	...
Dominican Republic	+17.4	+7.9	+4.3	...	+13.5	+4.9	59.8	76.9	79.0
Haiti	+21.0	+8.4	-4.0	...	+10.5	-2.7	85.4	94.4	102.3
<i>C.2 Central America</i>	+28.5	+11.9	+4.3	...	+10.4	+7.5	99.7	93.8	109.2
Costa Rica	+30.0	+13.3	+1.4	...	+10.9	+7.3	94.2	79.3	113.1
El Salvador	+20.7	+15.2	+4.1	...	+15.3	+7.2	74.1	74.6	86.1
Guatemala	+24.5	+7.6	+3.8	...	+8.2	+9.9	83.5	85.7	114.0
Honduras	+42.5	+4.0	+2.2	...	+10.9	+4.0	62.6	86.0	94.0
Nicaragua	+21.0	+24.0	+4.3	...	+16.8	+5.5	123.9	92.0	97.1
Panama	+47.2	+17.3	+11.3	...	+6.1	+8.6	167.7	173.2	153.7
<i>Group D</i>	+21.0	+8.7	+3.8	...	+8.5	+3.8	81.9	81.1	80.9
Brazil	+18.7	+5.9	-3.0	...	+9.8	-3.0	76.0	91.2	90.2
Mexico	+17.5	+8.2	+3.0	...	+6.8	+5.7	130.2	121.7	135.9
Venezuela	+29.5	+12.2	+9.4	...	+8.2	+10.9	65.0	54.2	57.9
Latin America (excluding Cuba and Venezuela)	+17.3	+4.6	+0.2	...	+6.4	+1.5	87.3	95.2	101.6
Latin America (excluding Cuba)	+19.0	+6.1	+2.6	...	+6.6	+3.1	83.6	86.0	88.1
TOTAL, LATIN AMERICA	+18.6	+5.5	...	...	+6.5	...	82.2	86.5	...

SOURCES: Tables 40 and 41.

^a Excluding non-monetary gold.

^b This grouping proceeds from the ECLA study *The economic development of Latin America in the post-war period* (E/CN.12/659), chapter I. Group A comprises the countries in the south of Latin America which had the lowest long-term rate of growth for the gross domestic product during the post-war period (2.4 per cent annually between 1945-49 and 1955-60). Groups B and C comprise countries where the rate of growth

was higher (4.4 per cent annually in each group, between 1945-49 and 1955-60) but after 1955 in Group B and after 1957 in Group C. Group D comprises the three countries with the highest and relatively steady rate of growth (6.4 per cent annually between 1945-49 and 1955-60).

^c See footnote ^b to table 40.

^d See footnote ^b to table 41.

^e See footnote ^c to table 40.

disequilibrium intensified); in other words, the region's trade balance deteriorates.

The last column of table 42, which reflects this ratio by country and by five-year period, shows that imports absorbed an increasing share of Latin America's export earnings during the post-war period. This share for the region as a whole (excluding Cuba) rose, in fact, from 83.6 per cent in 1946-50 to 86 per cent in 1951-55 and 88.1 per cent in 1956-60. If Venezuela is excluded, the increase was even larger: from 87.3 per cent in 1946-50 to 95.2 per cent in 1951-55 and 101.6 per cent in 1956-60. The fact that this share rose to over 100 per cent in 1956-60 reflects the existence of a deficit in the trade balance for that period.

The analysis by country shows that the increase in purchases abroad as a percentage of sales was general throughout the region, and affected an increasing number of countries. In 1956-60, seventeen of them devoted a larger part of their export earnings to the financing of imports compared with only thirteen in 1951-55. By contrast, the number of countries in which the opposite occurred was reduced from seven in 1951-55 (Chile, Colombia, Costa Rica, Ecuador, Mexico, Nicaragua and Venezuela) to only three in 1956-60 (Brazil, Colombia and Panama).

Notwithstanding this general trend, the evolution of the import-export ratio differed widely from one country to another. If consideration is given to the four groups

of countries defined earlier, it will be seen that in group A imports increased as a percentage of exports (from 82 per cent in 1946-50 to 92.5 per cent in 1951-55 and 102 per cent in 1956-60) because of the decline in the value of exports, while imports continued to expand slightly despite the contraction of the import coefficient. In group B, on the other hand, purchases abroad decreased as a percentage of sales (from 93.9 per cent in 1946-50 to 90.6 per cent in 1951-55 and 87.3 per cent in 1956-60); this evolution reflected a steady increase in sales by the three countries of this group in the first half of the fifties, and a reduction in purchases by one of these countries (Colombia) as a result of the decline in its import coefficient during the last half of that decade. In group C.¹⁴ the import-export ratio, which had fallen off between the first and second quinquennia of the post-war period (from 99.7 per cent in 1946-50 to 93.8 per cent in 1951-55) went up between the second and third (from 93.8 per cent in 1951-55 to 109.2 per cent in 1956-60) when imports increased more rapidly than exports, as reflected in the maintenance of a high import coefficient caused by a liberal trade and exchange policy and the slow rate of the import substitution process. In group D, while there was no significant change in the ratio between purchases and sales abroad for the group as a whole (81.9 per cent in 1946-50, 81.1 per cent in 1951-55 and 80.9 per cent in 1956-60), it varied from one country to another. In Mexico and Venezuela the ratio declined between the first and second quinquennia of the post-war period because of a sharp increase in exports, but it went up from the second five-year period to the next as the result of a less pronounced drop in the growth rate of imports than in that of exports. In Brazil, on the other hand, the ratio increased up to 1955, declining after that date owing to the curtailment of purchases abroad.

To sum up, the trend towards a deterioration of the trade balance varied in intensity from one country to another, particularly in those included in the two main categories set out below:

1. Countries where the slow growth rate, including the reduction of sales abroad due mainly to the deterioration of export prices, was sometimes accompanied by a reduction in the import coefficient (Argentina, Bolivia, Chile, Paraguay and Uruguay); and

2. Countries which, on the contrary, were favoured by a relatively high and steady growth rate for their sales abroad, but which registered an even higher increase for purchases, because of the high level at which the import coefficient was maintained (Central American republics, Dominican Republic, Haiti and, to a certain extent, Ecuador and Peru).

On the other hand, there was little deterioration of the trade balance and even some improvement, in the countries grouped in two other categories:

Countries whose exports remained at a standstill or diminished, but whose purchases were even further restricted as a result of the reduction in the import coefficient (Colombia and Brazil in the second half of the fifties); and

Countries enjoying a high export growth rate, but whose imports increased less than their sales because of a downward trend in the import coefficient (Venezuela and Mexico).

The ratio of *imports to total foreign exchange earnings on current account* makes it possible to measure the pressure exercised by imports on the general balance of payments equilibrium on current account: an increase in the ratio indicates stronger pressure, and vice versa.

Table 43, which presents the post-war ratio for the region as a whole, by year and by quinquennium, shows that it underwent a considerable increase over the short term, while over the long term the increase was less intensive than that registered by the import-export ratio. In fact, in the region as a whole (excluding Cuba), it will be seen that the proportion of total foreign exchange earnings on current account earmarked for the financing of imports did not grow substantially between the first and second quinquennia of the post-war period (from 75.2 per cent in 1946-50 to 75.6 per cent in 1951-55) and fell slightly during the third (74 per cent in 1956-60). If Venezuela is also excluded, it will be seen that imports calculated as a percentage of foreign exchange earnings on current account increased between 1946-50 and 1951-55 (from 77.5 to 81.5 per cent), but dropped slightly from 1951-55 to 1956-60 (from 81.5 to 81 per cent).

This evolution of the ratio between imports and foreign exchange earnings on current account suggests that the region enjoyed an increment in its foreign exchange earnings in certain items of the services balance. This increment partly offset the weakening of the growth rate of exports.

Table 43. Latin America: imports f.o.b.^a as a percentage of foreign exchange earnings on current account, 1946-62

Year	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
1946	64.0	65.4	66.2
1947	83.8	86.7	87.7
1948	75.0	75.9	78.8
1949	79.3	80.4	82.9
1950	68.2	67.0	70.6
1951	81.1	81.0	87.5
1952	85.5	84.7	93.2
1953	69.3	68.6	72.1
1954	75.0	74.0	78.8
1955	72.0	71.0	77.1
1956	70.0	69.0	74.9
1957	79.2	78.6	85.7
1958	79.0	77.7	85.4
1959	73.0	71.7	75.9
1960	...	73.0	83.1
1946-50	74.3	75.2	77.5
1951-55	76.4	75.6	81.5
1956-60	...	74.0	81.0
1961	...	73.7	84.4
1962 ^b	...	71.1	81.4

SOURCE: ANNEX I.

^a Including non-monetary gold.

^b Preliminary figures.

¹⁴ The lack of data for Cuba from 1959 onwards makes it impossible to follow developments in group C.1 by five-year periods.

However, two comments are called for in this connexion: (a) receipts on the services account played an important part in only a few countries; (b) expenditures on the same account increased considerably, thus intensifying their pressure on the general balance-of-payments equilibrium on current account in many countries.

It is not necessary to examine the second point now as a thorough study will be made of it at a later stage, but some comments concerning the first point are in order.

If the import-foreign exchange earnings on current account ratio (see table 44) is compared with the import-export ratio (see again last column of table 42), by country and by quinquennium, it will be noted that the first ratio was naturally lower than the second in absolute value, but they both followed the same general trend from one five-year period to the next. Without going beyond the changes recorded in these two ratios between 1951-55 and 1956-60, a really significant discrepancy is noted in the case of Mexico: its imports expanded as a percentage of its exports (from 121.7 per cent in 1951-55 to 135.9 per cent in 1956-60), but did not alter as a percentage of foreign exchange earnings on current account (76.2 per cent in 1956-60 as compared with 76.5 per cent in 1951-55) because of the considerable increment in foreign exchange earnings due to border tourist traffic. Similar discrepancies, though less pronounced, occurred in Haiti and Nicaragua, where receipts from the tourist trade also expanded between 1951-55 and 1956-60.

Table 44. Latin America: imports f.o.b. ^a as a percentage of foreign exchange earnings on current account by country, 1946-60

Country	1946-50	1951-55	1956-60
Argentina	76.0	85.6	88.1
Bolivia	75.3	90.2	105.8
Brazil	72.7	85.7	79.4
Chile	78.7	73.5	82.3
Colombia	89.7	82.8	71.9
Costa Rica	82.1	72.6	92.4
Dominican Republic	55.7	69.0	69.5
Ecuador	74.2	64.7	68.1
El Salvador	67.5	69.2	78.0
Guatemala	78.6	81.4	101.1
Haiti	83.4	82.6	73.8
Honduras	61.1	80.0	85.3
Mexico	87.1	76.5	76.2
Nicaragua	74.2	71.0	70.6
Panama	80.5	77.6	81.0
Paraguay	77.6	80.2	96.1
Peru	74.4	82.8	83.6
Uruguay	80.0	90.7	104.6
<i>Subtotal I</i>	<i>77.5</i>	<i>81.5</i>	<i>81.0</i>
Venezuela	63.1	52.5	55.4
<i>Subtotal II</i>	<i>75.2</i>	<i>75.6</i>	<i>74.0</i>
Cuba	66.8	85.2	...
TOTAL	74.3	76.4	...

SOURCE: Annex I.

^a Including non-monetary gold.

3. EFFECT PRODUCED ON THE TRADE BALANCE BY THE DETERIORATION IN THE TERMS OF TRADE

The deterioration in the region's trade balance between the first and second quinquennia of the decade 1951-60 might be attributed, in principle, to several factors, such as imports increasing more rapidly than exports without any major change in their respective prices; import prices rising more swiftly than export prices with no very marked change in the volume of purchases and sales abroad; or a combination of the two phenomena. In actual fact, exports expanded more rapidly in volume over the long term (28.6 per cent between 1951-55 and 1956-60) than imports, for which the increment was only 14.5 per cent during the same period, but export prices dropped sharply from 1955 onwards whereas import prices remained stable or even rose slightly. The deterioration in the terms of trade should therefore be regarded as the key factor in the adverse evolution of the trade balance. The terms of trade began to worsen in 1948, improved for a while in 1950-51 during the Korean war, and again in 1953-54 when frost reduced the supply of Brazilian coffee for export, but fell into a steady decline from 1955 onwards.¹⁵

An attempt has been made in tables 45 and 46 to measure the annual and five-yearly losses (or gains) deriving from the deterioration (or improvement) of the terms of trade for the region as a whole and for individual countries. This was done by the method traditionally applied by the ECLA secretariat, taking 1950 as the base year. A broader basis might have been preferable in order to deal with the possibility that some countries may, in that particular year, have been in a special position with respect to their import and export prices. Analyses of various alternatives indicates however, that the results would not have been very different — particularly if

¹⁵ See *The economic development of Latin America in the post-war period*, op. cit., ch. IV and table 129.

Table 45. Latin America: effect of the deterioration in the terms of trade, 1951-61
(Millions of dollars)

Year	Losses (-) Gains (+)		
	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
1951	-4.3	+21.7	+153.7
1952	-659.9	-580.3	-352.5
1953	-425.6	-267.1	-168.9
1954	-188.3	-90.8	+30.8
1955	-773.4	-659.3	-520.9
1956	-1,077.6	-982.6	-744.9
1957	-935.4	-1,000.0	-1,267.4
1958	-1,596.6	-1,551.0	-1,233.5
1959	-2,205.5	-2,053.1	-1,538.6
1960 . . . . .	...	-2,208.4	-1,434.3
1951-55	-2,051.5	-1,575.8	-857.8
1956-60 . . . . .	...	-7,795.1	-5,683.9
1961 . . . . .	...	-2,326.6	-1,542.0

SOURCE: ECLA, on the basis of official statistics.

Table 46. Latin America: effect of the deterioration in the terms of trade, by country, 1951-60
(Millions of dollars)

Country	Losses (-) Gains (+)	
	1951-55	1956-60
Argentina	-788.1	-1,773.6
Bolivia	+65.9	+54.7
Brazil	-138.0	-1,240.5
Chile	+249.8	+146.7
Colombia	-102.3	-573.8
Costa Rica	+40.1	+3.4
Dominican Republic	-102.5	-239.9
Ecuador	-30.9	-150.4
El Salvador	+2.0	-168.2
Guatemala	+27.6	-52.5
Haiti	+26.3	-26.4
Honduras	+7.6	-19.0
Mexico	-218.5	-1,127.4
Nicaragua	+65.0	+12.2
Panama	+5.9	-16.7
Paraguay	+24.1	-16.4
Peru	+43.7	-314.8
Uruguay	-32.8	-181.3
Subtotal I	-857.8	-5,683.9
Venezuela	-718.0	-2,111.2
Subtotal II	-1,575.8	-7,795.1
Cuba	-475.7	...
TOTAL	-2,051.1	...

SOURCE: ECLA, on the basis of official statistics.

Latin America is considered as a whole — had the comparison been based, for example, on the average position during the early fifties.¹⁶

(a) Estimated effect of the terms of trade from 1950 onwards

Table 45 shows that the effect of Latin America's terms of trade was negative throughout the period, although losses were not substantial in 1951 and 1954. Increases were registered in 1951, when the price of certain primary commodities rose during the Korean War, and in 1954, probably because of the rise in coffee prices as a result of the heavy frosts of 1953 in Brazil.

The losses became increasingly heavy after 1955. For the region as a whole (excluding Cuba) they rose from 1,575.8 million dollars in 1951-55 to 7,795.1 million in 1956-60. The trend is the same if Venezuela is excluded. In the eleven years from 1951 to 1961, the total losses sustained by Latin America (excluding Cuba) may be estimated at roughly 11,700 million dollars.

These losses gradually affected nearly all the Latin American countries, as may be seen from table 46. From 1951 to 1955 only nine countries were affected (Argentina, Colombia, Cuba, Dominican Republic, Mexico, Panama, Peru, Uruguay and Venezuela). But their number rose

¹⁶ See *The economic development of Latin America in the post-war period*, op.cit., ch. I, pp. 6 and 7.

to fifteen during the next quinquennium, and only five countries recorded small gains (Bolivia, Chile, El Salvador, Guatemala and Honduras). In these countries the terms of trade took a turn for the better only at the beginning of the quinquennium but declined thereafter, and as a result the gains obtained during the whole five-year period reflect the fact that those in 1956 and 1957 were slightly higher than the losses sustained in the next three years.

It is interesting to note that from 1955 onwards the evolution of the terms of trade gave rise to heavy losses, not only in the countries exporting temperate-zone agricultural commodities (Argentina and Uruguay), but also in several selling tropical products, such as coffee (Brazil and Colombia) and bananas (Ecuador). Losses were also suffered by countries that had already diversified their exports to a certain extent (Mexico and Brazil) and even by Venezuela, which is primarily an exporter of petroleum. Only two countries that export mineral products (Bolivia and, with the foregoing reservations, Chile) obtained some gain during the quinquennium.

(b) Comparison between the losses caused by the deterioration in the terms of trade and the net inflow of long-term autonomous capital in the public and private sectors

In order to bring out the importance of the worsening of the Latin American countries' terms of trade losses caused by this deterioration will be compared with the net inflow of long-term foreign autonomous capital¹⁷ into these countries during the last decade.

Table 47 shows that the losses due to the terms-of-trade effect were far below net capital receipts in 1951-55 (1,575.8 million dollars in losses against 2,239.2 million in receipts), almost as much in 1956-60 (7,795.1 million dollars against 6,419.2 million) and higher in 1961 (2,326.6 million dollars versus 1,317.8 million). Losses over the whole period 1956-61 were 10,100 million dollars and receipts 7,700 million which means that 76 per cent of the former were offset by the latter. In other words, during the last six years, the increasingly large contribution made by long-term foreign autonomous capital to the financing of Latin American development was virtually cancelled out by the adverse trend of the terms of trade.

In connexion with this point it is interesting to observe that during the same period (1956-61), the sum of 10,100 million dollars lost through the deterioration in the terms of trade was more than six times the total net disbursements (about 1,700 million dollars) under the head of aid from official United States agencies and international institutions.¹⁸

The magnitude of the losses in comparison with long-term foreign capital inflows was not the same in every country. During the five years from 1956-60 the losses sustained outweighed long-term financial contributions from abroad in ten out of the fifteen countries that were

¹⁷ Covering all net disbursements except balance-of-payments loans under the head of direct investment and long-term loans to the public and private sectors in Latin America.

¹⁸ Excluding balance-of-payments loans.

Table 47. Latin America: comparison between net losses due to the terms-of-trade effect and the net inflow of autonomous long-term foreign capital, 1951-61

(Millions of dollars)

Groups of countries ^a	1951-55		1956-60		1961	
	Aggregate totals					
	Net losses (-) or gains (+)	Net inflow (+) of autonomous long-term foreign capital ^b	Net losses (-) or gains (+)	Net inflow (+) of autonomous long-term foreign capital ^b	Net losses (-) or gains (+)	Net inflow (+) of autonomous long-term foreign capital ^b
<i>Group A</i>	-481.1	+243.9	-1,769.9	+1,770.8	-166.2	+559.6
Argentina	-788.1	+19.8	-1,773.6	+1,196.3	-173.5	+344.4
Bolivia	+65.9	+61.8	+54.7	+172.0	+14.1	+33.5
Chile	+249.8	+104.9	+146.7	+319.8	+44.2	+166.3
Paraguay	+24.1	+2.4	-16.4	+44.5	-14.3	+7.1
Uruguay	-32.8	+55.0	-181.3	+38.2	-36.7	+8.3
<i>Group B</i>	-89.5	+426.8	-1,039.0	+484.9	-432.9	+64.5
Colombia	-102.3	+177.1	-573.8	+59.4	-171.9	+36.7
Ecuador	-30.9	+46.3	-150.4	+79.2	-48.5	+25.1
Peru	+43.7	+203.4	+314.8	+346.3	-212.5	+2.7
<i>Group C</i>						
C.1 Caribbean countries	-554.6	+265.1	-266.3	...	-72.8	...
Cuba	-475.7	+220.0	...	...	...	...
Dominican Republic	-105.2	-1.9	-239.9	+43.7	-65.1	-28.5
Haiti	+26.3	+47.0	-26.4	+43.6	-7.7	+18.2
C.2 Central America	+148.2	+132.7	-240.8	+425.2	-180.0	+77.8
Costa Rica	+40.1	+20.5	+3.4	+53.0	+17.4	+14.1
El Salvador	+2.0	+12.2	-168.2	+12.5	-77.6	+6.1
Guatemala	+27.6	+12.6	-52.5	+185.2	-52.6	+24.7
Honduras	+7.6	+44.9	-19.0	+14.4	-25.9	+1.3
Nicaragua	+65.0	+22.3	+12.2	+33.8	+2.8	+8.7
Panama	+5.9	+20.2	-16.7	+126.3	-9.3	+22.9
<i>Group D</i>	-1,074.5	+1,390.7	-4,479.1	+3,651.0	-1,474.7	+626.2
Brazil	-138.0	+527.0	-1,240.5	+1,194.0	-479.5	+439.0
Mexico	-218.5	+502.0	-1,127.4	+851.6	-210.6	+300.5
Venezuela	-718.0	+361.7	-2,111.2	+1,605.4	-784.6	-113.3
<i>Latin America (excluding Cuba and Venezuela)</i>	-857.8	+1,877.5	-5,683.9	+4,813.8	-1,542.0	+1,431.1
<i>Latin America (excluding Cuba)</i>	-1,575.8	+2,239.2	-7,795.1	+6,419.2	-2,326.6	+1,317.8
TOTAL, LATIN AMERICA	-2,051.5	+2,459.2	...	...	...	...

SOURCES: Table 46 and annex II, table G.

^a For the definition of the groups of countries, see table 42, footnote *b*.

^b Covers official donations, direct investment (including reinvested earnings), long-term loans to the private sector and long-term loans to the official sector (excluding balance-of-payments loans).

faced with the consequences of the unfavourable evolution in the terms of trade, namely, Argentina, Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Honduras, Mexico and Uruguay and Venezuela, to which Cuba may

be added on the basis of the figures available for 1956-59. But in the remaining five (Guatemala, Haiti, Panama, Paraguay and Peru) the losses were smaller than foreign capital receipts.

C. SERVICES

In order to facilitate the analysis, all transactions under the head of services have been classified in four main accounts:

1. Freight, insurance and other international transportation transactions;

2. Tourist trade;

3. Services under the head of foreign investment income;

4. Other service transactions.

1. FREIGHT, INSURANCE AND OTHER INTERNATIONAL TRANSPORTATION TRANSACTIONS

(a) Definition

According to the definitions of the International Monetary Fund, which have been used in the present report, this account covers two main categories of transactions:

(i) Freight and direct insurance (i.e., excluding reinsurance recorded under the different services) on international shipments of merchandise and gold;

(ii) Other international transportation transactions.

Freight and direct insurance are recorded on the following basis: when they are incurred for transferring the goods to the point at which they pass the customs frontier (point of uniform valuation), they are considered to be transactions between the exporter and the transport and insurance companies. When they are incurred for transporting goods beyond that point, they are considered as transactions between the importer and the transport and insurance companies. In the case of Latin America, freight and insurance are calculated on an f.o.b. basis, that is, the point of uniform valuation chosen for the goods is the frontier of the exporting country, which would be the frontiers of the Latin American countries in the case of exports and of foreign countries in that of imports. The freight earnings and insurance premiums on exports accruing to firms resident in Latin America are therefore recorded as receipts on the region's balance of payments, whether they are actually paid by the exporter or by the importer. But freight and insurance premiums on imports are included as debits in the balance of payments when they are paid to foreign transport and insurance companies and omitted when paid to Latin American concerns.¹⁹

Other international transportation transactions comprise various items such as time charters,²⁰ port disbursements (bunker fuel and coal), ship's stores and similar supplies, stevedoring, harbour and airfield fees, towing and repairs

¹⁹ It should be noted, however, that for six countries (Argentina, Chile, El Salvador, Haiti, Mexico and Uruguay), freight and direct insurance were calculated by the IMF on an f.o.b. export and c.i.f. import basis. In these cases freight and insurance charges on imports are omitted from the balance of payments when they are payable to foreign companies and entered on the credit side when they are payable to Latin American concerns. To make the data comparable for all the Latin American countries, the freight and insurance charges were recalculated on a standard f.o.b. basis, according to the method set forth in the General Methodological Note to annexes I and II. The adjustment was, however, no more than approximate, since the freight and insurance costs paid to foreign companies for imports could be added to the debit entries whereas the same payments made to Latin American firms could not be deducted from the credit side. As a result the figures on the credit side have been slightly over-estimated.

²⁰ A time charter is taken out when the owner of a means of transport rents it to a person or firm (administrator or charterer) living abroad. The disbursements made by such persons residing in Latin America for the time charter of foreign-owned transportation media are entered on Latin America's balance of payments. Conversely, the sums received by the owners of transport living in Latin America for hiring out the said means of transport to administrators or charterers living in a foreign country are entered on the credit side of the balance of payments.

and maintenance, passenger transport²¹ and others, including coastal traffic carried on by foreign firms in Latin American waters or by Latin American companies abroad.

(b) Evolution of the transportation account

From table 48 which lists annual receipts and disbursements on the international transportation account, it is apparent that the balance for Latin America showed a chronic deficit. In the region as a whole (with the exception of Cuba), the cumulative deficit on this account is about 9,000 million dollars for the post-war period and about 7,000 million for 1951-60. Admittedly Venezuela accounts for the bulk of the deficit, but even when this country is excluded it still adds up to the substantial sum of roughly 7,500 million dollars for the period 1946-60, of which about 5,400 million relate to the decade 1951-60. In order to grasp the significance of these figures, they need only be compared with the credit balance on the merchandise account estimated on an f.o.b. basis. The result is that for Latin America (excluding Cuba), the deficit on the transportation account amounted to nearly 70 per cent (68.4 per cent) of the trade surplus in 1951-60. The comparison will be even more revealing if Venezuela is omitted, since the deficit for transportation then becomes four times the credit balance on the merchandise account. In other words, it would have sufficed in itself to shift the balance of current operations against the region even without the deficit for other items on the services account.

It should be remarked, however, that the evolution of the transportation account tended to improve in Latin America's favour over the long-term. The aggregate regional deficit under the head of freight and insurance constantly increased in absolute terms, but its rate of expansion showed signs of slowing down. In fact, the deficit increased as little as 4.2 per cent between 1951-55 and 1956-60 in comparison with 39.7 per cent between 1946-50 and 1951-55. With Venezuela excluded from the regional total, the transportation account takes an even more favourable turn. The deficit first rose 37.7 per cent between 1946-50 and 1951-55, and then proceeded to decline by 7.8 per cent, from an annual average of 568.1 million dollars in 1951-55 to 524.2 million in 1956-60. It is true that the deficit seems to have crept up again in 1961 and 1962 in comparison with its level in 1960, but is in any case still below the 1956-60 average.

The signs of improvement which can be detected in the Latin American transportation account after 1955 were not confined to this area alone, as table 49 indicates. In fact, the only countries where the deficit on that account increased more rapidly between 1951-55 and 1956-60 than between 1946-50 and 1951-55 were Guatemala, Honduras and Venezuela, to which Panama can be added because its deficit, lower in 1951-55 than it had been in 1945-50, rose again in 1956-60. In ten others (Bolivia, Chile, Colombia, Costa Rica, Ecuador, El

²¹ The sums received by Latin American transport companies for the transport of foreign tourists travelling in Latin America (credit entries) are excluded, as are the outlays made by persons residing in Latin America when travelling abroad (debit entries). These operations are recorded on the travel account.

Table 48. Latin America: freight, insurance and other transportation, 1946-62

(Millions of dollars)

Year	Latin America			Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1946	101.9	447.2	-345.3	100.1	419.8	-319.7	98.9	379.4	-280.5
1947	146.8	760.8	-614.0	145.7	722.8	-577.1	144.2	646.2	-502.0
1948	147.6	799.1	-651.5	145.4	750.6	-605.2	141.8	657.4	-515.6
1949	146.2	631.3	-485.1	144.0	586.8	-442.8	129.4	494.5	-365.1
1950	104.4	627.9	-523.5	99.8	569.4	-469.6	85.5	485.0	-399.5
1951	168.6	1,011.9	-843.3	163.1	940.1	-777.0	146.8	842.7	-695.9
1952	229.3	1,019.6	-790.3	225.5	946.4	-720.9	208.0	843.5	-635.5
1953	200.9	792.0	-591.1	197.0	733.7	-536.7	180.2	609.2	-429.0
1954	210.3	892.0	-681.7	206.8	834.1	-627.3	189.9	690.7	-500.8
1955	252.8	1,020.0	-767.2	245.8	955.6	-709.8	225.0	804.4	-579.4
1956	250.0	1,066.1	-816.1	238.0	993.9	-755.9	218.9	844.2	-625.3
1957	257.2	1,186.1	-928.9	243.7	1,101.8	-858.1	218.7	858.8	-640.1
1958	215.1	949.7	-734.6	203.6	866.5	-662.9	181.8	650.4	-468.6
1959	234.6	915.7	-681.1	224.5	846.4	-621.9	200.3	627.2	-426.9
1960 . . . . .	...	...	...	285.1	898.9	-613.8	265.8	726.1	-460.3
<i>Average</i>									
1946-50	129.4	653.3	-523.9	127.0	609.9	-482.8	120.0	532.5	-412.5
1951-55	212.4	947.1	-734.7	207.6	882.0	-674.4	190.0	758.1	-568.1
1956-60 . . . . .	...	...	...	239.0	941.5	-702.5	217.1	741.3	-524.2
1961 . . . . .	...	...	...	320.1	979.0	-658.8	295.3	815.2	-519.9
1962 ^a . . . . .	...	...	...	330.4	991.0	-660.6	311.9	831.6	-519.7

SOURCE: Annex I.

^a Preliminary figures.

Table 49. Latin America: freight, insurance and other transportation by country, 1946-60

(Aggregate totals in millions of dollars)

Country	1946-50			1951-55			1956-60		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
Argentina	250.8	799.8	-549.0	386.9	1,091.0	-704.1	357.2	1,005.8	-648.6
Bolivia . . . . .	...	45.4	-45.4	0.1	61.3	-61.2	—	67.9	-67.9
Brazil	126.0	799.9	-673.9	162.0	1,095.0	-933.0	221.0	754.0	-533.0
Chile	71.2	157.3	-86.1	115.4	246.0	-130.6	94.0	272.3	-178.3
Colombia	44.3	149.8	-105.5	82.2	219.3	-137.1	148.0	290.8	-142.8
Costa Rica	2.8	25.0	-22.2	11.6	44.8	-33.2	13.9	60.8	-46.9
Dominican Republic	7.3	30.3	-23.0	36.0	57.7	-21.7	25.9	44.6	-18.7
Ecuador	7.8	51.1	-43.3	9.8	68.6	-58.8	6.5	84.2	-77.7
El Salvador	0.7	21.4	-20.7	3.3	48.8	-45.5	8.3	65.1	-56.8
Guatemala	4.2	40.7	-36.5	4.3	54.2	-49.9	14.7	101.3	-86.6
Haiti	0.9	12.1	-11.2	7.4	30.0	-22.6	13.4	27.0	-13.6
Honduras	0.7	21.4	-20.7	4.8	28.7	-23.9	7.3	43.0	-35.7
Mexico	8.3	151.2	-142.9	14.5	223.8	-209.3	14.8	280.2	-265.4
Nicaragua	3.4	18.9	-15.5	12.4	51.1	-38.7	36.7	81.5	-44.8
Panama	4.6	57.5	-52.9	27.3	64.8	-37.5	41.3	95.9	-54.6
Paraguay	1.9	20.1	-18.2	0.8	23.7	-22.9	2.0	28.4	-26.4
Peru	32.5	157.9	-125.4	46.7	232.1	-185.4	70.0	300.7	-230.7
Uruguay	32.4	102.7	-70.3	24.4	149.6	-125.2	10.5	103.2	-92.7
Subtotal I	599.8	2,662.5	-2,062.7	949.9	3,790.5	-2,840.6	1,085.5	3,706.7	-2,621.2
Venezuela	35.2	386.9	-351.7	88.3	619.4	-531.1	109.4	1,000.8	-891.4
Subtotal II	635.0	3,049.4	-2,414.4	1,038.2	4,409.9	-3,371.7	1,194.9	4,707.5	-3,512.6
Cuba	11.9	216.9	-205.0	23.7	325.6	-301.9	...	...	...
TOTAL	646.9	3,266.3	-2,619.4	1,061.9	4,735.5	-3,673.6	...	...	...

SOURCE: Annex I.

Salvador, Mexico, Nicaragua, Paraguay and Peru), the rate at which the transportation deficit was increasing slackened towards the middle of the 1951-60 decade. In the remaining five countries (Argentina, Brazil, Dominican Republic, Haiti and Uruguay) the deficit was reduced in 1956-60.

The explanation of this trend should obviously be sought in the fact that income increased more rapidly than expenditure on the transportation account during the second half of the decade 1951-60. In the region as a whole, the former rose by about 15.1 per cent between 1951-55 and 1956-60 whereas the latter went up by only 6.7 per cent. With Venezuela excluded, income increased 14.3 per cent while expenditure declined by 2.3 per cent.

What must still be explained is why expenditure stayed at the same level or even dropped in 1956-60 while income rose sharply. Unfortunately this question is hard to answer, because the credit and debit entries on the transportation account represent transactions of such a varied nature that it would be very difficult to make an economic analysis of them. Broadly speaking, however, the credit entries largely consist of maritime freight and insurance premiums on exports paid to Latin American companies while the debit entries mainly represent maritime freight and insurance premiums on imports paid to foreign concerns.

It may therefore be assumed that the evolution of income and expenditure on the international transportation account is essentially dependent on three factors: (a) changes in maritime freight and insurance rates; (b) changes in the volume of exports carried by Latin American shipping lines; (c) changes in the volume of imports carried by foreign shipping lines.

The trends followed by these three factors from 1951 to 1960 will be reviewed briefly below:

(i) Maritime freight and insurance rates fluctuated widely over the short term during the post-war period, as the indexes published by the big maritime powers testify. Freight rates, for instance, recovered immediately after the war (1946-48), rose still further during the Korean conflict (1950-51) and reached their peak at the time of the Suez crisis (1956). However, the reduction in these rates between 1957 and 1960 outweighed their increase between 1955 and 1956, which means that the average rate was lower in 1956-60 than in 1951-55 (and probably the insurance rates as well). In other words, both rates showed a tendency to decline between the first and second halves of the decade 1951-60.

(ii) The volume of exports expanded more rapidly in the latter part of the decade, i.e., 28.6 per cent between 1951-55 and 1956-60 against 1.2 per cent between 1946-50 and 1951-55. During the same period the Latin American merchant fleets carried a larger share of export shipments. Accordingly, the volume of exports carried by companies administered by persons residing in Latin America may well have increased even more rapidly than the aggregate volume of Latin America's foreign sales.

(iii) As a result of the policy of import restriction and substitution adopted by a number of Latin American countries, the volume of imports followed a different

trend by increasing less in the second than in the first half of the decade, i.e., by 14.5 per cent between 1951-55 and 1956-60 compared with 16.6 per cent between 1946-50 and 1951-55. The weakening in the rate of growth was probably made even more marked by the increased share of import shipments carried by the Latin American merchant fleets.

The long-term decline in freight and insurance rates for exports and imports was therefore instrumental in reducing the rate of expansion for receipts and expenditure on the transportation account. Its effect on receipts was offset to a certain extent by the more rapid increase in the volume of exports carried by Latin American merchant fleets, but intensified on the expenditure side by the decline in the growth rate of the volume of imports carried in foreign bottoms. As a result income from freight and insurance climbed steadily upwards while disbursements remained stationary or even diminished.

This interpretation of long-term changes on the international transportation account is not only interesting in retrospect but is also a useful pointer for the future. On the one hand, it demonstrates clearly that receipts and expenditure increase when freight and insurance rates rise and vice versa. On the other, it proves that the region can count on saving foreign exchange, irrespective of whether the rates are high or low, so long as the volume of exports carried by domestic lines increases more rapidly than the volume of imports carried by foreign lines. From this point of view the policy followed by a number of Latin American countries with the aim of increasing the tonnage transported by their merchant ships seems to be justified.

It may be useful to calculate income and expenditure on the transportation account as a percentage of exports and imports f.o.b., in order to determine the coefficients that could be used to convert the foreign trade and transport series worked out on a c.i.f. basis to f.o.b. series and vice versa. Tables 50 and 51, which reproduce these calculations, show that the percentages thus determined were not constant. The ratio of *income from freight and insurance to exports f.o.b.* reflected the fluctuations in freight and insurance rates over the short term, but tended to increase a little over the long term (from 2.9 per cent in 1951-55 to 3 per cent in 1956-60 for the region as a whole and 3.5 per cent in 1951-55 to 3.9 per cent in 1956-60 if Venezuela is excluded). This was due to the fact that income on the transportation account, despite a decline in its rate of growth, continued to increase at a fairly rapid pace during the second part of the decade for the reasons indicated above, while the value of exports remained stationary after 1950 owing to falling prices for primary commodities on the world market. The ratio of *freight and insurance expenditure to imports f.o.b.* was also mirrored in the fluctuations in freight and insurance rates over the short term but tended to contract between the first and second part of the decade 1951-60 (from 14.6 to 13.4 per cent for the region as a whole), the decline in the growth rate of imports having been less marked than the decline in the growth rate of expenditure, owing to the fact that import prices remained at a high level or even rose slightly.

Table 50. Latin America: earnings on freight, insurance and other transportation as a percentage of exports f.o.b., 1946-62

Year	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
1946	2.2	2.4	2.7
1947	2.4	2.8	3.1
1948	2.2	2.5	2.9
1949	2.7	2.9	3.3
1950	1.6	1.7	1.8
1951	2.2	2.3	2.6
1952	3.2	3.5	4.2
1953	2.6	2.8	3.3
1954	2.6	2.8	3.3
1955	3.1	3.2	4.0
1956	2.9	3.0	3.7
1957	2.8	2.9	3.9
1958	2.5	2.6	3.5
1959	2.8	2.9	3.7
1960	...	3.5	4.7
<i>Average</i>			
1946-50	2.2	2.4	2.7
1951-55	2.8	2.9	3.5
1956-60	...	3.0	3.9
1961	...	4.0	5.1
1962	...	4.5	5.2

SOURCES: Tables 38 and 48.

Table 51. Latin America: expenditure on freight, insurance and other transportation as a percentage of imports f.o.b., 1946-62

Year	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
1946	13.4	13.8	13.9
1947	13.6	14.2	14.3
1948	14.6	15.1	15.4
1949	13.0	13.3	13.2
1950	12.6	12.8	12.7
1951	14.3	14.8	14.9
1952	14.9	15.4	15.7
1953	13.3	13.5	13.4
1954	13.3	13.5	13.2
1955	15.2	15.5	15.6
1956	14.9	15.4	15.9
1957	14.0	14.3	14.5
1958	12.0	12.2	11.6
1959	12.4	12.6	12.1
1960	...	12.5	12.0
<i>Average</i>			
1946-50	13.4	13.9	13.9
1951-55	14.2	14.6	14.6
1956-60	...	13.4	13.2
1961	...	13.2	12.9
1962	...	13.4	13.1

SOURCES: Tables 38 and 47.

(c) Pressure of freight and insurance expenditure on the general stability of the current account

The pressure exerted can be measured by calculating the expenditure in question as a percentage of total foreign exchange income on current account.

Table 52, which reproduces the calculation for Latin America as a whole, shows that the coefficient increased slightly between 1946-50 and 1951-55 (from 10.5 per cent to 11 per cent for the region as a whole except for Cuba and from 10.8 per cent to 11.2 per cent if Venezuela is also excluded).

Table 52. Latin America: expenditure on freight, insurance and other transportation as a percentage of foreign exchange earnings on current account, 1946-62

Year	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
1946-50	10.0	10.5	10.8
1951-55	10.9	11.0	11.2
1956-60	...	9.9	10.7
1961	...	9.7	10.9
1962	...	9.5	10.6

SOURCE: Annex I.

The same coefficient decreased between 1951-55 and 1956-60 (from 11 per cent to 9.9 per cent for the region as a whole with Cuba excluded and from 11.2 to 10.7 per cent with Venezuela excluded). The reduction in pressure during the second half of the decade 1951-60 may be attributed to a cut in freight and insurance rates during the last few years of the decade and to the fact that from 1945 onwards the volume of imports transported in foreign bottoms expanded less rapidly owing to the increasing share of such traffic taken by Latin American merchant fleets and to the general policy of import restriction and substitution. The trend does not seem to have changed very much during the last few years because the relation between transport expenditure and total foreign exchange income on current account, despite a slight increase in 1961 over 1962, remained below the average level attained in 1956-60.

The trend of development differed fairly considerably from one country to another, as table 53 indicates. The proportion of total foreign exchange income on current account earmarked for financing freight and insurance expenditure expanded between 1951-55 and 1956-60 in eleven countries (Bolivia, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Uruguay and Venezuela) and shrank in the others. The first group naturally includes the countries where the value of exports — which forms the principal component of foreign exchange income — declined from one quinquennium to another (Bolivia, Colombia, Uruguay) or increased very slightly (Paraguay), and the countries where the volume of imports, and consequently, expenditure on the transportation of the said imports, increased fairly rapidly (Central America and Venezuela) as a result of the liberal exchange and tariff policy applied. The second group comprises the countries which bene-

Table 53. Latin America : expenditure on freight, insurance and other transportation as a percentage of foreign exchange earnings on current account by country, 1946-60

Country	1946-50	1951-55	1956-60
Argentina	11.7	19.9	17.5
Bolivia	10.4	13.5	19.6
Brazil	13.2	13.3	10.0
Chile	10.0	10.7	10.4
Colombia	9.2	7.1	9.0
Costa Rica	10.8	10.1	12.3
Dominican Republic	7.2	11.1	5.5
Ecuador	18.1	12.1	11.4
El Salvador	8.3	9.5	10.1
Guatemala	11.7	10.9	15.8
Haiti	7.6	11.3	10.5
Honduras	8.1	8.5	11.2
Mexico	4.5	4.2	4.0
Nicaragua	13.3	15.8	19.2
Panama	14.7	11.9	12.2
Paraguay	13.1	12.0	13.5
Peru	17.1	16.0	15.1
Uruguay	8.9	11.6	11.9
<i>Subtotal I</i>	<i>10.8</i>	<i>11.2</i>	<i>10.7</i>
Venezuela	8.5	7.6	7.8
<i>Subtotal II</i>	<i>10.5</i>	<i>11.0</i>	<i>9.9</i>
Cuba	6.1	9.0	...
TOTAL	10.0	10.9	...

SOURCE: ANNEX I.

fitted from a relatively steady increase in the value of their exports (Dominican Republic, Ecuador and Peru) and those which severely restricted the volume of their purchases abroad (Argentina, Brazil, Chile and Haiti).

Mexico is in a special position because it apparently devotes a small proportion of its foreign exchange income to financing the transport of its imports (4 per cent). This is due to a special feature of the method used for recording disbursements on the transportation of imports. These disbursements, when calculated on an f.o.b. basis, may be defined as freight and insurance payable between the frontier of the exporter country and that of the importer country. Most of Mexico's imports come overland from the United States. In this case the frontier of the exporter country (United States) becomes confused with that of the importer country (Mexico), and as a result no freight and insurance is payable on the imports. The Mexican importer naturally pays the transport costs incurred within the United States for transferring the merchandise from the place of purchase to the Mexican border, but these expenses are included in the f.o.b. price of the goods.

2. TRAVEL

The travel account, as defined by the International Monetary Fund, covers expenditures of foreign visitors to Latin American countries (credit) and also expenditures of Latin American travellers abroad (debit), with a few exceptions (crews and other carrier personnel, diplomats

and members of the armed forces and migrant workers).²² The credit entries include expenditures of foreign visitors to Latin America in respect of board and lodging (hotels, restaurants, etc.) purchases of goods, including those for export other than for business purposes, and local transportation within the country visited.²³ Conversely, the debit entries include expenditures of Latin American travellers abroad for board and lodging, purchases of goods, including those for import into Latin America other than for business purposes, and local transportation within foreign countries.²⁴

The travel account, as defined, is the only one in the services balance that was consistently favourable to Latin America. In the region as a whole (excluding Cuba), the cumulative surplus in this account was 2,200 million dollars during the post-war period, 1,700 million dollars of which was accumulated during the fifties (see table 54). If the figures relating to Venezuela are excluded from the regional total, the surplus is even larger (2,900 million dollars during 1946-60, 2,300 million of which were accumulated during the fifties), since transactions under the head of travel in that country consistently showed a deficit (see table 55).

However, two supplementary comments are necessary:

In the first place, the credit balance on the travel account is attributable to a limited number of countries, namely, Guatemala, Haiti, Mexico, Panama and Uruguay, to which may be added Costa Rica since 1956 (see again table 55). During the fifties these six countries registered a cumulative surplus for travel of about 2,900 million dollars, while the remaining countries had to face a deficit of some 1,250 million dollars under this head. Moreover, most of this surplus (95 per cent) was accounted for by only two (Mexico and Panama) of the six countries enjoying a credit balance.

Secondly, in the two countries showing the largest net inflows for travel, a sizable proportion of such inflows may be ascribed to transactions of a very specific nature. In Mexico (see table 56) a substantial proportion of the surplus (46.5 per cent in 1951-55 and 63.6 per cent in 1956-60) was derived from the transactions recorded in Mexico's balance of payments as *border travel*. Under this head are included mainly the purchases made in Mexico (credit) by United States residents in the vicinity of the border during brief visits to the Mexican side; as well as purchases made under similar circumstances in the United States (debit) by Mexican nationals residing

²² Expenditures of crews and other carrier personnel are included in the freight, insurance and other transportation account; those of diplomats and members of the armed forces, in government transactions not included elsewhere; and those of migrant workers, in the miscellaneous services account. It should be noted that these last two accounts of the IMF classification were grouped together in the "other services" account in the presentation of the present study.

²³ The expenditures of foreign visitors under the head of transportation to countries of the region by Latin American enterprises are entered on the credit side of the freight, insurance and other transportation account.

²⁴ Expenditures of Latin American residents under the heads of transportation to foreign countries in foreign carriers are entered on the debit side of the freight, insurance and other transportation account.

Table 54. Latin America: travel, 1946-62

(Millions of dollars)

Year	Latin America			Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1946	237.6	148.8	+88.8	221.3	114.5	+106.8	215.9	101.1	+114.8
1947	244.4	199.6	+44.8	222.5	146.4	+76.1	217.5	141.2	+76.3
1948	294.3	192.7	+101.6	271.2	136.5	+134.7	271.2	136.5	+134.7
1949	281.6	145.2	+136.4	262.0	113.6	+148.4	255.0	90.7	+164.3
1950	336.0	219.1	+116.9	318.9	187.5	+131.4	318.9	154.0	+164.9
1951	357.3	253.2	+104.1	338.1	223.8	+114.3	338.1	182.6	+155.5
1952	365.1	261.6	+103.5	345.9	229.4	+116.5	345.9	187.0	+158.9
1953	397.4	308.2	+89.2	377.8	277.4	+100.4	376.0	241.2	+134.8
1954	449.1	343.1	+106.0	425.1	311.5	+113.6	423.4	268.4	+155.5
1955	558.2	365.6	+192.6	530.4	334.8	+195.6	527.8	284.2	+243.6
1956	640.4	448.1	+192.3	602.3	414.3	+188.0	602.3	350.2	+252.1
1957	737.1	579.9	+157.2	675.0	543.7	+131.3	671.7	406.2	+265.6
1958	738.4	526.8	+211.6	681.5	489.3	+192.2	677.9	390.2	+287.7
1959	841.1	580.5	+260.6	795.7	554.0	+241.7	791.9	465.2	+326.7
1960	...	...	...	875.5	642.3	+233.2	871.8	566.4	+305.4
<i>Average</i>									
1946-50	278.7	181.0	+97.7	259.1	139.7	+119.4	255.7	124.7	+131.0
1951-55	425.4	306.3	+119.1	403.4	275.3	+128.1	402.2	232.6	+169.6
1956-60	...	...	...	726.0	528.7	+197.3	723.1	435.6	+287.5
1961	...	...	...	926.8	618.6	+308.2	923.5	555.5	+367.7
1962 ^a	...	...	...	1,040.1	651.1	+389.0	1,036.9	580.7	+456.2

SOURCE: ANNEX I.

^a Preliminary figures.

Table 55. Latin America: travel expenditure by country, 1946-60

(Aggregate totals in millions of dollars)

Country	1946-50			1951-55			1956-60		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
Argentina	...	...	...	—	0.1	-0.1	22.1	44.3	-22.2
Bolivia	—	7.5	-7.5	...	5.6	-5.6	2.0	5.5	-3.5
Brazil	22.0	64.0	-42.0	16.0	88.0	-72.0	75.0	261.0	-186.0
Chile	34.4	30.4	+4.0	26.4	30.1	-3.7	57.2	120.9	-63.7
Colombia	22.3	53.0	-30.7	54.1	100.7	-46.6	77.1	123.6	-46.5
Costa Rica	8.8	9.5	-0.7	12.0	17.7	-5.7	28.6	22.9	+5.7
Dominican Republic	3.7	10.7	-7.0	10.4	18.2	-7.8	23.6	26.3	-2.7
Ecuador	1.5	14.3	-12.8	10.7	20.1	-9.4	18.7	21.6	-2.9
El Salvador	5.8	12.2	-6.4	8.7	38.2	-29.5	23.8	51.3	-27.5
Guatemala	8.8	3.5	+5.3	11.9	11.4	+0.5	30.4	17.4	+13.0
Haiti	1.7	0.9	+0.8	14.0	10.5	+3.5	36.3	11.6	+24.7
Honduras	0.8	2.9	-2.1	5.6	6.2	-0.6	5.4	7.7	-2.3
Mexico	891.7	328.6	+563.1	1,628.1	707.9	+920.2	2,890.2	1,287.7	+1,602.5
Nicaragua	3.1	6.0	-2.9	1.3	9.0	-7.7	7.7	29.0	-21.3
Panama	169.0	11.4	+157.6	130.7	16.1	+114.6	132.9	26.8	+106.1
Paraguay	0.2	7.6	-7.4	0.9	6.2	-5.3	3.1	6.5	-3.4
Peru	11.7	20.6	-8.9	38.8	48.8	-10.0	74.3	80.6	-6.3
Uruguay	93.0	40.4	+52.6	41.6	28.6	+13.0	107.2	33.5	+73.7
<i>Subtotal I</i>	1,278.5	623.5	+655.0	2,011.2	1,163.4	+847.8	3,615.6	2,178.2	+1,473.4
Venezuela	17.4	75.0	-57.6	6.1	213.5	-207.4	14.4	465.4	-451.0
<i>Subtotal II</i>	1,295.9	698.5	+597.4	2,017.3	1,376.9	+640.4	3,630.0	2,643.6	+986.4
Cuba	98.0	206.9	-108.9	109.8	154.8	-45.0	...	...	...
TOTAL	1,393.9	905.4	+488.5	2,127.1	1,531.7	+595.4	...	...	...

SOURCE: ANNEX I.

Table 56. Mexico: travel expenditure, 1946-62

(Millions of dollars)

Year	Border travel			Other			Total		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1946.	66.0	50.3	+15.7	80.1	8.5	+71.6	146.1	58.8	+87.3
1947.	66.0	51.8	+14.2	76.3	7.7	+68.6	142.3	59.5	+82.8
1948.	70.0	60.0	+10.0	117.7	23.6	+94.1	187.7	83.6	+104.1
1949.	76.3	38.1	+38.2	100.4	5.3	+95.1	176.7	43.4	+133.3
1950.	121.9	76.5	+45.4	117.0	6.8	+110.2	238.9	83.3	+155.6
1951.	148.3	88.4	+59.9	123.3	10.6	+112.7	271.6	99.0	+172.6
1952.	163.0	101.6	+151.4	112.1	11.7	+100.4	275.1	113.3	+161.8
1953.	201.8	128.2	+73.6	100.5	11.9	+88.6	302.3	140.1	+162.2
1954.	249.2	162.4	+86.8	95.7	10.8	+84.9	344.9	173.2	+171.7
1955.	316.1	170.4	+145.7	118.1	11.9	+106.2	434.2	182.3	+251.9
1956.	362.0	199.9	+162.1	133.6	15.6	+118.0	495.6	215.5	+280.1
1957.	417.7	222.3	+195.4	128.8	19.8	+109.0	546.5	242.1	+322.4
1958.	407.4	218.2	+189.2	134.2	19.4	+114.8	541.6	237.6	+304.0 ^a
1959.	494.9	271.2	+223.7	141.8	24.5	+117.3	636.7	295.7	+341.0 ^a
1960.	517.6	268.3	+249.3	152.2	28.5	+123.7	669.8	296.8	+373.0 ^a
<i>Average</i>									
1946-50	80.0	55.3	+24.7	98.3	10.4	+87.9	178.3	65.7	+112.6
1951-55	215.7	130.2	+85.5	109.9	11.4	+98.5	325.6	141.6	+184.0
1956-60	439.9	236.0	+203.9	138.1	21.6	+116.5	578.0	257.6	+320.4
1961.	552.8	292.1	+260.7	155.4	30.8	+124.6	708.2	322.9	+385.3 ^a
1962 ^b	643.3	308.2	+335.1	178.5	34.8	+143.7	821.8	343.0	+478.8 ^a

SOURCE: Annex I.

^a According to a recent revision of the series by the Banco de México, net foreign exchange earnings under the head of travel, expressed in

millions of dollars, were 241.5 in 1958, 254.1 in 1959, 271.8 in 1960 and 283.9 in 1961 and 306.0 in 1962.

^b Preliminary figures.

Table 57. Panama: travel expenditure, 1946-62

(Millions of dollars)

Year	Canal Zone			Other			Total		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1946	32.0	—	+32.0	6.0	—	+6.0	38.0	—	+38.0
1947	24.9	—	+24.9	3.7	—	+3.7	28.6	—	+28.6
1948	27.7	—	+27.7	6.9	4.1	+2.8	34.6	4.1	+30.5
1949	30.3	—	+30.3	8.2	4.6	+3.6	38.5	4.6	+33.9
1950	24.8	—	+24.8	4.5	2.7	+1.8	29.3	2.7	+26.6
1951	18.4	—	+18.4	5.2	3.2	+2.0	23.6	3.2	+20.4
1952	18.9	—	+18.9	6.0	3.6	+2.4	24.9	3.6	+21.3
1953	21.6	—	+21.6	5.0	3.7	+1.3	26.6	3.7	+22.9
1954	21.6	—	+21.6	5.9	2.6	+3.3	27.5	2.6	+24.9
1955	21.7	—	+21.7	6.4	3.0	+3.4	28.1	3.0	+25.1
1956	21.9	—	+21.9	8.1	3.5	+4.6	30.0	3.5	+26.5
1957	21.7	—	+21.7	8.7	3.7	+5.0	30.4	3.7	+26.7
1958	14.1	—	+14.1	9.5	5.2	+4.3	23.6	5.2	+18.4
1959	13.6	—	+13.6	11.6	7.6	+4.0	25.2	7.6	+17.6
1960	12.1	—	+12.1	11.6	6.8	+4.8	23.7	6.8	+16.9
<i>Average</i>									
1946-50	27.9	—	+27.9	5.9	2.3	+3.6	33.8	2.3	+31.5
1951-55	20.4	—	+20.4	5.7	3.2	+2.5	26.1	3.2	+22.9
1956-60	16.7	—	+16.7	9.9	5.4	+4.5	26.6	5.4	+21.2
1961	15.0	—	+15.0	12.7	7.3	+5.4	27.7	7.3	+20.4
1962 ^a	19.4	—	+19.4	14.9	8.1	+6.8	34.3	8.1	+26.2

SOURCE: Annex I.

^a Preliminary figures.

near the border. Transactions of this type can hardly be regarded as normal tourist transactions, but rather as a form of border trade. In Panama a major proportion of the net inflows under travel (89 per cent in 1951-55 and 79 per cent in 1956-60) is accounted for by transactions registered as *Panama Canal Zone travel*, which presents characteristics very similar to those of border travel in Mexico's balance of payments (see table 57).

The circumstances warrant the exclusion of Mexican border travel and Panama Canal Zone travel from the travel account for Latin America as a whole, in order to obtain figures covering tourist transactions proper, that is, those effected by visitors to a foreign country during a fairly protracted stay whose main purpose is not to purchase goods in the country visited (see table 58). The transactions thus defined gave rise to a far smaller surplus than the credit balance recorded on the travel account. For example, in the region as a whole this surplus was only 50 million dollars, representing a cumulative value during the fifties, that is to say, an insignificant sum if compared with the 2,200 million dollar credit balance on travel during that period.

If consideration is given to the long-term evolution of the transportation account, it will be seen that both inflows and outflows increased substantially, but the growth rate of the former was intensified, whereas that of the latter remained virtually unaltered, which resulted in a considerable increase in the surplus (see again table 54). If a study is made of the region as a whole (excluding Cuba), inflows under the head of travel went up by 79.9 per cent between the second and third quin-

quennia of the post-war period, as compared with 55.7 per cent between the first and second. However, expenditures under this head continued to rise steadily (an increment of 92 per cent between 1951-55 and 1956-60 compared with 97 per cent between 1946-50 and 1951-55); hence the net foreign exchange earnings which benefited the region under this head rose from an annual average of 119.4 million dollars in 1946-50 to 128.1 million in 1951-55 and 197.3 million in 1956-60. This movement has continued at an accelerated pace in the last few years, the travel surplus reaching over 300 million dollars in 1961 and nearly 400 million dollars in 1962.

However, this evolution appears far less favourable for the region if the transactions corresponding to Mexico border travel and Panama Canal Zone travel are excluded from the travel accounts (see again table 58). If the region is considered as a whole, it will be noted that the surplus deriving from transactions which were not excluded from the account shrank, between the first and second quinquennia of the post-war period, from an annual average of 66.8 million dollars in 1946-50 to 22.2 million in 1951-55, and was replaced by a deficit during the third five-year period (an annual average of 23.4 million dollars). Admittedly, this deficit was largely due to the huge expenses incurred by Venezuelan tourists abroad in 1956 and 1957. Yet, even if the figures for Venezuela are excluded from the regional total, the evolution of the account does not appear too favourable, inasmuch as the surplus remained at approximately the same level throughout the fifteen years of the post-war period. The situation has taken a slight turn for the better

Table 58. Latin America : travel expenditure excluding Mexican border travel and Panama Canal Zone travel, 1946-62

(Millions of dollars)

Year	Latin America			Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1946	139.6	98.5	+41.1	123.3	64.2	+59.1	117.9	50.8	+67.1
1947	153.5	147.8	+5.7	131.6	94.6	+37.0	126.6	89.4	+37.2
1948	196.6	132.7	+63.9	173.5	76.5	+97.0	173.5	76.5	+97.0
1949	175.0	107.1	+67.9	155.4	75.5	+79.9	148.4	52.6	+95.8
1950	189.3	142.6	+46.7	172.2	111.0	+61.2	172.2	77.5	+94.7
1951	190.6	164.8	+25.8	171.4	135.4	+36.0	171.4	94.2	+77.2
1952	183.2	160.0	+23.2	164.0	127.8	+36.2	164.0	85.4	+78.6
1953	174.0	180.0	-6.0	154.4	149.2	+5.2	152.6	113.0	+39.6
1954	178.3	180.7	-2.4	154.3	149.1	+5.2	152.6	106.0	+46.6
1955	220.4	195.2	+25.2	192.6	164.4	+28.2	190.0	113.8	+76.2
1956	256.5	248.1	+8.4	218.4	214.4	+4.0	218.4	150.3	+68.1
1957	297.7	357.6	-59.9	235.6	321.4	-85.0	232.3	183.9	+48.4
1958	316.9	308.6	+8.3	260.0	271.1	-11.1	256.4	172.0	+84.4
1959	332.6	309.3	+23.3	287.2	282.8	+4.4	283.4	194.0	+89.4
1960 . . . . .	...	...	...	345.8	374.0	-28.2	342.1	298.1	+44.0
<i>Average</i>									
1946-50	170.8	125.7	+45.1	151.2	84.4	+66.8	147.8	69.4	+78.4
1951-55	189.3	176.1	+13.2	167.3	145.1	+22.2	166.1	102.4	+63.7
1956-60 . . . . .	...	...	...	269.4	292.8	-23.4	266.5	199.7	+66.8
1961 . . . . .	...	...	...	359.0	326.5	+32.5	355.7	263.4	+92.3
1962 ^a . . . . .	...	...	...	377.4	342.9	+34.5	374.2	272.5	+101.7

SOURCE: Tables 54, 56 and 57.

^a Preliminary figures.

in the last few years, but in any case the surplus of tourist transactions proper remained at a far lower level than the credit balance on the travel account.

Consequently, the increase in foreign exchange earnings in Latin America for transactions recorded on the travel account should be ascribed primarily to border transactions benefiting only a few countries (Mexico and Panama), rather than to the development of Latin America's tourist trade.

It should be noted, moreover, that travel expenditures exercised a growing pressure on the equilibrium of the balance of payments on current account, whatever the treatment of border transactions (see table 59). If these transactions are included in the travel account, expenditures on that account increased as a percentage of total foreign exchange earnings on current account, from 2.4 per cent in 1946-50 to 3.4 per cent in 1951-55 and to 5.5 per cent in 1956-60 for the region as a whole. If border transactions are excluded, the remaining expenditures under the head of what may be considered tourist operations proper also absorbed a growing percentage of total foreign exchange earnings on current account (1.4 per cent in 1946-50, 1.8 per cent in 1951-55 and 3.1 per cent in 1956-60). Although the proportions for both series remained at a relatively low level for the region as a whole, they reflect what might be regarded as a significant development, at least in some of the South American countries such as Brazil and Chile whose expenditures by their residents on tourist travel abroad has increased substantially since 1955.

Table 59. Latin America: expenditure on travel as a percentage of foreign exchange earnings on current account, 1946-62

Year	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
A. Total expenditure			
1946-50	2.8	2.4	2.5
1951-55	3.5	3.4	3.6
1956-60 . . . . .	...	5.5	6.3
1961 . . . . .	...	6.1	7.4
1962 ^a . . . . .	...	6.2	7.4
B. Expenditure excluding Mexican border travel and Panama Canal Zone travel			
1946-50	1.9	1.4	1.4
1951-55	2.1	1.8	1.6
1956-60 . . . . .	...	3.1	2.9
1961 . . . . .	...	3.3	3.5
1962 ^a . . . . .	...	3.3	3.5

SOURCE: Annex I.

^a Preliminary figures.

Two main conclusions may be drawn from the foregoing analysis of the evolution of items from the travel account:

In the first place, the increment in net foreign exchange earnings on travel over the last five or six years is attributable to a few countries only, and also in large measure to transactions which cannot be regarded as tourist transactions proper. This shows that there is still much

to be done towards effectively developing the tourist trade in the region.

Secondly, travel expenditures absorbed a small but growing proportion of the region's foreign exchange earnings on current account, which seems to warrant the measures adopted by a number of Latin American countries to limit the expenditures of their residents travelling abroad.

3. INVESTMENT INCOME

This account covers the income of residents of Latin America on their financial capital invested abroad (credit) and the income of foreigners on their financial capital invested in the region (debit). It includes not only actual but also imputed income, while excluding income received from the mere use of real assets (film rentals, time charters, payments for lease of real estate [rentals] and similar items).

All transactions recorded on this account were grouped in two items:

(a) *Direct investment income*, which covers income accruing to residents of Latin America from direct investment enterprises²⁵ abroad (credit) and, conversely, all income accruing to foreigners from direct investment enterprises established in the region; and

(b) *Other investment income*, which essentially comprises dividends paid on portfolio investment and interest on long-term and short-term loans.

Direct investment income includes not only distributed earnings, but also the *undistributed earnings* of affiliated companies and branches. The credit and/or debit entries corresponding to such undistributed earnings are balanced by a counter-entry on capital account. For example, the unremitted profits of foreign affiliated companies and branches in the region are recorded twice in Latin America's balance of payments, once under expenditure in the current account item covering investment income, and again under receipts in the non-compensatory capital account item covering direct investment.

The evolution of the investment income account, thus defined, will be analysed in detail in the section of this report dealing more specifically with the study of foreign capital servicing and the pressure it exerts on the region's balance of payments; it will therefore be sufficient for the present to make some general comments.

Firstly, the investment income account was consistently unfavourable to the Latin American countries, as is to be expected in developing countries which are normally net capital importers (see tables 60 and 61).

For the region as a whole (excluding Cuba) the cumulative deficit on that account was about 14,000 million dollars during the post-war years 1946-60, and about 10,000 million dollars during the fifties; in other words, it amounted to an annual average of approximately 1,000 million dollars during that decade. If the more recent period 1956-62 is considered instead of the fifties,

²⁵ Direct investment enterprises may be defined as private concerns controlled by foreigners owning sufficient capital in the enterprise to exercise such control.

Table 60. Latin America: investment income, 1946-62

(Millions of dollars)

	Latin America			Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
Annual average, 1946-50	8.2	729.2	-721.0	7.2	675.7	-668.5	7.0	369.9	-362.9
Direct investment income	0.7	626.6	-625.9	0.6	580.4	-579.8	0.5	274.6	-274.1
Other investment income	7.5	102.6	-95.1	6.6	95.3	-88.7	6.5	95.3	-88.8
Annual average, 1951-55	25.5	984.7	-959.2	20.4	935.2	-914.8	20.6	453.3	-432.7
Direct investment income	7.7	883.7	-876.0	7.7	838.1	-830.4	1.9	356.7	-354.8
Other investment income	17.8	101.0	-83.2	12.7	97.1	-84.4	18.7	96.6	-77.9
Annual average, 1956-60 . . . . .	...	...	...	43.3	1,260.6	-1,217.3	28.9	573.4	-544.5
Direct investment income . . . . .	...	...	...	26.9	1,067.2	-1,040.3	15.7	384.7	-369.0
Other investment income . . . . .	...	...	...	16.4	193.4	-177.0	13.2	188.7	-175.5
1961 . . . . .	...	...	...	91.7	1,398.8	-1,307.1	75.9	815.5	-739.6
Direct investment income . . . . .	...	...	...	78.7	1,079.2	-1,000.5	64.2	518.5	-454.3
Other investment income . . . . .	...	...	...	13.0	319.6	-306.6	11.7	297.0	-285.3
1962 ^a . . . . .	...	...	...	31.3	1,342.0	-1,310.9	17.1	722.5	-705.4
Direct investment income . . . . .	...	...	...	20.0	1,009.9	-989.9	8.1	411.6	-403.5
Other investment income . . . . .	...	...	...	11.1	332.1	-321.0	9.0	310.9	-301.9

SOURCE: Annex I.

^a Preliminary figures.

Table 61. Latin America: investment income by countries, 1946-60

(Aggregate totals in millions of dollars)

Country	1946-50			1951-55			1956-60		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
<i>Direct investment income</i>									
Argentina . . . . .	...	...	...	5.5	43.9	-38.4	77.9	139.3	-61.4
Bolivia . . . . .	...	46.9	-46.9	—	(-14.9)	+14.9	—	(-5.7)	+5.7
Brazil . . . . .	...	299.8	-299.8	—	509.0	-509.0	—	297.0	-297.0
Chile	—	238.7	-238.7	2.2	251.0	-248.8	—	235.5	-235.5
Colombia	—	57.8	-57.7	—	80.3	-80.3	—	127.5	-127.5
Costa Rica	—	35.0	-35.0	—	57.3	-57.3	—	20.3	-20.3
Dominican Republic	2.3	75.2	-72.9	—	63.3	-63.3	—	41.0	-41.0
Ecuador	0.3	14.4	-14.1	1.7	68.6	-66.9	0.6	100.8	-100.2
El Salvador	—	4.4	-4.4	—	8.8	-8.8	—	12.4	-12.4
Guatemala	—	22.5	-22.5	—	(-7.9)	+7.9	—	22.7	-22.7
Haiti . . . . .	...	4.4	-4.4	—	17.9	-17.9	—	7.2	-7.2
Honduras	—	96.6	-96.6	—	42.7	-42.7	—	17.5	-17.5
Mexico	—	320.2	-320.2	...	442.3	-442.3	—	625.9	-625.9
Nicaragua	—	23.4	-23.4	—	31.7	-31.7	—	10.9	-10.9
Panama	—	48.7	-48.7	—	73.7	-73.7	—	82.0	-82.0
Paraguay	—	2.4	-2.4	—	3.1	-3.1	0.1	3.1	-3.0
Peru	—	59.8	-59.8	—	95.6	-95.6	—	157.9	-157.9
Uruguay	—	23.0	-23.0	—	16.9	-16.9	—	10.4	-10.4
Subtotal I	2.6	1,373.2	-1,370.6	9.4	1,783.5	-1,774.1	78.6	1,923.7	-1,845.1
Venezuela	0.3	1,528.9	-1,528.6	29.0	2,406.9	-2,377.9	56.0	3,412.3	-3,356.3
Subtotal II	2.9	2,902.1	2,899.0	38.4	4,190.4	-4,152.0	134.6	5,336.0	-5,201.4
Cuba	0.8	230.8	-230.0	—	338.3	-228.3	...	...	...
TOTAL	3.7	3,132.9	-3,129.2	38.4	4,418.7	-4,380.3	...	...	...

Table 61. Latin America: investment income by countries, 1946-60 (continued)

Country	1946-50			1951-55			1956-60		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
<i>Other investment income</i>									
Argentina	1.0	240.2	-239.2	14.4	66.1	-51.7	2.5	98.7	-96.2
Bolivia . . . . .	...	3.1	-3.1	—	6.5	-6.5	0.3	8.2	-7.9
Brazil	13.0	99.0	-86.0	20.0	208.0	-188.0	17.0	461.0	-444.0
Chile	0.2	39.5	-39.3	—	60.4	-60.4	—	79.3	-79.3
Colombia	—	19.8	-19.8	—	36.5	-36.5	3.8	55.9	-52.1
Costa Rica	—	1.2	-1.2	1.0	1.5	-0.5	1.8	5.9	-4.1
Dominican Republic	0.4	1.0	-0.6	1.3	0.7	+0.6	4.3	10.5	-6.2
Ecuador	—	1.7	-1.7	—	3.7	-3.7	0.1	11.0	-10.9
El Salvador	1.3	2.5	-1.2	1.7	4.5	-2.8	2.3	6.0	-3.7
Guatemala	0.1	—	+0.1	0.9	—	+0.9	5.1	5.4	-0.3
Haiti . . . . .	...	1.1	-1.1	—	1.5	-1.5	—	3.8	-3.8
Honduras	0.5	—	+0.5	2.6	—	+2.6	3.7	1.2	+2.5
Mexico	—	40.0	-40.0	...	54.3	-54.3	—	108.3	-108.3
Nicaragua	—	0.9	-0.9	0.9	1.4	-0.5	1.1	4.3	3.2
Panama	5.6	2.0	+3.6	7.8	4.2	+3.6	10.0	4.9	+5.1
Paraguay	—	1.6	-1.6	—	2.1	-2.1	—	2.7	-2.7
Peru	0.1	4.4	-4.3	0.4	12.1	-11.7	0.8	53.5	-52.7
Uruguay	10.5	18.5	-8.0	12.6	19.6	-7.0	13.3	22.8	-9.5
Subtotal I	32.7	476.5	-443.8	63.6	483.1	-419.5	66.1	943.4	-877.3
Venezuela	0.3	0.1	+0.2	—	2.2	-2.2	15.7	23.5	-7.8
Subtotal II	33.0	476.6	-443.6	63.6	485.3	-421.7	81.8	966.9	-885.1
Cuba	4.4	36.6	-32.2	25.5	19.5	+6.0	...	...	...
TOTAL	37.4	513.2	-475.8	89.1	504.8	-415.7	...	...	...
TOTAL									
Argentina	1.0	240.2	-239.2	19.9	110.0	-90.1	80.4	238.0	-157.6
Bolivia . . . . .	...	50.0	-50.0	—	(-8.4)	+8.4	0.3	2.5	-2.2
Brazil	13.0	398.8	-385.8	20.0	717.0	-697.0	17.0	758.0	-741.0
Chile	0.2	278.2	-278.2	2.2	311.4	-309.2	—	332.8	-332.8
Colombia	—	77.6	-77.6	—	116.8	-116.8	3.8	183.4	-179.6
Costa Rica	—	36.2	-36.2	1.0	59.0	-58.0	1.8	26.2	-24.4
Dominican Republic	2.7	76.2	-73.5	1.3	64.0	-62.7	4.3	51.5	-47.2
Ecuador	0.3	16.1	-15.8	1.7	72.3	-70.6	0.7	111.8	-111.1
El Salvador	1.3	6.9	-5.6	1.7	13.3	-11.6	2.3	18.4	-16.1
Guatemala	0.1	22.5	-22.4	0.9	(-7.9)	+8.8	5.1	28.1	-23.0
Haiti . . . . .	...	5.5	-5.5	—	19.4	-19.4	—	11.0	-11.0
Honduras	0.5	96.6	-96.1	2.6	42.7	-40.1	3.7	18.7	-15.0
Mexico	—	360.2	-360.2	...	496.6	-496.6	—	732.4	-734.2
Nicaragua	—	24.3	-24.3	0.9	33.1	-32.2	1.1	15.2	-14.1
Panama	5.6	50.7	-45.1	7.8	77.9	-70.1	10.0	86.9	-76.9
Paraguay	—	4.0	-4.0	—	5.2	-5.2	0.1	5.8	-5.7
Peru	0.1	64.2	-64.1	0.4	107.7	-107.3	0.8	211.4	-210.6
Uruguay	1.5	41.5	-31.0	12.6	36.5	-23.9	13.3	33.2	-15.9
Subtotal I	35.3	1,849.7	-1,814.4	73.0	2,266.6	-2,193.6	144.7	2,867.1	-2,722.4
Venezuela	0.6	1,529.0	-1,528.4	29.0	2,409.1	-2,380.1	71.7	3,435.8	-3,364.1
Subtotal II	35.9	3,378.7	-3,342.8	102.0	4,675.7	-4,573.7	216.4	6,302.9	-6,086.5
Cuba	5.2	267.4	-262.2	25.5	247.8	-222.3	...	...	...
TOTAL	41.1	3,646.1	-3,605.0	127.5	4,923.5	-4,796.0	...	...	...

SOURCE: Annex I,

it will be noted that the annual average was higher — 1,250 million dollars — owing to the trend towards a sharp increase in the investment income deficit since 1955. To appreciate the size of this deficit suffice it to note that during the same years 1956-62 the average annual surplus on merchandise transactions — estimated on an f.o.b. basis — was only 985 million dollars.

Over half the debit balance on investment income account is attributable to Venezuela (53.9 per cent in 1951-60 and 52.2 per cent in 1956-62), so that if the figures for that country are excluded from the total, the balance in question may be estimated at an annual average of only 520 million dollars for the 1950's and 600 million dollars for the years 1956-62. None the less, this balance far exceeds any debit balance recorded in a single item on current account during the last seven years. For instance, the deficit in transactions under freight, insurance and other transportation amounted to an annual average of only 510 million dollars in 1956-62.

Secondly, the deficit on the investment income account shows a clearly rising trend since the end of the Second World War (see again tables 60 and 61). As inflows under this head were negligible,²⁶ the evolution of the deficit reflects almost exclusively the movement of outflows, that is, of income received by foreigners on investment in Latin America. In the region as a whole (excluding Cuba), such outflows will be seen to have increased by 38.4 per cent between 1945-50 and 1951-55, and by 34.8 per cent between 1951-55 and 1956-60, with the rising trend apparently continuing after 1960. A similar evolution is noted if the figures for Venezuela are excluded from the regional total, since in this case investment income outflows increased by 22.5 per cent between 1946-50 and 1951-55, and by 26.5 per cent between 1951-55 and 1956-60. This evolution is the result of growing foreign capital inflows which increased foreign investment in the region and gave rise to a notable increment in the income derived from such investment.

Thirdly, the structure of income accruing to foreigners on investment in Latin America began to change gradually during the post-war period (see again tables 60 and 61). The growth rate of direct investment income tended to slow down over the long term,²⁷ whereas that of other investment income (portfolio investment and loans) was intensified.²⁸ Consequently, the share of the earnings of

foreign affiliated companies and branches in the total income received by foreign residents on investment in the region tended to diminish from 1955 onwards, while the share absorbed by dividends paid on portfolio investments and interest paid on loans followed an upward trend. This evolution is already apparent if the region is considered as a whole, since portfolio dividends and interest on loans, which represented only 10.4 per cent of total foreign investment income in 1951-55, accounted for 15.3 per cent of such income in 1956-60. It is even more significant, however, if the figures for Venezuela are excluded from the total for the region: in this case portfolio dividends and interest on loans represented 32.9 per cent of total foreign investment income in 1956-60 compared with 21.3 per cent in 1951-55, and the rising trend continued in 1961 and 1962.²⁹ This evolution is due to the growth of Latin America's external debt from the very low level to which it had been reduced in the early post-war years.

Fourthly, the income accruing to foreigners on their investments in Latin America exercised a growing pressure on the region's general balance-of-payments equilibrium (see tables 62 and 63). In order to measure this pressure such income may be calculated as a percentage of the total available foreign exchange on current account. For the region as a whole this percentage rose from 11.8 per cent in 1951-55 to 13.3 per cent in 1956-60, and to nearly 14 per cent in 1961, dropping slightly in 1962. The same applies if the figures for Venezuela are excluded. Clearly, this phenomenon is attributable to the fact that foreign investment income increased at a steadier pace than aggregate foreign exchange earnings on current account, whose growth was affected by the stagnation of the value of exports.

²⁹ Dividends on portfolio investment and interest on loans absorbed 36.4 per cent and 43 per cent of total foreign investment income in 1961 and 1962, respectively.

Table 62. Latin America: investment income ^a as a percentage of foreign exchange earnings on current account, 1946-62

	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
1946-50	11.2	11.6	7.5
Direct investment income	9.6	10.0	5.6
Other investment income	1.6	1.6	1.9
1951-55	11.3	11.8	7.2
Direct investment income	10.2	10.6	5.7
Other investment income	1.1	1.2	1.5
1956-60 . . . . .	...	13.3	8.3
Direct investment income	...	11.3	5.6
Other investment income	...	2.0	2.7
1961 . . . . .	...	13.9	10.9
Direct investment income	...	10.7	6.9
Other investment income	...	3.2	4.0
1962 ^b . . . . .	...	12.9	9.3
Direct investment income	...	9.7	5.3
Other investment income	...	3.2	4.0

SOURCE: ANNEX I.

^a Debit investment income as registered in the balance of payments.

^b Preliminary figures.

²⁶ Such inflows cover the income accruing to residents of Latin America on their investments abroad. Since there is insufficient information available concerning the amount of these investments, the inflows of income derived from them are probably larger than is currently believed. However, there are good grounds for thinking that the income on Latin America's investments abroad not recorded in the balance of payments is not really brought back into the region; hence, if such income were to be recorded on current account a counter entry would be necessary on capital account. Consequently, its omission does not affect the general balance of payments equilibrium.

²⁷ The increase in earnings of direct investment enterprises was 44.4 per cent from 1946-50 to 1951-55, but was 27.3 per cent from 1951-55 to 1956-60 for the region as a whole (excluding Cuba). The same trend is apparent if Venezuela is excluded.

²⁸ Foreign investment income, excluding direct investment, rose by only 1.4 per cent between 1946-50 and 1951-55, but increased by 99.2 per cent, i.e., it doubled, between 1951-55 and 1956-60. The same applies if Venezuela is excluded.

Table 63. Latin America: investment income as a percentage of foreign exchange earnings on current account by country, 1946-60

Country	1946-50			1951-55			1956-60		
	Direct investment income	Other investment income	Total	Direct investment income	Other investment income	Total	Direct investment income	Other investment income	Total
Argentina . . . . .	...	3.5	3.5	0.8	1.1	1.9	2.4	1.7	4.1
Bolivia	10.7	0.7	11.4	1.2	1.2	2.4	0.7	2.4	3.1
Brazil	5.0	1.6	6.6	6.2	2.5	8.7	4.0	6.1	10.1
Chile	15.0	2.5	17.5	10.9	2.6	13.5	10.2	3.2	13.4
Colombia	3.5	1.2	4.7	2.6	1.2	3.8	3.9	1.7	5.6
Costa Rica	15.1	0.5	15.6	13.1	0.3	13.4	4.1	1.2	5.3
Dominican Republic	17.8	0.2	18.0	9.8	0.1	9.9	5.0	1.3	6.3
Ecuador	5.1	0.6	5.7	12.1	0.6	12.7	13.6	1.5	15.1
El Salvador	1.7	1.0	2.7	1.7	0.9	2.6	1.9	0.9	2.8
Guatemala	6.5	—	6.5	0.6	—	0.6	3.5	0.8	4.3
Haiti	2.8	0.7	3.5	6.8	0.6	7.4	2.8	1.4	4.2
Honduras	3.7	—	3.7	15.0	—	15.0	6.9	0.3	7.2
Mexico	9.6	1.2	10.8	8.4	1.0	9.4	8.9	1.5	10.4
Nicaragua	1.6	0.6	2.2	9.8	0.4	10.2	2.5	1.0	3.5
Panama	12.5	0.5	13.0	8.5	0.8	9.3	10.4	0.6	11.0
Paraguay	1.6	1.0	2.6	1.5	1.0	2.5	0.8	1.3	2.1
Peru	6.5	0.5	7.0	6.6	0.8	7.4	8.0	2.7	10.7
Uruguay	2.0	1.6	3.6	1.3	1.5	2.8	1.2	2.6	3.8
Subtotal I	5.6	1.9	7.5	5.7	1.5	7.2	5.6	2.7	8.3
Venezuela	33.5	—	33.5	29.5	0.03	29.5	26.5	0.2	26.7
Subtotal II	10.0	1.6	11.6	10.6	1.2	11.8	11.3	2.0	13.3
Cuba	6.5	1.0	7.5	6.3	0.5	6.8	...	...	...
TOTAL	9.6	1.6	11.2	10.2	1.2	11.4	...	...	...

SOURCES: Annex I.

The increment in foreign investment income, as a percentage of foreign exchange available on current account from 1955 onwards, was fairly general throughout the region, as noted in eleven countries between the first and the second half of the fifties. This was not the case, however, in the remaining eight countries: in the Dominican Republic, Nicaragua and Venezuela exports underwent a relatively sharp and steady increase, while in Chile, Costa Rica, Haiti, Honduras and Paraguay their expansion was far less satisfactory, but foreign investment income did not increase, or even declined.

It is interesting to note that, as might be expected, the higher ratio of *foreign investment income to the current supply of foreign exchange* is due more to the growth of investment income, excluding direct investment (portfolio investment and loans), than to the earnings of direct investment enterprises. This is particularly evident if Venezuela is excluded from the total for the region, as in this case the earnings of direct investment enterprises will be seen to have fallen off as a percentage of total current foreign exchange earnings (from 5.7 per cent in 1951-55 to 5.6 per cent in 1956-60), while other foreign investment income calculated as a percentage of those earnings underwent an increase (from 1.5 per cent in 1951-55 to 2.7 per cent in 1956-60). As will be shown later, this evolution, coupled with the rapid growth of

amortization payments on the external debt, has helped in recent years to introduce the dangerous factor of inflexibility into the region's balance of payments.

4. OTHER SERVICES

The "other services" account covers transactions registered, according to IMF definitions, in the following two items:

(a) *Government transactions not included in other balance-of-payments items*, which cover military and non-military expenditures of foreign Governments in Latin America (credit) and of Latin American Governments in foreign countries (debit) not recorded as official donations;

(b) *Miscellaneous services*, which include all services transactions not included elsewhere in the balance of payments, e.g. insurance (except on merchandise), personal income, management fees, underwriters' commissions, agents' fees, construction activity, communications (international settlements on account of post, telegraph, telephone and radio), subscriptions to press services, film rentals, real estate rentals, etc.

It should be noted that the income received by Latin American migrant workers employed temporarily abroad are entered on the credit side of the miscellaneous services

Table 64. Latin America: other services, 1946-62

(Millions of dollars)

Period or year	Latin America			Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
<i>Average</i>									
1946-50 . . .	155.8	198.0	-42.2	131.5	192.9	-61.4	115.9	168.4	-52.5
1951-55 . . .	281.3	404.4	-123.1	261.0	399.4	-138.4	231.0	316.5	-85.5
1956-60 . . .	...	...	...	448.4	669.3	-220.9	369.2	456.8	-87.6
1961 . . . . .	...	...	...	401.8	542.0	-110.2	315.6	408.8	-93.2
1962 ^a . . . . .	...	...	...	379.7	541.0	-161.3	297.9	412.6	-114.7

SOURCE: Annex I.

^a Preliminary figures.

item. On the other hand, when these workers are considered to have actually emigrated, their income is not recorded in the balance of payments, though any sums they might send to residents of Latin America are entered on the credit side of the private donations account. Apparently, the income of migrant workers proper is not very considerable in the region, except in Panama (Canal Zone workers) and Mexico (border workers).

The widely varying nature of the transactions recorded on the "other services" account, as defined above, precludes a uniform interpretation of this account's evolution and, therefore, only two general comments are possible (see table 64).

(i) The "other services" account was consistently unfavourable to the region throughout the post-war

period, but the balance was relatively small. For the region as a whole it may be estimated at 1,800 million dollars during the fifties, or an annual average of only 180 million dollars.

(ii) The deficit on the "other services" account followed an upward trend during the post-war period, but there appears to have been a change in this trend from 1960 onwards. In fact, the deficit for the region as a whole amounted to an annual average of 61.4 million dollars in 1946-50, 138.4 million in 1951-55 and 220.9 million in 1956-60, but was only 140.2 million dollars in 1961 and 161.3 million in 1962. This recent more favourable evolution for the region was possibly a result of the efforts made by several Latin American Governments to reduce their diplomatic representation costs and other expenditures abroad.

D. PRIVATE DONATIONS

Private donations, in IMF terminology, are *private transfer payments*; they cover all transfer payments not involving a *quid pro quo*, which are received from abroad by private persons residing in Latin America (credit), or remitted abroad by such private persons (debit).³⁰ Accordingly, they include both gifts as such and compulsory transfers which lack a *quid pro quo* (for example, taxes paid by residents of the region to foreign Governments).

The transactions covered by this definition do not seem very numerous as far as Latin America is concerned. Receipts consist essentially in donations received by private Latin American institutions (religious, educa-

tional, benevolent, etc.) from official or private sources abroad, and immigrants' transfers of real or financial capital from their own countries to Latin America. As regards expenditure, most of the transactions are probably remittances by immigrants, i.e., periodical transfer payments by immigrants to persons residing abroad.

As is well known, in the presentation of the balance of payments adopted by IMF, "private transfer payments" (private donations), together with "official transfer payments" (official donations), represent one of the three main components of the balance of payments; the other two components are goods and services transactions and capital transactions.³¹ A different presentation has been adopted for the present study in which "private transfer payments" have been grouped together with goods and services transactions on current account, while "official transfer payments" have been included in the non-compensatory capital account.

This change in presentation is dictated by the particular purpose of the present study. IMF attempts to differentiate between transactions in real resources (including pay-

³⁰ This definition was adopted by IMF in the third edition of its *Balance of Payments Manual*, Washington, July 1961, paras. 313-321. A different definition was utilized in the first and second editions of this Manual, according to which "private transfer payments" — called "private donations" in those editions — were confined to voluntary transfer payments between the private sector of the compiling country — in this case Latin America — and the private sector of foreign countries. The new definition clearly introduces an element of heterogeneity in the series "private transfer payments" or "private donations", as set forth in successive editions of the IMF *Balance of Payments Yearbook* and reproduced in the present study (see General Methodological Note to annexes I and II).

³¹ *Ibid.*, para 38.

ments of the original factors of production) between one country and the rest of the world, and the changes which represent the counterpart of such transactions in the assets and liabilities of that country with respect to others. This caused IMF to classify separately "transfer payments" which might be the counterpart of real transactions, or of financial transactions without a *quid pro quo*. The purpose of this study is to differentiate between transactions involving a transfer of current income and transactions involving a transfer of capital, and to make a secondary distinction between non-compensatory or autonomous capital and compensatory capital. As previously shown, the so-called "private transfer payments" (private donations) in Latin America usually involve a transfer of current income. On the other hand, as shown later on, the so-called "official transfer payments" (official donations) generally involve a transfer of capital, which, moreover, is not directed primarily to stabilizing the balance of payments. It seems justifiable, therefore, to register the first on current account and the second on the non-compensatory capital account.

To a certain degree, this is obviously an arbitrary classification, since the various transactions recorded in the "private" and "official" transfer payment items will require different treatment according to whether they relate to transfers of income or capital. However, the discrepancy thus introduced in the region's balance of payments is not very significant, as the figures entered in one or the other of these "transfer payment" items are relatively small.

The analysis of the *private donations* account, thus defined, shows that such transactions played only a minor role in the region's external payments.

(a) The private donations account was consistently unfavourable to the region, but the debit balance was never very large. The deficit for the region as a whole (excepting Cuba) amounted to a cumulative figure of 750.8 million dollars during the fifties, that is, an annual average of 75 million dollars (see table 65). Moreover, two-thirds of the deficit is attributable to Venezuela; therefore, if the figures for Venezuela are excluded from the regional total, the annual average deficit on the account is estimated at only 23.1 million dollars in 1951-60. This low figure shows clearly that remittances by immigrants, which amounted to a substantial sum in the external payments of several Latin American countries before the Depression, and particularly prior to the First World War, have now been drastically reduced for the following reasons: the gradual weakening of the links between immigrants and members of their families who remained behind in their countries of origin, transfer payment difficulties and the steep long-term rise in the price of foreign exchange in Latin America, etc.

(b) The deficit in donations did not alter substantially over the long term (see again table 65). It increased steadily for the region as a whole (from an annual average of 27.5 million dollars in 1946-50 to 61.0 million in 1951-55 and 89.2 million in 1956-60); but this increment was due entirely to Venezuela. If Venezuela is excluded, the changes are insignificant: the deficit reached an annual

Table 65. Latin America: private donations, 1946-62

(Millions of dollars)

Year	Latin America			Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
1946	4.4	-30.4	-26.0	2.2	20.0	-17.8	2.2	8.1	-5.9
1947	17.1	-63.3	-46.2	15.4	52.3	-36.9	15.4	37.0	-21.6
1948	11.1	-49.0	-37.9	10.0	39.8	-29.8	10.0	23.7	-13.7
1949	9.3	-42.8	-33.5	8.4	36.2	-27.8	8.4	19.5	-11.1
1950	8.1	-36.9	-28.8	7.3	32.5	-25.2	7.3	17.0	-9.7
1951	24.5	-52.4	-27.9	23.6	48.7	-25.1	23.6	30.6	-7.0
1952	11.8	-57.3	-45.5	10.9	54.9	-44.0	10.9	35.7	-24.8
1953	16.6	95.8	-79.2	15.1	91.2	-76.1	15.1	45.3	-30.2
1954	23.2	105.8	-82.0	20.7	101.5	-80.8	20.7	51.7	-31.0
1955	27.0	106.2	-79.2	24.5	103.5	-79.0	24.5	51.1	-26.6
1956	32.3	86.8	-54.5	28.4	81.7	-53.3	28.4	57.3	-28.9
1957	36.2	135.8	-99.6	31.5	128.4	-93.9	34.5	64.4	-29.9
1958	51.4	140.1	-88.7	48.5	129.5	-81.0	48.5	58.7	-10.2
1959	49.5	158.4	-108.9	46.4	151.6	-105.2	46.4	64.1	-17.7
1960 . . . . .	...	...	...	56.9	169.3	-112.4	56.9	81.6	-24.7
<i>Average</i>									
1946-50	10.0	44.5	-34.5	8.7	36.2	-27.5	8.7	21.1	-12.4
1951-55	20.6	83.4	62.8	19.0	80.0	-61.0	19.0	42.9	-23.9
1956-60 . . . . .	...	...	...	42.9	132.1	-89.2	42.9	65.2	-22.3
1961 . . . . .	...	...	...	65.9	174.0	-108.1	65.9	90.2	-24.3
1962 ^a . . . . .	...	...	...	62.4	159.2	-96.8	62.4	76.6	-14.2

SOURCE: Annex I.

^a Preliminary figures.

average of 12.4 million dollars in 1946-50, 23.9 million in 1951-55 and 22.3 million in 1956-60, or in other words it followed a slightly downward trend from 1955 onwards, which seems to have continued during the last few years (24.3 million dollars in 1961 and 14.2 million in 1962).

(c) The situation in regard to the private donations account differed notably between one country and another (see table 66). Without going into too much detail, it can be asserted that in 1956-60 this account showed a deficit in nine countries (Argentina, Brazil, the Dominican

Republic, El Salvador, Honduras, Mexico, Panama, Uruguay and Venezuela), probably because in most of them immigrants' remittances amounted to considerable sums. By contrast, the account registered a surplus for the remaining ten countries (Bolivia, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Haiti, Nicaragua, Paraguay and Peru), whose private institutions (religious, educational, benevolent, etc.) appear to have received substantial donations from private and official sources abroad.

Table 66. Latin America: private donations by country, 1946-60
(Aggregate totals in millions of dollars)

Country	1946-50			1951-55			1956-60		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
Argentina . . . . .	...	...	...	2.3	51.5	-49.2	5.7	23.4	-17.7
Bolivia	—	—	—	1.7	—	+1.7	2.2	—	+2.2
Brazil	18.0	50.0	-32.0	27.0	67.0	-40.0	58.0	124.0	-66.0
Chile	0.4	3.6	-3.2	2.7	8.4	-5.7	44.5	4.3	+40.2
Colombia	—	0.8	-0.8	16.1	7.2	+8.9	13.9	8.5	+5.4
Costa Rica	0.1	0.3	-0.2	2.1	0.7	+1.4	5.8	0.9	+4.9
Dominican Republic	6.8	11.1	-4.3	3.2	10.5	-7.3	6.0	20.1	-14.1
Ecuador	0.4	—	+0.4	1.1	—	+1.1	3.7	—	+3.7
El Salvador	0.1	—	+0.1	0.6	1.2	-0.6	1.7	2.3	-0.6
Guatemala	0.1	0.1	—	0.5	0.9	-0.4	1.9	0.1	+1.8
Haiti	0.1	0.1	—	0.8	1.7	-0.9	5.5	3.8	+1.7
Honduras	0.1	5.3	-5.2	1.2	4.6	-3.4	2.3	5.7	-3.4
Mexico	1.5	—	+1.5	8.0	19.0	-11.2	14.9	36.0	-21.4
Nicaragua	0.2	—	+0.2	1.6	0.1	+1.5	1.0	—	+1.0
Panama	—	19.8	-19.8	0.7	27.0	-26.3	5.5	80.9	-75.4
Paraguay	0.6	4.4	-3.8	1.7	1.7	—	2.9	1.8	+1.1
Peru	11.6	—	+11.6	22.8	—	+22.8	36.0	0.3	+35.7
Uruguay	3.3	9.8	-6.5	0.7	12.7	-12.0	3.2	14.0	-10.8
<i>Subtotal I</i>	43.3	105.3	-62.0	94.8	214.4	-119.6	214.7	326.1	-111.4
Venezuela . . . . .	...	75.5	-75.5	—	185.4	-185.4	—	334.4	-334.4
<i>Subtotal II</i>	43.3	180.8	-137.5	94.8	399.8	-305.0	214.7	660.5	-445.8
Cuba	6.7	41.6	-34.9	8.3	17.1	-8.8	...	...	...
TOTAL	50.0	22.4	-172.4	103.1	416.9	-313.8	...	...	...

SOURCE: ANNEX I.

E. CONCLUSIONS

It is clear from the foregoing analysis that the sharp long-term increase in Latin America's balance-of-payments deficit on current account from 1950 onwards is attributable to three main factors:

First, the fact that the growth rate of the value of exports fell much more sharply than that of imports was largely instrumental in reducing the surplus on the merchandise account (transactions recorded on an f.o.b. basis) and even transforming it into a deficit in several countries. Admittedly total foreign exchange receipts accruing to the region on its current account augmented a little more quickly than the value of exports. Nevertheless imports tended to absorb an increasing share not

only of export income but also of the total current foreign exchange receipts of a number of countries.

Secondly, income accruing on foreign investment in Latin America rose at a more rapid and sustained pace than total foreign exchange receipts on current account, which meant that an increasing proportion of those receipts had to be used for the transfer of investment income abroad.

Thirdly, expenditure under the head of travel also tended to increase more rapidly than total foreign exchange income on current account, especially in some of the South American countries.

Other transactions recorded on the current account did not play any particular part in increasing the deficit. In fact, expenditure under the head of transportation increased very little between the first and second halves of the decade 1951-60 owing to the cut in freight and insurance rates towards 1960 and the development of the Latin American merchant fleets, which meant that less foreign exchange was absorbed by transportation costs. Expenditure under the head of other services and private donations was negligible.

There is no doubt that of the three factors primarily responsible for aggravating the disequilibrium of the current balance, the most important part was played by

the steeper fall in the growth rate of exports than of imports and the steady rise in expenditure under the head of foreign investment income. The former is explained by the fact that export prices dropped abruptly after 1955 while import prices remained stationary or even increased slightly, thereby leading to a deterioration in Latin America's terms of trade over the long term. The latter was due to the substantial increase in the inflow of long-term foreign capital to meet the region's need for funds to offset its losses from the adverse evolution of the terms of trade. Consequently, it is this deterioration which, either directly or indirectly, is chiefly to blame for the increase in the balance-of-payments deficit on current account.

Chapter IV

THE BALANCE OF PAYMENTS ON CAPITAL ACCOUNT : GENERAL FEATURES

Transactions in the balance of payments are registered in the current and capital accounts according to several criteria, none of which is really satisfactory.

First, current transactions may be defined as those which are concluded at the moment they occur, while capital transactions are those that take place as a result of previous transactions or those that give rise to subsequent transactions. But some operations which are usually registered in the capital account are not directly linked to previous or subsequent capital transactions. Such is the case, for example, of cash payments in gold for current transactions of goods and services.

Secondly, current transactions can be defined as those that originate real transfers of goods and services, and capital transactions are those giving rise to purely financial transfers. But this second definition is not more satisfactory than the first, since some transactions traditionally registered in the current account only induce financial transfers (e.g. transfer payments on investment income).

Thirdly, current transactions can be taken as those which give rise to the transfer of part of a country's current production of goods and services between the country concerned and the rest of the world, and capital transactions as those which give rise to a transfer of savings between the same country and the rest of the world. But this last definition is unsatisfactory too since some current transactions can represent international transfers of goods produced previously (stocks).

In the present study the first definition has been generally used, i.e., current transactions have been considered as those which are concluded at the moment they occur and capital transactions as those which result from a previous transaction or give rise to subsequent transactions. This classification is not very different from that used by the International Monetary Fund (IMF), which makes a distinction between: (a) the flows of real

resources (goods and services including the services of the original factors of production) between the domestic economy of a country and the rest of the world; (b) the financial transactions (transactions on capital account), which induced in the country's foreign assets and liabilities changes which are the counterpart of the flows of real resources; and (c) the transfer payments (donations), which are the counterpart of real resources or financial claims provided to, or received from, the rest of the world without *quid pro quo*.¹ The main difference between these two classifications lies in the fact that the transfer payments, which constituted a special account according to the IMF's definitions, have been allotted in the present study to the current account (private transfer payments or donations) or to the capital account (official transfer payments or donations).

As defined in the present study, the concept of capital transactions covers operations of very different kinds, since this term includes such diverse types of transfers as those resulting from direct and portfolio investments by private individuals or firms, grants of development or balance of payments loans by official institutions, changes in the foreign exchange and gold reserves of the monetary authorities, etc. It is therefore necessary to group these different operations according to broad definitions before considering them from an economic point of view. The two following chapters of the present study are devoted to such a classification of capital transactions in order to determine the most important flows of funds.

Nevertheless, before entering into this discussion, the general structure of the capital account in the balance of payments of the Latin American countries during the post-war period needs to be examined briefly.

¹ *Balance of Payments Manual*, op. cit., para. 38.

A. NET CAPITAL INFLOW

1. DEFINITION

Net capital inflow can be defined as the total amount of financial resources supplied to the country under consideration according to the international capital transactions. It covers not only the movements of *foreign funds*, i.e., of funds owned by persons who are residents in foreign countries, which induce changes in the liabilities of the region to the rest of the world, but also the movements of *domestic funds*, i.e., of funds owned by persons

who are residents in Latin America, which induce changes in the region's assets as compared with the rest of the world. It cannot be taken, consequently, as the equivalent of the concept of foreign capital inflow, since the movements of domestic funds have not been negligible during the post-war period.

Net capital inflow can be estimated by two different methods, usually called the *direct* and *indirect* methods. In the first case, net capital inflow is measured by the

algebraic balance of all the changes in the region's external liabilities and assets induced by capital transactions. In the second case, it is equal and of opposite sign to the balance on current account, since the changes in the region's external liabilities and assets due to capital transactions are the counterpart either of other capital transactions or of current transactions so that their final balance offsets the deficit of the surplus on current account. As these two estimates cannot be even because of the incomplete recording of both the capital and current operations, the difference between them is entered in the over-all balance of payments under the heading of *net errors and omissions*.

Since the approach adopted in this chapter and the next two consists of starting from the most comprehensive data and then progressively singling out certain significant flows of financing, it seemed justifiable to estimate net capital inflows, first by the indirect method and then by the direct method, before making a comparison of the two estimates.

2. DEFICIT ON CURRENT ACCOUNT AND NET CAPITAL INFLOW ESTIMATED BY THE INDIRECT METHOD

During the post-war period (1946-60), Latin America as a whole was a net importer of capital since all the countries registered a cumulative deficit in their balance

on current account during this period, with the sole exception of the Dominican Republic and El Salvador which registered slight surpluses. Net capital inflow into the region for 1946-60—estimated by the indirect method—amounted to nearly 10,000 million dollars (see tables 67 and 68). Over the long term the inflow in question followed a marked upward trend, rising, on an annual average, from 129.3 million dollars in 1946-50 to 665.4 million in 1951-55 and 1,061.4 million in 1956-60 (see table 67). In other words, this inflow was five times higher in 1951-55 than in 1946-50, and increased by 69.9 per cent from 1951-55 to 1956-60. This movement continued in 1961 but the deficit on current account increased, i.e., the net capital inflow dropped sharply in 1962, according to available preliminary data (see table 69).² These figures enable Latin America to be classified among the other under-developed areas which have received financial assistance from abroad.

² For Latin America as a whole (excluding Cuba for which balance-of-payments data have not been available since 1959) the net capital inflow in 1961 was almost equal to the annual average for 1956-60 (1,066.5 million dollars instead of 1,061.4 million), but only reached 663.7 million dollars in 1962. If the figures relative to Venezuela are excluded, net capital inflow into the region was higher in 1961 than the annual average for 1956-60 (1,513.9 million dollars instead of 955.5 million dollars) but greatly diminished in 1962 (1,172.8 million dollars).

Table 67. Latin America: net capital inflow, 1946-62

(Millions of dollars)

Year	Latin America			Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Indirect estimate of net capital inflow (1)	Direct estimate of net capital inflow (2)	Net errors and omissions (1-2) (3)	Indirect estimate of net capital inflow (4)	Direct estimate of net capital inflow (5)	Net errors and omissions (4-5) (6)	Indirect estimate of net capital inflow (7)	Direct estimate of net capital inflow (8)	Net errors and omissions (7-8) (9)
1946	-582.3	-258.3	-324.0	-436.0	-143.1	-292.9	-453.0	-203.7	-249.3
1947	+847.3	+994.5	-147.2	+965.5	+1,112.0	-146.5	+728.7	+850.0	-121.3
1948	+274.2	+310.6	-35.8	+359.5	+367.4	-7.9	+230.6	+177.0	+53.6
1949	+417.2	+262.6	+154.6	+494.6	+347.5	+147.1	+359.7	+122.0	+237.0
1950	-309.9	-190.6	-119.3	-322.1	-189.6	-132.5	-310.4	-278.8	-31.6
1951	+1,076.5	+1,167.6	-91.1	+1,052.2	+1,165.9	-113.7	+1,106.6	+1,164.6	-58.0
1952	+1,436.2	+1,267.1	+169.1	+1,310.6	+1,179.4	+131.2	+1,350.8	+1,094.6	+256.2
1953	-122.1	+20.7	-142.8	-85.5	+59.7	-145.2	-109.1	-33.0	-76.1
1954	+458.6	+724.4	-265.8	+384.1	+640.9	-256.8	+341.3	+584.4	-243.1
1955	+477.6	+597.0	-119.4	+426.5	+480.0	-53.5	+436.0	+489.8	-53.8
1956	+578.3	+1,547.5	-969.2	+534.6	+1,471.2	-936.6	+465.1	+1,024.3	-559.2
1957	+1,944.6	+2,475.6	-531.0	+1,860.6	+2,302.2	-441.6	+1,292.1	+1,320.1	-28.0
1958	+1,371.6	+1,665.8	-294.2	+1,231.1	+1,481.0	-249.9	+1,077.5	+1,341.5	-264.0
1959	+774.0	+906.8	-132.8	+694.4	+775.2	-80.8	+565.8	+644.7	-78.9
1960	+986.3 ^a	+1,469.4 ^a	-483.1 ^a	+986.3	+1,469.4	-483.1	+1,377.0	+1,489.9	-112.9
<i>Average</i>									
1946-50	+129.3	+223.6	-94.3	+212.3	+298.8	-86.5	+111.1	+133.3	-22.2
1951-55	+665.4	+755.4	-90.0	+617.6	+706.4	-88.8	+625.1	+660.1	-35.0
1956-60	+1,061.4 ^a	+1,488.9 ^a	-427.5 ^a	+1,061.4	+1,488.9	-427.5	+955.5	+1,153.2	-197.7
1961	+1,066.5 ^a	+1,527.7 ^a	-461.2 ^a	+1,066.5	+1,525.7	-461.2	+1,513.9	+1,918.7	-404.8
1962 ^b	+663.7 ^a	+1,208.2 ^a	-544.5 ^a	+663.7	+1,208.2	-544.5	+1,172.8	+1,657.2	-484.4

SOURCE: ANNEX II.

^a Excluding Cuba on which data for 1960, 1961 and 1962 are not available.

^b Preliminary figures.

Table 68. Latin America: net capital inflow by country, 1946-60
(Aggregate totals in millions of dollars)

Country	1946-50			1951-55			1956-60		
	Indirect estimate of net capital inflow (1)	Direct estimate of net capital inflow (2)	Net errors and omissions (1-2) (3)	Indirect estimate of net capital inflow (4)	Direct estimate of net capital inflow (5)	Net errors and omissions (4-5) (6)	Indirect estimate of net capital inflow (7)	Direct estimate of net capital inflow (8)	Net errors and omissions (7-8) (9)
Argentina	-424.4	-392.8	-31.6	+702.1	+674.6	+27.5	+887.6	+857.9	+29.7
Bolivia	+46.3	+27.9	+18.4	+69.7	+69.7	—	+136.8	+194.6	-57.8
Brazil	-46.8	+175.3	-222.1	+1,444.0	+1,332.0	+112.0	+1,488.0	+1,839.0	-351.0
Chile	+184.7	+158.3	+26.4	+70.0	+94.9	-24.9	+421.6	+406.1	+15.5
Colombia	+226.7	+192.0	+34.7	+122.3	+233.6	-111.3	-105.1	+208.0	-313.1
Costa Rica	+37.4	+29.5	+7.9	+14.3	+4.7	+9.6	+90.5	+65.8	+24.7
Dominican Republic	-39.2	-5.5	-33.7	-13.9	-27.2	+13.3	-42.1	+59.1	-101.2
Ecuador	+25.4	+32.3	-6.9	+21.3	+40.0	-18.7	+61.6	+58.9	+2.7
El Salvador	-36.4	-21.8	-14.6	-33.7	-10.7	-23.0	+21.3	+39.8	-18.5
Guatemala	+0.3	+14.6	-14.3	-13.7	-7.4	-6.3	+179.6	+198.6	-19.0
Haiti	-4.1	-4.1	—	+25.8	+35.7	-9.9	-4.3	+12.3	-16.6
Honduras	+24.8	+24.5	+0.3	+26.5	+38.9	-12.4	+32.1	+16.7	+15.4
Mexico	+414.4	+311.9	+102.5	+232.7	+395.6	-162.9	+711.4	+1,018.9	-307.5
Nicaragua	+15.5	+9.6	+5.9	+8.2	+18.1	-9.9	+38.2	+49.6	-11.4
Panama	+85.0	+74.5	+10.5	+93.6	+24.8	+68.8	+180.9	+145.1	+35.8
Paraguay	+9.3	+4.4	+4.9	+11.2	+20.1	-8.9	+50.9	+47.3	+3.6
Peru	+52.1	+50.5	+1.6	+208.9	+210.4	-1.5	+361.9	+392.5	-30.6
Uruguay	-15.4	-14.6	-0.8	+136.3	+152.6	-16.3	+266.6	+210.3	+56.3
Subtotal I	+555.6	+666.5	-110.9	+3,125.6	+3,300.4	-174.8	+4,777.5	+5,820.5	-1,043.0
Venezuela	+505.9	+827.7	-321.8	-37.7	+231.5	-269.2	+529.5	+1,678.5	-1,149.0
Subtotal II	+1,061.5	+1,494.2	-432.7	+3,087.9	+3,531.9	-444.0	+5,307.0 ^a	+7,499.0 ^a	-2,192.0 ^a
Cuba	-415.0	-376.0	-39.0	+238.9	+244.9	-6.0	+347.8	+566.1	-218.3
TOTAL	+646.5	+1,118.2	-471.7	+3,326.8	+3,776.8	-450.0	+5,654.8 ^b	+8,065.1 ^b	-2,410.3 ^b

SOURCE: Annex II.

^a Data for 1956-59 only.

^b This total is not fully comparable with the corresponding totals for previous periods because there are no data available for Cuba in 1960.

Table 69. Latin America (excluding Cuba): net capital inflow by country, 1960-62
(Millions of dollars)

Year	1960			1961			1962 ^a		
	Indirect estimate of net capital inflow (1)	Direct estimate of net capital inflow (2)	Net errors and omissions (1-2) (3)	Indirect estimate of net capital inflow (1)	Direct estimate of net capital inflow (2)	Net errors and omissions (1-2) (3)	Indirect estimate of net capital inflow (1)	Direct estimate of net capital inflow (2)	Net errors and omissions (1-2) (3)
Argentina	+204.9	+200.6	+4.3	+584.4	+595.4	-11.0	+272.8	+279.4	-6.6
Bolivia	+26.8	+34.3	-7.5	+27.6	+29.6	-2.0	+43.5	+58.3	-14.8
Brazil	+551.0	+564.0	-13.0	+292.0	+290.0	+2.0	+423.0	+491.0	-68.0
Chile	+155.3	+121.1	+34.2	+279.6	+326.7	-47.1	+157.3	+228.7	-71.4
Colombia	+84.5	+99.1	-14.6	+141.8	+151.0	-9.2	+119.1	+121.3	-2.2
Costa Rica	+20.6	+20.3	+0.3	+17.7	+19.6	-1.9	+22.7	+17.1	+5.6
Dominican Republic	-48.5	-17.4	-31.1	-40.8	+0.8	-41.6	-12.4	+18.4	-30.8
Ecuador	+17.7	+20.4	-2.7	+23.4	+26.7	-3.3	+26.4	+24.2	+2.2
El Salvador	+28.4	+26.7	+1.7	+1.9	+19.7	-17.8	-0.1	+3.8	-3.9
Guatemala	+29.7	+30.5	-0.8	+28.5	+31.4	-2.9	+35.2	+34.6	+0.6
Haiti	-4.1	+2.5	-6.6	+4.9	+7.6	-2.7	+1.9	+2.0	-0.1
Honduras	-2.4	-1.2	-1.2	-0.1	-1.1	-1.2	+6.9	+5.0	+1.9
Mexico	+182.4	+256.8	-74.4	+91.4	+340.2	-248.8	-63.5	+203.5	-267.0
Nicaragua	+10.2	-13.1	-2.9	+7.0	+8.2	-1.2	+11.4	+13.6	-2.2
Panama	+54.3	+49.9	+4.4	+45.6	+28.7	+16.9	+35.7	+24.6	+11.1
Paraguay	+13.8	+14.8	-1.0	+10.7	+11.6	-0.9	+7.6	+13.7	-6.1
Peru	-29.2	-26.7	-2.5	-18.2	-22.2	+4.0	+21.3	+24.8	-3.5
Uruguay	+81.6	+81.1	+0.5	+16.5	+52.6	-36.1	+64.0	+93.2	-29.2
Subtotal I	+1,377.0	+1,489.9	-112.9	+1,513.9	+1,918.7	-404.8	+1,172.8	+1,657.2	-484.4
Venezuela	-390.7	-20.5	-370.2	-447.4	-391.0	-56.4	-509.1	-449.0	-60.1
TOTAL	+986.3	+1,469.4	-483.1	+1,066.5	+1,527.7	-461.2	+663.7	+1,208.2	-544.5

SOURCE: Annex II.

^a Preliminary figures.

Table 70 shows that all developing regions of the world^a were net importers of capital in 1951-60, when cumulative net capital inflows amounted in the aggregate to over 30,000 million dollars (33,018.1 million). Latin America's share in this world total was 27.2 per cent, so that the

region takes second place, behind South-East Asia (30.3 per cent, of the world total), but before the Middle East (17.0 per cent), Africa (10.4 per cent), the dependent territories of the Western Hemisphere (9.1 per cent) and the under-developed countries of Western and Southern Europe (5.5 per cent).

^a Coverage is very incomplete for some areas, since various countries failed to furnish information on their external payments to the International Monetary Fund over the whole or part of the decade, either because they were not autonomous or for other reasons. This applies particularly to Africa, from which are excluded, *inter alia*, Algeria, the States formerly members of the French Commonwealth, the Portuguese territories and a number of former British colonies. The same is true, although in a lesser degree, of South-East Asia, the Middle East and even the group of under-developed countries in Western and Southern Europe. The exclusion of these countries means that the world total is reduced, and that the quota for Latin America, for which statistical coverage is complete, is probably over estimated at the expense of other areas, especially Africa.

Net inflows of external financing into countries in process of development perceptibly increased between the first and second halves of the decade in every direction, except in respect of the group of under-developed countries in Southern and Western Europe, the figures for which, as a matter of fact, are hardly comparable from one period to the other, because of the exclusion of Spain from the total in 1951-55. The rate of increase of external financing in Latin America (representing an increment of 69.9 per cent between 1951-55 and 1956-60, as shown above) was lower than in South-East Asia (where such

Table 70. Developing areas: net capital inflow,^a 1951-60

Area ^b	1951-55		1956-60		1951-60	
	Aggregate total in millions of dollars	Percentage distribution	Aggregate total in millions of dollars	Percentage distribution	Aggregate total in millions of dollars	Percentage distribution
Africa	1,598.5	14.5	1,837.8	8.3	3,436.3	10.4
Latin America	3,326.8	30.0	5,654.8	25.7	8,981.6	27.2
Middle East	2,382.2	21.5	3,235.7	14.7	5,617.9	17.0
South-East Asia	1,916.7	17.3	8,077.2	37.0	9,993.9	30.3
Other countries	1,855.2	16.7	3,133.2	14.3	4,988.4	15.1
Western Hemisphere	778.7	7.0	2,228.4	10.2	3,007.1	9.1
Europe	1,082.1	9.75	741.9	3.4	1,824.0	5.5
Miscellaneous	-5.6	-0.05	162.9	0.7	157.3	0.5
TOTAL	11,079.4	100.0	21,938.7	100.0	33,018.1	100.0

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 8, 12 and 13.

^a In accordance with the indirect method, the net capital inflow into any area has been taken as opposite to the balance on current account, which covers net investment income transferred or not transferred abroad, and net private donations, including private grants and immigrants remittances. No sign indicates a net capital inflow; a minus sign indicates a net capital outflow.

^b The countries included in these areas are as follows:

Africa	Latin America	Middle East	South-East Asia	Other countries		
				Western Hemisphere	Europe	Miscellaneous
Congo (Leopoldville)	Argentina	Egypt	Burma	Netherlands	Greece	United Kingdom colonial territories, (excluding Hong Kong, Northern Rhodesia, Nyasaland and Singapore)
Ethiopia	Bolivia	Iran	Ceylon	Antilles	Iceland	
Ghana	Brazil	Israel	China	Puerto Rico	Ireland	
Italian Somaliland	Chile	Jordan	(Taiwan)	Surinam	Portugal	
Liberia	Colombia	Lebanon	India	West Indies	Spain	
Libya	Costa Rica	Turkey	Indonesia			
Morocco	Dominican Republic	Syria	Malaya			
Rhodesia and Nyasaland	Ecuador		Pakistan			
Sudan	El Salvador		Philippines			
Tunisia	Guatemala		Republic of Korea			
Union of South Africa	Haiti		Republic of Viet-Nam			
	Honduras		Thailand			
	Mexico					
	Nicaragua					
	Panama					
	Paraguay					
	Peru					
	Uruguay					
	Venezuela					

The number of countries reporting to IMF has increased during the last decade in Africa (Morocco reporting since 1952, Liberia since 1953, Ghana since 1955, Tunisia since 1957), Asia (Viet-Nam reporting since 1956), and Europe (Spain reporting since 1955). Consequently the aggregate totals for the three five-year periods are not fully comparable.

financing was more than quadrupled) and in the dependent territories of the Western Hemisphere (where it was almost trebled), but higher than in the Middle East and Africa.⁴ Latin America's share in the world total decreased only slightly in the end, falling from 30.0 per cent in 1951-55 to 25.7 per cent in 1956-60.

Tables 71 and 72 give some idea of the uneven distribution of net capital inflows among the various Latin American countries. The three leading recipients (Brazil, Argentina and Mexico)⁵ absorbed 60.8 per cent of net capital transfers to the region as a whole in the course of the fifties; the remaining 39.2 per cent was distributed among the other seventeen countries. Six of the latter (Ecuador, Honduras, Paraguay, Nicaragua, Haiti and Colombia) received less than 1 per cent each of the regional total, while two others (the Dominican Republic and El Salvador) must be regarded as net exporters of

⁴ The respective rates of increase of net inflows of capital, estimated by the indirect method, were 321.4 per cent for South-East Asia, 186.2 per cent for the dependent territories of the Western Hemisphere, 35.8 per cent for the Middle East, and only 15 per cent for Africa. It must be noted, however, that coverage for the various regions has tended to improve progressively in the course of the last decade (see explanatory note to table 77), so that the rates in question are not fully comparable with that estimated for Latin America, which, considered as a geographical unit, has undergone no change.

⁵ Venezuela was not classified in this group because its net imports of capital, estimated by the indirect method, represented only 5.5 per cent of the regional total in 1951-60, its balance on current account registering a surplus during the first half of the decade and a slight deficit during the second half. Obviously, a different result is obtained if net capital inflows estimated by the direct method are taken into consideration. Net errors and omissions were very high in the case of Venezuela, the figure reached being quite exceptional for the region.

Table 71. Latin America: Percentage distribution of net capital inflow by countries, 1951-60^a

Country	1951-55	1956-60	1951-60
Argentina	21.1	15.7	17.7
Bolivia	2.1	2.4	2.3
Brazil	43.4	26.2	32.6
Chile	2.1	7.5	5.5
Colombia	3.7	-1.9	0.2
Costa Rica	0.4	1.6	1.2
Dominican Republic	-0.4	-0.7	-0.6
Ecuador	0.6	1.1	0.9
El Salvador	-1.0	0.3	-0.1
Guatemala	-0.4	3.2	1.8
Haiti	0.8	-0.1	0.2
Honduras	0.8	0.6	0.7
Mexico	7.0	12.6	10.5
Nicaragua	0.2	0.7	0.5
Panama	2.8	3.2	3.0
Paraguay	0.3	0.9	0.7
Peru	6.3	6.4	6.4
Uruguay	4.1	4.7	4.5
<i>Subtotal I</i>	<i>93.9</i>	<i>84.4</i>	<i>87.6</i>
Venezuela	-1.1	9.4	5.5
<i>Subtotal II</i>	<i>92.8</i>	<i>93.8</i>	<i>93.1</i>
Cuba	7.2	6.2 ^{b d}	6.9 ^{c d}
TOTAL	100.0	100.0	100.0

SOURCE: Annex II.

^a Estimated by the indirect method (see footnote ^a to table 70). No sign indicates a net capital inflow; a minus sign indicates a net capital outflow.

^b 1956-59 only.

^c 1951-59 only.

^d Not fully comparable with corresponding figures for previous years.

Table 72. Latin America: percentage distribution of the net capital inflow^a by recipient groups of countries, 1951-60

Groups of countries	1951-55		1956-60		1951-60	
	Country	Number of countries Percent- age share of total net capital inflow	Country	Number of countries Percent- age share of total net capital inflow	Country	Number of countries Percent- age share of total net capital inflow
Group I (over 10 per cent)	{ Argentina } { Brazil }	. . . . . 2 64.5	{ Argentina } { Brazil } { Mexico }	. . . . . 3 54.5	{ Argentina } { Brazil } { Mexico }	. . . . . 3 60.8
Group II (1-10 per cent)	{ Bolivia } { Chile } { Cuba } { Mexico } { Panama } { Peru } { Uruguay }	. . . . . 7 31.6	{ Bolivia } { Chile } { Costa Rica } { Cuba } { Ecuador } { Guatemala } { Panama } { Peru } { Uruguay } { Venezuela }	. . . . . 10 45.7	{ Bolivia } { Chile } { Costa Rica } { Cuba } { Guatemala } { Panama } { Peru } { Uruguay } { Venezuela }	. . . . . 9 36.7
Group III (under 1 per cent)	{ Costa Rica } { Ecuador } { Haiti } { Honduras } { Nicaragua } { Paraguay }	. . . . . 6 6.8	{ El Salvador } { Honduras } { Nicaragua } { Paraguay }	. . . . . 4 2.5	{ Colombia } { Ecuador } { Haiti } { Honduras } { Nicaragua } { Paraguay }	. . . . . 6 3.2
Group IV (capital-exporting countries)	{ Dominican Republic } { El Salvador } { Guatemala } { Venezuela }	. . . . . 4 -29	{ Colombia } { Dominican Republic } { Haiti }	. . . . . 3 -2.7	{ Dominican Republic } { El Salvador }	. . . . . 2 -0.7

SOURCE: Annex I.

^a Estimated by the indirect method (see footnote ^a to table 70).

funds, since their balance on current account showed a cumulative surplus.

It is true that over the long term this situation altered somewhat, as can be seen from table 70. The largest Latin American importers of funds,⁶ which in 1951-55 received 64.5 per cent of net capital inflows into the region as a whole, obtained only 54.5 per cent in 1956-60. The share of the small importers in the regional total likewise decreased, falling from 6.8 per cent in 1951-55 to 2.5 per cent in 1956-60. That of the medium importers, on the other hand, rose from 31.6 per cent in 1951-55 to 45.7 per cent in 1956-60. What happened was that the increase in flows of financing from abroad between the first and second halves of the decade was felt mostly either in the countries which had belonged to the medium importers group ever since the beginning of the period, or in countries which had then been only small importers but some of which had subsequently moved up into a higher category. Examples of the former are Chile (where

⁶ According to the terminology adopted here, the largest net importers of funds are those that each received over 10 per cent of net capital inflows into the region; medium importers, those receiving 1-10 per cent each of the regional total; and small importers, those receiving less than 1 per cent each of the total. There is also a residual group of net exporters of capital.

net capital inflows increased six times over between 1951-55 and 1956-60), Uruguay, Bolivia, Panama (where they were nearly doubled), Peru (where they increased by 73.2 per cent) and Cuba (where they rose by 45.6 per cent), and of the latter, Costa Rica (where net inflows were more than sextupled), Nicaragua, Paraguay (where they increased more than fourfold), and Ecuador (where they were almost trebled).

It is natural, moreover, that the amount of external financing to each of the Latin American countries should have varied greatly, since the countries in question are very different in their characteristics as regards area, size of population, value of exports and imports and level of economic development. In fact, if the figures measuring net inflows of capital are to be made really comparable with one another, they must be related to other variables. A simple procedure might be to calculate what percentages of receipts and expenditure on current account were represented by net contributions from abroad in the various countries.

From table 73 it can be seen that the relative importance of these contributions differed widely from one country to another during the fifties. The proportion of current expenditure covered by net inflows of capital, for example, ranged from 20.5 per cent in the case of Bolivia to less

Table 73. Latin America: net capital inflow ^a as a percentage of receipts and expenditure on current account, 1951-60

Country	1951-55 Net capital inflow as a percentage of		1956-60 Net capital inflow as a percentage of		1951-60 Net capital inflow as a percentage of	
	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure
Argentina	12.8	11.3	15.5	13.4	14.2	12.4
Bolivia	15.4	13.4	39.4	28.3	25.8	20.5
Brazil	17.6	15.0	19.6	16.4	18.6	15.7
Chile	3.04	2.95	17.1	14.6	10.3	9.3
Colombia	4.0	3.8	-3.2	-3.3	0.272	0.271
Costa Rica	3.2	3.1	18.3	15.5	11.2	10.1
Dominican Republic	-2.16	-2.21	-5.2	-5.5	-3.9	-4.0
Ecuador	3.8	3.6	8.4	7.7	6.4	6.0
El Salvador	-6.6	-7.0	3.3	3.2	-1.07	-1.08
Guatemala	-2.76	-2.84	28.0	21.9	14.6	12.7
Haiti	9.8	8.9	-1.66	-1.69	4.1	4.0
Honduras	7.9	7.3	8.4	7.7	8.2	7.5
Mexico	4.4	4.2	10.1	9.2	7.7	7.1
Nicaragua	2.53	2.47	9.0	8.2	6.2	5.8
Panama	17.2	14.7	23.0	18.7	20.6	17.1
Paraguay	5.7	5.4	24.2	19.5	15.2	13.2
Peru	14.4	12.6	18.2	15.4	16.6	14.2
Uruguay	10.6	9.6	30.8	23.5	18.7	15.7
<i>Subtotal I</i>	9.8	8.9	13.8	12.1	11.9	10.6
Venezuela	-0.51	-0.53	4.1	3.9	2.3	2.2
<i>Subtotal II</i>	7.7	7.2	11.2	10.0	9.6	8.7
Cuba	6.6	6.2	10.3 ^{b c}	9.3 ^{b c}	8.4 ^{b d}	7.8 ^{b d}
TOTAL	7.6	7.1	11.1 ^b	10.0 ^b	9.5 ^b	8.7 ^b

SOURCE: Annex II.

^a Estimated by the indirect method (see footnote a to table 70). No sign indicates a net capital inflow; a minus sign indicates a net capital outflow.

^b Not fully comparable with corresponding figures for previous years.

^c 1956-59 only.

^d 1951-59 only.

than 0.3 per cent in that of Colombia. The recipients, however, can be classified in three major groups, according to whether they availed themselves of external funds to finance 15 per cent and over, between 5 and 15 per cent, or under 5 per cent of their imports of goods and services.⁷ It can then be observed that out of twenty Latin American countries, only three fall into the first group (Bolivia, Panama, and Uruguay), twelve into the second (Brazil, Peru, Paraguay, Guatemala, Argentina, Costa Rica, Chile, Cuba, Honduras, Mexico, Ecuador and Nicaragua), and three into the third (Haiti, Colombia and Venezuela), while in addition two other republics must be ranked as net exporters of capital (Dominican Republic and El Salvador) (see table 74). It is of interest to note that this

⁷ Two series of percentages are actually available, relating net capital inflows to receipts or to expenditure on current account. But these two series clearly approximate very closely to each other, since net inflows are by definition equal and opposite to "current" balances. In the countries that were net importers of capital during the period under consideration, the inflow of funds from abroad represented a slightly more substantial proportion of exports than of imports of goods and services. In the countries that were net exporters of capital, in contrast, outflows represented a slightly smaller proportion of exports than of imports.

classification is quite different from the one previously obtained on the basis of the percentage distribution of net capital flows among the Latin American States. The first group comprises none of the largest importers of funds from abroad, but only medium importers. In the second group, the large-scale recipients (Brazil, Argentina and Mexico) are of course to be found, but so also are medium importers (Peru, Guatemala, Costa Rica, Chile and Cuba) and small importers (Paraguay, Honduras, Ecuador and Nicaragua).

In the case of almost all the Latin American countries the relative importance of external financing was intensified during the fifties, when net capital inflows increased more rapidly than the value of imports and exports of goods and services. The percentage of current expenditure financed by funds from abroad, for example, rose in all States with the exception of Haiti and Colombia, which became net exporters instead of net importers of capital. Consequently, the group of countries using external funds to pay for over 15 per cent of their imports of goods and services, to which not one of the republics belonged in 1951-55, comprised eight countries in 1956-60 (Bolivia, Uruguay, Guatemala, Paraguay, Panama, Brazil, Costa Rica and Peru). Conversely, the number of countries

Table 74. Latin America: groups of countries, according to the share of their imports of goods and services financed by the net capital inflow^a

(Percentage)

Groups of countries	1951-55	1956-60	1951-60
Group I (over 15 per cent)		Bolivia Brazil Costa Rica Guatemala Panama Paraguay Peru Uruguay	Bolivia Panama Uruguay
Group II (5-15 per cent)	Argentina Bolivia Brazil Cuba Haiti Honduras Panama Paraguay Peru Uruguay	Argentina Chile Cuba Ecuador Honduras Mexico Nicaragua	Argentina Brazil Chile Costa Rica Cuba Ecuador Guatemala Honduras Mexico Nicaragua Paraguay Peru
Group III (under 5 per cent)	Chile Colombia Costa Rica Ecuador Mexico Nicaragua	El Salvador Venezuela	Colombia Haiti Venezuela
Group IV (net capital exporters)	Dominican Republic El Salvador Guatemala Venezuela	Colombia Dominican Republic Haiti	Dominican Republic El Salvador

SOURCE: Annex II.

^a Estimated by the indirect method (see footnote *a* to table 70).

dependent on such financing in a moderate or slight degree decreased from one five-year period to the other (see again table 74).

To sum up, three preliminary conclusions can be deduced from the deficits on current account in Latin America's balance of payments:

(a) Net capital inflows, in whatever form, estimated by the indirect method, showed a definitely upward trend over the long term;

(b) Their rate of increase was quite often lower than the rates registered in other under-developed regions of the world, although Latin America's share in aggregate transfers of funds to developing countries did not significantly contract, since the proportions accruing to the other groups of recipients were relatively small at the beginning of the decade;

(c) The geographical distribution of net capital inflows was very uneven; the bulk of funds from abroad was assigned to a few countries, although the share of current expenditure financed was often larger, in relative terms, in the case of the small or even the medium-scale recipients than in the case of those which obtained the largest amounts of external financing.

3. NET CAPITAL INFLOWS ESTIMATED BY THE DIRECT METHOD

The figure for cumulative net capital inflows into Latin America during the post-war period (1946-60), estimated by the direct method, is much higher than that obtained by the indirect method (13,000 million dollars as against 10,000 million dollars). It is interesting to note that according to these new data, all the Latin American countries can be regarded as cumulative net importers of capital, whereas two of them (the Dominican Republic and El Salvador) had previously been shown as net exporters.

It may legitimately be wondered whether these direct estimates do not call in question some of the statements made on the basis of the indirect estimates, especially with respect to the rate of increase of net capital inflows into the region, and the distribution of such funds among the various countries.

The two series of estimates, obtained by each method in turn, lead to fairly similar conclusions as regards the first point, since both reflect a substantial increase in the financial assistance obtained by the region.⁸ It may be noted, however, that the rate of growth of net flows of financing for Latin America as a whole during the fifties is higher according to the direct estimates (an increment of 113.5 per cent between 1951-55 and 1956-60) than according to the indirect estimates (an increase of only 69.9 per cent between 1951-55 and 1956-60).

The divergencies are rather more marked as regards the second point. In the first place, the disparities in the geographical distribution of the financial contributions

⁸ Cumulative net capital inflows would seem to have risen from 3,326.8 million dollars in 1951-55 to 5,654.8 million dollars in 1956-60, according to the indirect estimates, and from 3,776.8 million dollars in 1951-55 to 8,065.1 million dollars in 1956-60, according to the direct estimates.

enjoyed by the region during the decade 1951-60 seem to be slightly wider according to the direct than according to the indirect estimates. The group of countries receiving the largest amounts of external financing,⁹ absorbed 67.7 per cent of cumulative net capital inflows as estimated by the direct method, whereas the corresponding figure estimated by the indirect method is only 60.8 per cent. This is partly because Venezuela, previously classified as a medium-scale recipient, has been transferred to the ranks of the largest importers of funds.¹⁰ The share of the large-scale recipients in total net capital inflows, far from decreasing, would seem to have increased over the long term, rising from 63.7 per cent in 1951-55 to 66.8 per cent in 1956-60. Clearly, these discrepancies are attributable to the disparities between net errors and omissions from one country to another.

4. ESTIMATE OF NET ERRORS AND OMISSIONS

The net errors and omissions registered in the Latin American balances of payments during the post-war period (1946-60) amounted to an aggregate minus figure of nearly 3,000 million dollars, since the net capital inflow was estimated respectively at 10,000 million dollars according to the indirect method, and at 13,000 million according to the direct method during the same period.

The amount represented by net errors and omissions can be considered as substantial not only in absolute value but also in relation to the receipts on current account.¹¹ During the decade 1951-60, errors and omissions represented 3 per cent of the region's cumulative earnings on current account and variable fractions of the same earnings accruing to the various republics. In only eight countries (Argentina, Brazil, Chile, Ecuador, Paraguay, Peru, and Uruguay) were the percentages in question maintained at a level comparable (less than 2 per cent) with those of more developed countries.¹² Everywhere else they rose higher and in some instances considerably higher, as in the case of Panama (7.9 per cent), Bolivia (7.2 per cent) and Venezuela (6.7 per cent).

⁹ According to the terminology used above, the largest net importers of funds from abroad were those receiving over 10 per cent each of net capital inflows into the region, and the medium importers, those receiving from 1 to 10 per cent each of the regional total.

¹⁰ Venezuela received 5.5 per cent of the region's net capital inflows according to the indirect estimates, and 16.1 per cent according to the estimates obtained by the direct method; the errors and omissions registered in its balance of payments reached a very high minus figure.

¹¹ Net errors and omissions are, by definition, equal and opposite to the algebraic sum of the balances on current and capital accounts, and also to the algebraic difference between the receipts and expenditures registered under the various balance-of-payments items. In order to measure their relative importance, they would have to be related to the aggregate receipts or the aggregate expenditure concerned. The form of presentation of the balance of payments adopted by the International Monetary Fund unfortunately precludes calculations of either of these two sum totals, since capital transactions are sometimes entered as a net figure. Thus the only possible procedure was to relate net errors and omissions simply to receipts on current account.

¹² For purposes of comparison, the net errors and omissions registered in the balance of payments of France, the United Kingdom and the United States represented respectively 0.5, 1.5 and 2.1 per cent of these countries' cumulative receipts on current account in 1951-60.

Furthermore, if the region is considered as a whole, the net errors and omissions, which were always negative except in 1949 and 1952, followed a sharp upward trend over the long term from 1955 onward. They only reached, on an annual average, 94.3 million dollars in 1946-60 and 90.0 million dollars in 1951-55, but climbed to 427.5 million in 1956-60.¹³ They continued to increase

for the last two years since they amounted to 461.2 million dollars in 1961¹³ and to 544.5 million in 1962. (See again table 77.)

¹³ Excluding Cuba, for which balance-of-payments data have not been available since 1959.

B. THE INTERPRETATION OF NET ERRORS AND OMISSIONS AND THE PROBLEM OF THE OUTFLOW OF LATIN AMERICAN CAPITAL

The mere existence of large figures in errors and omissions in the Latin American balances of payments seriously limits the scope of any analysis of capital transactions between Latin America and the rest of the world, so that some investigation of their exact meaning is warranted.

Such an investigation necessarily leads to an examination of the problem of the capital outflow from the region. On the one hand, the figures entered under the item of net errors and omissions in the Latin American countries' balances of payments are generally negative so that they resulted either from overestimation of inflows of funds or from underestimation of outflows of funds in other items of the same balances. On the other hand, it is well known that some movements of private capital from the region to foreign countries are not fully registered by the Latin American monetary authorities. Accordingly, it may well be that the negative errors and omissions in the region's balances of payments result precisely from these unregistered outflows of private capital.

In order to answer this question it is necessary first to investigate the possible sources of errors in the balances in question; secondly, to determine, on the basis of the results of this previous analysis, to what extent, if any, the changes in the figures entered under the item of errors and omissions correspond to variations in the unregistered outflow of Latin American capital; and thirdly, to verify as far as possible the conclusions drawn from this study with information from sources other than the region's balances of payments.

I. POSSIBLE SOURCES OF ERRORS AND OMISSIONS IN THE LATIN AMERICAN BALANCES OF PAYMENTS

The net errors and omissions must be attributed either to overestimation of fund inflows or to underestimation of fund outflows since they are generally measured by negative figures. But as such an overestimation or underestimation can be made on any of the many balance-of-payments items, the errors and omissions can have completely different meanings. In order to simplify the problem, a successive investigation should be made of the main possible sources of errors in the balance on current account and in the balance on capital account.

(a) *In the balance on current account*

The figures entered in the balance on current account are not quite accurate for many Latin American countries. On the one hand, data relative to merchandise transac-

tions, originating in trade statistics, customs returns and records of exchange transactions, have to be readjusted, according to IMF's instructions,¹⁴ before they are computed in the balance of payments, in order to eliminate discrepancies of valuation, timing and coverage. As a matter of fact these readjustments are not always easy to make. On the other hand, data on transactions regarding services and private donations are often inadequate.

Nevertheless the errors so committed in the balance on current account can generally be taken as relatively small. The monetary authorities in the Latin American countries and the IMF make every effort to correct the most flagrant inaccuracies relative to merchandise operations—e.g. by re-estimating the imports and exports registered in the trade statistics on a nominal value and by including estimates of contraband trade. Furthermore, the inadequacy of the figures relative to services and private donations is generally not very serious.

Accordingly the errors and omissions on current account may be deemed to have played only a minor role in the region during the post-war period except in a few countries. Among these countries, the case of Mexico is particularly interesting because of the special evolution of the errors and omissions in its balance of payments. These errors were almost constantly positive from 1946 to 1953, but from 1954 onwards they have amounted to relatively substantial negative figures. These negative figures have been sometimes attributed to the fact that transactions relative to border travel with the United States are inadequately registered because of an overestimation of the expenses the United States tourists in Mexico, or more probably because of an underestimation of the expenses of Mexicans visiting the United States. Nevertheless, this interpretation does not explain why the errors and omissions passed from positive to negative figures in 1954 since the method used to register border travel did not change substantially at the time. Furthermore, it hardly explains the recent sharp rise in the negative errors which increased from an annual average of 61.5 million dollars in 1956-60 to 248.8 million in 1961 and 267 million in 1962.¹⁵

¹⁴ See *Balance of Payments Manual*, op. cit., pp. 38-43.

¹⁵ According to a recent revision of the series including transactions under the head of travel, net errors and omissions were reduced considerably in 1958 and shifted to the positive side in 1959 and 1960. In 1961 and 1962, however, large sums were recorded on the minus side (154.3 and 94.2 million dollars respectively).

(b) *In the balance on capital account*

The major sources of errors and omissions are probably to be found in the balance on capital account.¹⁶ A brief review of the exact coverage of the capital transactions entered in the balances of payments of the Latin American countries should therefore be made. From a study of the explanatory notes appended to these balances,¹⁷ the following three observations may be offered:

(i) Coverage of the capital transactions of the monetary authorities and other official institutions (on the basis of the IMF definitions) may be regarded as relatively complete;

(ii) Coverage of the transactions of commercial banks, which was very inadequate until 1950, improved particularly since then, except in five out of the twenty Latin American countries;¹⁸

(iii) Coverage of transactions effected by private persons is manifestly inadequate, so that the problem of over-registration of inflows or under-registration of outflows is particularly apt to arise in connexion with transactions of this kind.

The data relevant to this problem differ considerably, however, according to whether *long-term* or *short-term* operations are under consideration.

Under IMF's system of definitions, *the long-term transactions of private persons* are, of course, classified under the liabilities or assets of the reporting countries — in the present instance the Latin American countries. All capital operations involving an increase or decrease in liabilities assumed for a term of more than one year by the private sector¹⁹ of the reporting country are grouped under the head of long-term liabilities. Operations which either augment or reduce the external claims of the private sector,²⁰ and which cover a term of more than one year, are classified under long-term assets. The former generally shows a surplus in favour of the region,

¹⁶ The International Monetary Fund attributes the errors and omissions registered in the balance of payments of Argentina, Costa Rica, Colombia, El Salvador, Panama and Venezuela to inadequate coverage of capital operations, particularly transactions effected by private persons (see explanatory notes in the International Monetary Fund, *Balance of Payments Yearbook*, various issues). Apparently the same is true of the errors and omissions in the other Latin American balances, although IMF gives no explanation in their case.

¹⁷ See *Balance of Payments Yearbooks*.

¹⁸ No data on the capital transactions of commercial banks are available for Brazil (1951-54), Paraguay (1951-55), Uruguay (1951-58), Ecuador (1951-60), and Argentina (1955-60).

¹⁹ The International Monetary Fund modified its definition of the private sector of the reporting countries — in this case the Latin American republics — in the third edition of its *Balance of Payments Manual* (1961), so that the composition of this sector is somewhat altered as from volume 13 of the *Balance of Payments Yearbook* (1956-60). Nevertheless, the operations classified under the head of private long-term liabilities remain substantially the same. They correspond essentially to new foreign investment (direct and portfolio) and to external loans contracted by private Latin American firms (and from 1960 onwards by public firms likewise) without government guarantees (and from 1960 onwards loans obtained with such guarantees as well).

²⁰ Operations classified under the head of private long-term assets mainly consist of new direct and portfolio investment — especially the latter — placed abroad by Latin American private persons.

for they correspond to the inflow of foreign capital invested in private industry. The latter, in contrast, show a deficit, since they represent new long-term extra-territorial investment effected by Latin American private persons.

Little is known, of course, about the variations in some private long-term *liabilities*, particularly the amount of new direct investment or of medium-term commercial loans granted by European banks to importers in the region. But the estimates adopted by IMF seem to be, more often than not, conservative, as will be shown later. In all likelihood, therefore, inflows deriving from increases in private long-term liabilities are not over-estimated — quite the reverse in fact.

Conversely, the outflows resulting from the expansion of *private long-term assets* were obviously only partly registered. According to the data entered in the balances compiled by IMF, they would seem to have amounted in the course of the post-war period (1946-60) to only 230.7 million dollars for the twenty countries in the aggregate, including 69.6 million dollars from Argentina²¹ and 66.8 million from Cuba (see table 75). This figure is very probably too low to be realistic. In the first place, the balances of payments of twelve countries (Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Haiti, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela) furnish no data on transactions of this type for the whole or part of the period. Secondly, the figures recorded in the balances of the other eight States (Argentina, Bolivia, Brazil, Cuba, El Salvador, Guatemala, Honduras and Mexico) are taken as a general rule from the statistics relating to foreign purchases of United States securities on stock exchanges in that country, published periodically in the *United States Treasury Bulletin*. But these statistics do not cover all transactions in securities effected by non-residents in the United States.²² Lastly, no data are available on purchases made in Western Europe, particularly Switzerland, by residents of Latin America.

Other errors are undoubtedly to be found at the level of *short-term transactions by private persons*. According to the IMF definitions, such transactions are those

²¹ This last figure, relatively high though it seems, in all likelihood falls short of the truth. The IMF, when compiling Argentina's balance of payments, assumed that imports without exchange coverage had been financed by means of a reduction of Argentine assets abroad, and that purchases of foreign exchange which had not been used to cover imports of goods and services had, conversely, gone to augment the assets in question. According to this method of calculation, Argentina's assets abroad would seem to have decreased between 1951 and 1955 by 307.5 million dollars and increased between 1956 and 1960 by 377.1 million dollars, so that in ten years net outflows apparently amounted to only 69.6 million dollars. But imports without exchange coverage may have partly represented the placing of new direct investment, especially during the later years of the period under review, and purchases of foreign exchange to finance outflows of capital were effected clandestinely before 1956, because at that time strict exchange controls were in force. Consequently, it is likely that the contraction of Argentina's holdings abroad was overestimated for the period 1951-55 and their expansion in 1955-60 underestimated, so that net outflows over the decade as a whole probably exceeded the figure entered in the cumulative balance of payments.

²² On this point, see *United States Treasury Bulletin*, June 1954, pp. 45-47.

Table 75. Latin America: net changes in private long-term assets ^a by country, 1946-62

(Millions of dollars)

Country	Aggregate totals by quinquennia					
	1946-50	1951-55	1956-60	1946-60	1961	1962 ^b
Argentina ^c	...	+307.5	-377.1	-69.6	+65.5	...
Bolivia	-0.8	-1.5	-0.2	-2.5	—	—
Brazil	-7.0	+3.0	-4.0	-8.0	-11.0	-1.0
Chile	...	...	...	...	...	...
Colombia	...	-1.5	-11.8	-13.3	-35.6	...
Costa Rica	...	...	...	...	...	...
Dominican Republic	...	-0.5	-2.1	-2.6	-1.9	—
Ecuador	...	+0.1	...	+0.1	...	...
El Salvador	-0.3	-14.4	-6.1	-20.8	+1.0	-0.2
Guatemala	...	+1.3	-3.2	-1.9	-0.5	-0.6
Haiti	...	...	...	...	...	...
Honduras	+1.2	-1.5	-2.6	-2.9	-0.1	-0.1
Mexico	-12.0	-6.9	-10.6	-29.5	+17.6	—
Nicaragua	...	...	+0.3	+0.3	—	—
Panama	+0.5	...	...	+0.5	...	...
Paraguay	...	-0.1	...	-0.1	—	—
Peru	...	...	...	...	...	...
Uruguay	...	...	...	...	...	...
<i>Subtotal I</i>	-18.4	+285.5	-417.4	-150.3	+35.0	-1.9
Venezuela	...	-4.5	-9.1	-13.6	-196.4	-169.8
<i>Subtotal II</i>	-18.4	+281.0	-426.5	-163.9	-161.4	-171.7
Cuba	-27.6	-18.1	-21.1 ^d	-66.8	...	...
TOTAL	-46.0	+262.9	-447.6	-230.7	...	...

SOURCE: ANNEX II.

^a A minus sign means an increase in private long-term assets, whereas a plus sign means a decrease.

^b Preliminary figures.

^c Data for Argentina are not comparable with those for other countries because they have been collected according to a specific method.

^d Covers the period 1956-59.

affecting the amount of the external liabilities and claims of the private sectors,²³ of the Latin American countries, when the term covered by these is less than one year.

The transactions in question actually belong to two different groups. The first, usually described as *trade transactions*, may be defined as the use and reimbursement of credits for the short-term financing of Latin America's foreign trade.²⁴ They are classified under the head of private short-term liabilities when they relate to advance payments for exports or to the use and reimbursement

of credits granted to Latin American importers by their suppliers. They are grouped with assets when they represent advance payments for imports or the movement of credits granted by Latin American exporters to their customers.

The transactions forming the second group are of a more varied nature. They generally imply a variation in assets, since they mainly represent fluctuations in the foreign exchange holdings of residents in Latin America (bank notes and Treasury bonds issued by foreign Governments, deposits in commercial banks abroad, etc.). Operations affecting short-term liabilities usually have to be entered to the account of commercial banks.²⁵

Coverage of all these operations is of course altogether inadequate in the Latin American balances of payments.

A good way of estimating the trade transactions of private persons would be to compare the aggregate amounts of importers' and exporters' external claims and liabilities from one year to the next. The monetary authorities of the Latin American countries are in actual fact hardly equipped to ascertain these successive amounts. The figures they transmit to IMF often cover only

²⁵ Foreign holdings in Latin American currencies are essentially bank deposits.

collections of claims by the central bank, and sometimes by commercial banks. In the case of Argentina, the monetary authorities estimated the movement of commercial credits indirectly, from 1955 onwards, by working out the differences between the export and import data registered in customs statistics and the figures measuring the transfers used to finance such operations on the exchange market. This method is really very unreliable, since the differences noted may result not only from a time lag in financial transfers but also from divergencies in evaluation or coverage.

There is still less certainty about the other type of transactions. The relevant data, entered in the balances of payments of the region, are generally taken from statistics published periodically in the *United States Treasury Bulletin* and relate to the short-term liabilities of commercial banks, brokers and other private persons in the United States vis-à-vis private persons domiciled in Latin America. But the aggregate totals and the evolution of the deposits placed by the same persons in European banks, and particularly in Switzerland, are unknown quantities.

There is some temptation to think, when the long-term evolution of movements of capital is studied, that under-registration of short-term transactions need not cause much concern, since it affects operations likely to be

compensated from one year to the next. But the available data show that such is not really the case. For example, movements registered under the head of liabilities showed an increasing cumulative surplus (rising from 71.0 million dollars in 1946-50 to 182.8 million dollars in 1951-55 and 374.6 million in 1956-60).²⁶ (See table 76.) Similarly, the movements registered under the head of assets show a considerable deficit over the period as a whole (695.8 million dollars in 1946-60 of which 518.3 million in 1951-60). This is probably due to the gradual increase in Latin American private deposits in foreign banks.

In these circumstances, the fact that short-term operations are only partly covered was naturally bound to result in underestimation of cumulative net inflows on the liabilities side and of *cumulative net outflows on the assets side*.

Thus the foregoing considerations bring to light the facts set forth below:

The *negative* errors and omissions registered in most of the region's balances of payments are more probably to be found in capital rather than current operations;

²⁶ Argentina, where private short-term transactions were computed by a special method, is excluded from the regional total. (See table 77.)

Table 76. Latin America: net changes in private short-term liabilities ^a by country, 1946-62
(Millions of dollars)

Country	Aggregate totals by quinquennia				
	1946-50	1951-55	1956-60	1961	1962 ^b
Argentina ^c	...	+13.3	-496.4	—	-337.2
Bolivia	+2.8	+1.7	+2.5	+0.1	...
Brazil	—	-41.0	+135.0	-30.0	-24.0
Chile	-3.5	+6.3	-0.2	—	...
Colombia	+12.6	+34.5	-10.2	+43.4	-15.3
Costa Rica	+7.0	-1.9	+5.9	-3.7	+2.3
Dominican Republic	+3.6	+0.9	+5.7	+9.8	+14.9
Ecuador ^d	...	...	...	...	...
El Salvador	+1.7	-2.3	+10.5	+5.3	+1.4
Guatemala	+0.3	+4.9	+4.2	+5.0	+3.5
Haiti ^d	...	...	...	...	...
Honduras	...	+1.4	-0.4	+0.1	—
Mexico	+6.3	+20.1	+100.3	+17.7	+28.9
Nicaragua	+0.2	+5.5	+8.1	+3.5	+3.4
Panama ^d	...	...	...	...	...
Paraguay	...	+16.7	-2.6	+2.2	+2.0
Peru	+25.7	+35.8	+29.7	+22.7	+33.9
Uruguay	...	+11.3	+32.1	-3.6	...
<i>Subtotal I</i>	+56.7	+107.2	-175.8	+72.5	-238.2
Venezuela	+12.0	+63.6	+61.9	-18.0	-48.7
<i>Subtotal II</i>	+68.7	+170.8	-113.9	+54.5	-286.9
Cuba	+2.3	+ 25.3	-7.9 ^e	...	...
TOTAL	+71.0	+196.1	-121.8	...	...

SOURCE: Annex II.

^a A minus sign means an increase in private short-term liabilities, whereas a plus sign means a decrease.

^b Preliminary figures.

^c Data for Argentina are not comparable with those for other countries, because they have been collected according to a specific method.

^d Included in net changes in private short-term assets.

^e Covers the period 1956-59.

They are apparently due not so much to overestimation of inflows as to underestimation of outflows of capital;

The most significant of the unregistered outflows correspond to new short-term or long-term investment abroad effected by private persons resident in Latin America. (See table 77.)

2. THE OUTFLOW OF LATIN AMERICAN PRIVATE CAPITAL ESTIMATED ON THE BASIS OF NET ERRORS AND OMISSIONS IN THE REGION'S BALANCES OF PAYMENTS

The figures entered under the item of net errors and omissions in the region's balances of payments undoubtedly reflect the existence of unregistered movements of domestic and mainly private capital between Latin America and the rest of the world.

However, there are two main reasons why it cannot be assumed that the amounts involved in these unrecorded capital movements are exactly equal to the figures for errors and omissions.

First, because these figures represent only the final balance of overestimations and underestimations which may have affected not only the transactions on domestic

capital but also by many other items of the balance of payments on current as well as on capital account.

Secondly, because some unrecorded movements of domestic funds may not even be reflected in the residual item of errors and omissions in the balance of payments. On the one hand residents who export capital outside the region often do not want the monetary authorities of the countries where they reside to obtain information about these movements of funds, because such movements are submitted to certain legal restrictions or for other reasons. In such cases the capital outflow is not only unregistered but also voluntarily concealed, taking the form, for instance, of non-repatriation of export proceeds, over-remittance for imports, or purchases of foreign exchange outside official markets, from foreign tourists and others. Depending on the methods used for compiling the balance of payments, transactions of this sort may not affect the errors and omissions. As it has been noted by the IMF "non-repatriation of export proceeds may coincide with underdeclaration, and over-remittance for imports with overdeclaration, of their value in the statistics; and the sales of foreign exchange outside official markets may not be allowed for in estimates of

Table 77. Latin America: net changes in private short-term assets ^a by country, 1946-62

Country	Aggregate totals by quinquennia				
	1946-50	1951-55	1956-60	1961	1962 ^b
Argentina ^c	...	-24.8	+494.9	+60.0	...
Bolivia	-4.2	-3.3	+0.7	-1.4	-0.1
Brazil	+1.4 ^d	-43.0	-54.0	+3.0	...
Chile	+2.1	-5.7	...	+23.8	-59.9
Colombia	-4.4	-33.0	-25.7	+7.1	...
Costa Rica	+1.9	+1.0	-4.1	-0.3	...
Dominican Republic	+5.6	-14.0	-0.2	+7.3	...
Ecuador ^e	-0.4	-13.2	-7.6	-12.0	+5.0
El Salvador	-9.5	-6.7	-4.1	-2.7	-1.1
Guatemala	-8.5	-11.2	-0.3	-1.0	...
Haiti ^e	-1.0 ^f	-12.1	-37.5	-7.5	-6.8
Honduras	+2.7 ^f	+1.3	-4.4	-0.3	—
Mexico	-46.4	-36.6	-17.2	-25.6	-21.9
Nicaragua	-2.5	+2.5	+1.3	-6.3	+3.7
Panama ^e	-0.2	-1.3	-3.8	-0.4	+4.2
Paraguay	...	-3.2	-1.7	—	—
Peru	+2.0	-42.3	+29.9	-8.6	-21.2
Uruguay	...	+0.8	+16.3	+1.6	...
<i>Subtotal I</i>	-61.4	-244.8	+382.5	+42.1	-98.1
Venezuela	-60.2	-23.9	-113.2	-45.8	-0.6
<i>Subtotal II</i>	-121.6	-268.7	+269.3	-3.7	-98.7
Cuba	-177.5 ^g	-20.2	-28.6 ^h	...	...
TOTAL	-299.1	-288.9	+240.7	...	...

SOURCE: Annex II.

^a A minus sign means an increase in private short-term assets, whereas a plus sign means a decrease.

^b Preliminary figures.

^c Data for Argentina are not comparable with those for other countries, because they have been collected according to a specific method.

^d Covers the period 1947-50.

^e Includes net changes in private short-term liabilities.

^f Covers the year 1950.

^g Includes estimates of purchases of dollars by the public less travel expenditure. From 1951 onward these purchases have been included in net errors and omissions.

^h Covers the period 1956-59.

receipts from tourism and other transactions".²⁸ On the other hand, return flows, as far as they occurred, have to be concealed as carefully as the original flows. They can take the form of over-repatriation of export proceeds, under-remittance for imports, or sales of foreign exchange outside official markets. In these cases they may not affect the errors and omissions, especially if the over-repatriation of export proceeds correspond to over-declaration, and under remittance for imports to under-declaration, of their values in the statistics, and if the foreign exchange transactions outside official markets are not estimated.

Nevertheless, in spite of the unavoidable discrepancies between the figures for net errors and omissions and the actual amounts of the unregistered movements of domestic funds, it can be assumed that those figures give a rough indication of the direction of these movements.

Table 78, compiled according to the previous considerations, reproduces three series of figures relative to the Latin American countries for the periods 1946-50, 1951-55, and 1956-60, and for 1961 and 1962, namely: (a) net changes in long-term private assets as reported in the region's balances of payments; (b) net changes in short-term private assets as registered in the same balances; (c) net errors and omissions after some readjustments which have resulted in a reduction in the net debit under this heading for the whole of Latin America of about 1,000 million dollars for the post-war period.²⁹

The total figures obtained by adding the three previous series give a rough idea of the amount, and above all, of the changes in the level of the movements of domestic private funds, both registered and unregistered, in the region's balances of payments, provided that figures for net errors and omissions after readjustment reflect concealed movements of domestic private capital. However, even in this hypothesis, the total figures may cover capital movements other than those financed by domestic private funds. On the one hand, since 1956 the data covering changes in private assets include changes in assets of public enterprises which have been previously classified in the official sector;³⁰ furthermore, they may include changes in assets of subsidiaries and branches of direct investment enterprises, excluding intercompany capital transactions, i.e., movements financed by foreign rather than domestic funds. On the other hand, net errors and omissions cover not only unregistered movements of domestic private funds but in some cases also similar movements of domestic official and foreign private funds (capital transactions of direct investments enterprises).

²⁸ IMF, *Flow of Private Capital from Developing to Developed Countries* (DM/63/67), 31 December 1963.

²⁹ See foot-note to table 78. The series for short and long-term assets have also been readjusted as explained in foot-notes b and c to the same table.

³⁰ According to a change of definition in the third edition of the IMF *Balance of Payments Manual* (1961) public enterprises previously classified in the official sector have been considered as part of the private sector since volume 13 of the *Balance of Payments Yearbook* (1956-60). In order to get a homogeneous series, data concerning these entries have been reclassified in the official sector in the present study as far as long-term liabilities are concerned. But the same readjustment has been impossible for changes in assets.

Bearing these reservations in mind, the three following observations are based on an analysis of the total figures entered in table 78.

First, the net outflow of private domestic capital from Latin America,³¹ registered or unregistered, can be roughly estimated at an aggregate total of about 5,000 million dollars since 1946, of which 3,000 million was sent out in the decade 1951-60, and more than 1,000 million in 1961 and 1962. It has represented approximately 30 per cent of the total inflow of all forms of foreign capital into the region for the post-war period (1946-62).

Secondly, the net outflow of domestic private capital from the region has increased substantially since the middle of the decade 1951-60. This outflow, which can be estimated at about \$800 million for each of the five-year periods 1946-50 and 1951-55, rose to almost \$2,000 million in 1956-60. This upward movement apparently was accelerated during the last years. Taking Latin America as a whole (except Cuba, for which data have not been available since 1959) it will be noted that the annual outward movement of private domestic funds, which had been about \$370 million for the period 1956-60, reached more than \$600 million in 1961 and a figure at least equal to that of 1961 and probably higher in 1962.³²

Thirdly, the geographical origin of the domestic private funds exported by Latin America has substantially changed during the post-war period. As a matter of fact six countries only (Ecuador, El Salvador, Guatemala, Haiti, Venezuela, and Cuba until 1959) can be considered as perennial exporters of domestic capital. Two other countries (Costa Rica and Panama) have apparently repatriated domestic funds from abroad without interruption, but the positive figures corresponding to these two countries in table 78 are due to constant credit entries under the item of net errors and omissions which did not correspond to the return flow of domestic funds but to other factors (for example an overestimation of the outflow of private donations in the case of Panama, and an underestimation of short-term foreign capital inflows in the case of Costa Rica).³³ Finally, the thirteen other countries have exported domestic capital for some periods and received return flows the rest of the time.

³¹ The figures obtained by adding the data on changes in short- and long-term private assets and net errors and omissions do not merely cover the flow of private domestic capital from Latin America to foreign countries, but may also include flows of domestic capital between the Latin American republics. To eliminate such inter-Latin American flows of domestic capital, the changes in assets in the capital exporting countries would have to be balanced by corresponding changes in liabilities in the recipient countries. The debit entries under the heading of net errors and omissions in the first countries must be checked in order to see that they have been actually offset by credit entries in the net errors and omissions of the second countries. These readjustments are unfortunately impossible on the basis of the available data. Nevertheless, it can be assumed that the inter-Latin American flows of domestic capital have been relatively small during the post-war period.

³² The figure entered in table 78 for 1962 (808.3 million dollars) must be taken as very approximative, since it has been calculated on the basis of very preliminary data excluding Argentina (see foot-note e to table 78).

³³ See foot-notes to tables relative to these two countries in IMF, *Balance of Payments Yearbook*, various issues.

Table 78. Latin America: reported private capital movements from Latin American countries and net errors and omissions in their balances of payments,^a 1946-62
(Millions of dollars)

Country	Aggregate totals by quinquennia																			
	1946-50				1951-55				1956-60				1961				1962 ^e			
	Private long-term assets ^b	Private short-term assets ^c	Net errors and omissions ^d	Total	Private long-term assets ^b	Private short-term assets ^c	Net errors and omissions ^d	Total	Private long-term assets ^b	Private short-term assets ^c	Net errors and omissions ^d	Total	Private long-term assets	Private short-term assets ^c	Net errors and omissions ^d	Total	Private long-term assets	Private short-term assets	Net errors and omissions	Total
Argentina . . . . .	...	...	-31.6	-31.6	+32.3 ^b	ε	+16.0 ^d	+48.3	-479.6 ^b	ε	+273.0 ^d	-206.6	+65.5	ε	+49.0 ^d	+114.5	ε	ε	ε	ε
Bolivia	-0.8 ^f	-4.2	+18.4	+13.4	-1.5	-3.3	-4.8	-0.2	+0.7	-57.8	-57.3	-	-1.4	-2.0	-3.4	-	-	-0.1	-14.8	-14.9
Brazil	-7.0	+1.4	-222.1	-227.7	+3.0	-43.0	+112.0	+72.0	-4.0	-54.0	-351.0	-409.0	-11.0	+3.0	+2.0	-6.0	-1.0	...	-68.0	-69.0
Chile . . . . .	...	+2.1	+26.5	+28.5	...	-5.7	-24.9	-30.6	...	...	+15.5	+15.5	...	+23.8	-47.1	-23.3	...	-59.9	-71.4	-131.3
Colombia . . . . .	...	-4.4	+34.7	+30.3	-1.5	-33.0	-111.3	-145.8	-11.8	-25.7	-313.1	-350.6	-35.6	+7.1	-9.2	-37.7	...	...	-2.2	-2.2
Costa Rica . . . . .	...	+1.9	+7.9	+9.8	...	+1.0	+9.6	+10.6	...	-4.1	+24.7	+20.6	...	-0.3	-1.9	-2.2	...	...	+5.6	+5.6
Dominican Republic . . . . .	...	+5.6	-33.7	-28.1	-0.5	-14.0	+13.3	-1.2	-2.1	-0.2	-101.2	-103.5	-1.9	+7.3	-41.6	-36.2	-	...	-30.8	-30.8
Ecuador . . . . .	...	-0.4 ^g	-6.9	-7.3	+0.1	-13.2 ^g	-18.7	-31.8	...	-7.6 ^g	+2.7	-4.9	...	-12.0 ^g	-3.3	-15.3	...	+5.0 ^g	+2.2	+7.2
El Salvador	-0.3	-9.5	-14.6	-24.4	-14.4	-6.7	-23.0	-44.1	-6.1	-4.1	-18.5	-28.7	+1.0	+2.7	-17.8	-14.1	-0.2	-1.1	-3.9	-5.2
Guatemala . . . . .	...	-8.5	-14.3	-22.8	+1.3	-11.2	-6.3	-16.2	-3.2	-0.3	-19.0	-22.5	-0.5	-1.0	-2.9	-4.4	-0.6	...	+0.6	-
Haiti . . . . .	...	-1.0 ^g	-	-1.0	...	-12.1 ^g	-9.9	-22.0	...	-37.5	-16.6	-54.1	...	-7.5 ^g	-2.7	-10.2	...	-6.8 ^g	-0.1	-6.9
Honduras	+1.2	+2.7 ^b	+0.3	+4.2	-1.5	+1.3	-12.4	-12.6	-2.6	-4.4	+15.4	+8.4	-0.1	-0.3	-1.2	-1.6	-0.1	-	+1.9	+1.8
Mexico	-12.0	-46.4	+102.5	+44.1	-6.9	-36.6	-162.9	-206.4	-10.6	-17.2	-307.5	-335.3	+17.6	+25.6	-248.8	-256.8	-	-21.9	-267.0	-288.9
Nicaragua . . . . .	...	-2.5	+5.9	+3.4	...	+2.5	-9.9	-7.4	+0.3	+1.3	-11.4	-9.8	-	-6.3	-1.2	-7.5	-	+3.7	-2.2	+1.5
Panama	+0.5	-0.2 ^g	+10.5	+10.8	...	-1.3 ^g	+68.8	+67.5	...	-3.8 ^g	+35.8	+32.0	...	-0.4 ^g	+16.9	+16.5	...	+4.2 ^g	+11.1	+15.3
Paraguay . . . . .	...	...	+4.9	+4.9	-0.1	-3.2	-8.9	-12.2	...	-1.7	+3.6	+1.9	-	-	-0.9	-0.9	-	-	-6.1	-6.1
Peru . . . . .	...	+2.0	+1.6	+3.6	...	+42.3	-1.5	-43.8	...	+29.9	-30.6	-0.7	...	-8.6	+4.0	-4.6	...	-21.2	-3.5	-24.7
Uruguay . . . . .	...	...	-0.8	-0.8	...	+0.8	-16.3	-15.5	...	+16.3	+56.3	+72.6	...	+1.6	-36.1	-34.5	...	...	-29.2	-29.2
Subtotal I	-18.4	-61.4	-110.9	-190.7	+10.3	-220.0	-186.3	-396.0	-519.9	-112.4	-799.7	-1,432.0	+35.0	-17.9	-344.8	-327.7	-1.9	-98.1	-477.8	-577.8
Venezuela . . . . .	...	-60.2	-321.8	-382.0	-4.5	-23.9	-269.2	-297.6	-9.1	-113.2	-320.0 ^d	-442.3	-196.4	-45.8	-56.4	-298.6	-169.8	-0.6	-60.1	-230.5
Subtotal II	-18.4	-121.6	-432.7	-572.7	-5.8	-243.9	-455.5	-693.6	-529.0	-225.6	-1,119.7	-1,874.3	-161.4	-63.7	-401.2	-626.3	-171.7	-98.7	-537.9	-808.3
Cuba	-27.6	177.5 ⁱ	-39.0	-244.1	-18.1	-20.2	-6.0	-44.3	-21.1 ^j	-28.6 ^j	-218.3 ^j	-268.0 ^j	...	...	...	...	...	...	...	...
TOTAL	-46.0	-299.1	-471.7	-816.8	-12.3	-264.1	-461.5	-737.9	-550.1 ^k	-254.2 ^k	-1,338.0 ^k	-2,142.3 ^k	...	...	...	...	...	...	...	...

SOURCE: Annex II.

^a In the entries for short and long-term assets, a minus sign indicates an outflow of capital from Latin American countries and a plus sign a return flow to these countries. In the entries for net errors and omissions a minus sign indicates an excess of recorded credits over debits in the balance of payments as a whole, suggesting an unrecorded outflow of capital from the Latin American countries, while a plus sign indicates an excess of recorded debits over credits, suggesting an unrecorded inflow of capital into the Latin American countries.

^b This series differs from the series entered in table 75 because of a readjustment of the data relative to Argentina for 1951-55 and 1956-60. In the balance of payments of this country, it has been assumed that imports without official exchange coverage had been financed by means of a reduction of Argentine private long-term assets abroad so that they have been balanced by credit entries under the head of private long-term assets (credits of 131.9 million dollars in 1951; 59.2 million in 1952; 37.6 million in 1953; 24.3 million in 1954; 22.2 million in 1955; 9.0 million in 1956; and 93.5 million in 1960). But these imports without official exchange coverage have been in fact more often financed by an increase in private long-term liabilities than by a reduction in private long-term assets. Accordingly, in the present table credit entries corresponding to these transactions have been excluded from the series registered under the head of private long-term assets.

^c This series differs from the series entered in table 77 because of a readjustment of the data relative to Argentina for 1951-55, 1956-60 and 1961. In the balance of payments of this country changes in the private short-term assets have been calculated, from 1955 onward, by working out the difference between the export values registered in customs statistics and the payments actually received by Argentinian exporters, according to records of exchange transactions, so that they cannot be compared to changes in private short-term assets of other Latin American countries which have been estimated according to a different method. The figures covering changes in Argentinian private short-term assets — and also the figures covering changes in Argentinian private short-term liabilities estimated according to a method similar to that used for private short-term assets — have consequently been included in net errors and omissions.

^d This series differs from the series entered in table 68 because of readjustments of the data relative to Argentina and Venezuela for 1951-55, 1956-60 and 1961. On the one hand, certain adjustments have been made in order not to distort the time series for errors and omissions in two cases where large repayments on foreign credits were reported, although the original receipt of these credits had not been reported. When the receipt of the credits was entered retroactively and then somewhat arbitrarily attributed to a particular year, this resulted in excessively large debit errors and omissions for that year. In calculating errors and omissions in the present table, the receipt of these credits (of 244.8 million dollars in 1956 for Argentina, and of 256.0 million dollars in 1956, 498.0 million in 1957 and 75.0 million in 1958 for Venezuela) has, therefore, been omitted and this has resulted in a reduction in the net debit for errors and omissions for the Latin American area by about 1,000 million dollars for the period 1956-60. On the other hand, the figures covering the changes in Argentina's private short-term assets and liabilities from 1955 onward have been included in net errors and omissions for this country.

^e Preliminary figures. The first available data for Argentina, which were very approximate, have been excluded from the three series for 1962.

^f Covers the period 1947-50 only.

^g Includes net changes in private short-term liabilities.

^h Covers the year 1950 only.

ⁱ Includes estimates of dollars purchased by the public less travel expenditure. From 1951 onward these purchases have been included in net errors and omissions.

^j Covers the period 1956-59 only.

^k These totals are not entirely comparable with corresponding totals for previous periods because the data relative to Cuba for 1960 are not available.

During the first five years of the post-war period (1946-50), Latin American private persons had a tendency to repatriate funds that they held abroad. Such was probably the case of the exporters, who had accumulated credit balances in the banking systems of other countries, especially the United States. Accordingly, net return flows of domestic capital occurred in eight countries (Bolivia, Chile, Colombia, Honduras, Mexico, Nicaragua, Paraguay and Peru), in addition to Costa Rica and Panama, which constitute a specific case as explained above. Nevertheless, ten other countries have been net exporters of domestic funds, three of which (Brazil, Venezuela and Cuba) have recorded relatively substantial amounts. As has been noted above, for the whole region the outflows of domestic funds were finally higher than the return flows by some 800 million dollars.

During the period 1951-55 the number of domestic capital-exporting countries rose to fifteen but the net outflows were relatively substantial in only three countries (Colombia, Mexico and Venezuela).³⁴ On the other hand, there were net return flows into three countries (Argentina, Brazil and the Dominican Republic), in addition to Costa Rica and Panama. Accordingly, the net outflow for the whole region was the same as for the period 1946-50.

During the period 1956-60 fourteen countries were net exporters of domestic funds, and seven of them recorded substantial capital outflows (Argentina, Brazil, Colombia, Mexico, Venezuela, and Cuba until 1959, with the Dominican Republic whose amount for capital flight was considerable in relation to its size). On the other hand, the net return flows noted in four countries (Chile at the end of the period, Honduras, Paraguay and Uruguay) in addition to Costa Rica and Panama, were generally small so that the total capital outflow from the region was almost 2,000 million dollars.

For the last two years almost every Latin American country has exported domestic private funds in increasing amounts. In 1961 only one republic (Argentina) in addition to Panama, received a net return flow so that the number of net domestic capital exporting countries rose to seventeen out of a total of nineteen.³⁵ Furthermore, in most of these seventeen countries the net outflows grew in relation to the average figures registered during the five previous years. In 1962 the situation did not change substantially, according to the first preliminary data available for that year.

To summarize, the tendency towards an acceleration of the flight of domestic and mainly private capital since 1955 was a general phenomenon which has affected almost every Latin American country.

Many factors have constituted powerful inducements to capital flight from the region during the last few decades as, for example, a relatively low capacity to absorb capital in many Latin American countries, the asymmetry of exchange controls whose purpose was to control goods transactions more than capital movements, a certain climate of social unrest and political uncertainty,

and, more recently, the fear of unduly drastic structural reforms, etc.

Among these factors of capital outflow, emphasis is generally placed on monetary instability. Obviously a sharp decline of the internal and external purchasing power of money may act as a powerful incentive to local capitalists to export funds abroad. As a matter of fact, there were substantial outflows of domestic funds from countries which have been greatly affected by monetary inflation and worsening exchange rates during part of the entire post-war period, as for example Argentina, Brazil, Chile and Colombia. Nevertheless, it must be noted that sometimes large amounts of capital outflow occurred in countries when the monetary situation was relatively stable. Such was the case, for example, in Venezuela during the entire post-war period, in some Central American republics (El Salvador, Guatemala and Nicaragua), the Dominican Republic and Haiti for the period 1956-60, and Mexico for the last two years.

Another reason for the outward movements of domestic capital may lie in the existence of groups of foreigners, who are stable but not permanent residents in the region and are naturally tempted to export part of their savings to their own countries. This factor probably played an important role in Venezuela and some Central American countries where direct investment enterprises employed large numbers of foreigners at high managerial levels. In fact these foreigners, who received substantial incomes, transferred important amounts of savings to their home countries.

3. OTHER SOURCES OF INFORMATION ON THE OUTFLOW OF LATIN AMERICAN PRIVATE CAPITAL

The previous estimates are hypothetical to some extent, so that they should be tested against data supplied by the countries which received private capital from Latin America. Such a comparison is actually very difficult to make. The European countries do not publish information on the geographical source of private capital inflows from abroad, so that the only sources of data are United States statistics, as published periodically by the Treasury. Unfortunately there is reason to believe that these series are incomplete.

A first statistical series, established by the Treasury, covers net purchases of United States and foreign securities by foreigners in the United States, with a breakdown by purchasing areas and countries. The use of this series in order to determine the inflow of Latin American long-term private capital from the region to the United States is in fact difficult. First, net purchases of foreign securities in the United States by Latin American residents cannot be taken into consideration, because they apparently involved Latin American securities previously sold in the United States so that they relate to return flows of United States capital rather than to inflows of Latin American capital in the United States. Secondly, a breakdown of net purchases of United States securities by Latin American residents according to the sectors to which these residents belong is not available. Nevertheless, there is reason to believe that the purchases of United States Government securities have been effected largely

³⁴ For this last republic the exact meaning of the debit entries under the heading of net errors and omissions is open to challenge.

³⁵ Data for Cuba have not been available since 1959.

by the Latin American monetary sectors, while United States corporate securities were mainly bought and sold by the Latin American non-monetary private sector. Thirdly, net purchases of United States corporate securities in the United States by Latin American residents are not recorded in United States statistics if effected through a nominee in the United States, or under a nominal United States address. Fourthly, it cannot be said that net purchases of corporate United States securities by Latin American residents result in a flow of long-term capital from the region to the United States, or that net sales of these securities represent a return flow from the United States to Latin America. As a matter of fact, the funds used in net purchases of United States securities by Latin American residents can originate not only in the region but also in short-term deposits previously made in the United States or in third countries. Conversely, the funds available from net sales of United States securities by Latin American residents are not necessarily repatriated to the region but can be deposited in short-term accounts in United States banks or transferred to third countries.

A second series of the United States Treasury covers United States banks' outstanding short-term liabilities to Latin American residents, i.e., the outstanding amount of short-term assets of Latin American residents in the United States banking system. This series, unlike that which covers purchases and sales of securities, permits a breakdown between the Latin American monetary and official sector on the one hand, and the non-monetary private sector on the other. Nevertheless, it presents some weaknesses, which have been noted by the IMF:

"First, although the inflow of short-term funds is perfectly legal in the United States, holders of such funds from developing countries may nevertheless wish to conceal them by holding them through a nominee in the United States or under a nominal address there. In this case the funds will not be recorded in US statistics as foreign held. Secondly, some of the funds that move out of developing countries undoubtedly belong to persons that at some stage emigrate from their home countries. Funds held in the United States by such persons will be attributed in United States statistics to the country to which the holder emigrated rather than to his original home country. Thus, if the holder has emigrated to the United States, his assets in that country will not be recorded as foreign-held. Thirdly, United States statistics can be used to derive changes in the amounts of short-term funds held in the United States by residents of individual countries, but not actual inward and outward movements by country of origin and destination. If funds recorded as brought to the United States by residents of developing countries are subsequently moved to other developed countries, this would be reflected in United States statistics as a return flow of the funds to the developing countries."³⁶

Finally, the Treasury also publishes statistics covering the outstanding amounts of short-term liabilities of United States non-financial concerns and brokers to

Latin American residents, i.e., the outstanding amounts of assets held by Latin American residents in these two United States sectors. A breakdown of these figures between the Latin American non-monetary private sector and the other Latin American sectors is not available. But there is reason to believe that the most important part of the claims against United States non-financial concerns and brokers are actually held by Latin American private persons.

The analysis of the figures, coming from these various Treasury statistics and compiled in table 79, leads to some interesting conclusions, bearing in mind the reservations already made.

First, the transactions in United States corporate securities carried out in the United States by Latin American residents have shown a constant credit balance in favour of the United States. This balance, while remaining at a modest level, followed an upward trend over the long term, the annual average rising from 20 million dollars in 1951-55 to 32 million in 1956-60. This movement has continued in 1961 since net purchases of United States corporate securities reached 35 million dollars in this year. It was interrupted in 1962 when sales of the same securities exceeded purchases by 20 million dollars. In 1963 net purchases of United States corporate bonds and shares amounted to only 10 million dollars.

Secondly, the net changes in the outstanding short-term liabilities of United States non-financial concerns and brokers to Latin American residents, who are believed to have generally belonged to the non-monetary private sector, have been negligible.

Thirdly, the short-term liabilities of the United States banking system to the Latin American non-monetary private sector have followed an upward trend since the beginning of the fifties, climbing from 504 million dollars at the end of 1950 to 756 million at the end of 1955, 1,047 million at the end of 1960 and 1,533 million at the end of 1963. In other words, they tripled in thirteen years (see tables 79 and 80). Their increase in absolute value, calculated on the basis of the previous outstanding figures, agreed closely, for the period 1951-61, with the total outward movements of funds reported in the Latin American balances of payments under the item of net changes in private short-term assets (596 million dollars as against 582 million). But the two series are really not independent, since the region's monetary authorities generally make use of the United States statistics on short-term foreign liabilities in compiling data on private short-term capital movements for their balances of payments.

The inflow of Latin American short-term private funds into the United States, so calculated on the basis of the United States statistics, has apparently suffered sharp fluctuations in recent years. It declined from 1958 to 1961, but this decline reflected a change in the direction of the capital flows following the introduction of non-resident convertibility of a number of European currencies at the end of 1958, rather than a real slowing down of capital flight from the region. Furthermore, the inflow of Latin American funds into the United States increased again in 1962 and above all in 1963, when it reached a record

³⁶ *Flow of Private Capital from Developing to Developed Countries*, op. cit.

Table 79. United States: net changes in short and long-term liabilities to the Latin American non-monetary private sector as reported in the United States Treasury Bulletin,^a 1946-63

(Millions of dollars)

Year	Net changes in United States liabilities to the Latin American non-monetary private sector				Net purchases of United States corporate securities by Latin American residents ^e	Total (4+5)
	Banking liabilities ^b	Liabilities of non-financial concerns ^c	Brokers' liabilities ^d	Total (1+2+3)		
	(1)	(2)	(3)	(4)	(5)	(6)
1946 . . . . .	...	...	...	...	+6.0	...
1947 . . . . .	...	+24.0	...	...	-3.0	...
1948 . . . . .	...	-2.0	...	...	+10.0	...
1949 . . . . .	...	-15.0	...	...	+3.0	...
1950 . . . . .	...	+16.0	...	...	-10.0	...
1951	-2.0	+32.0	-3.1	+26.9	+16.0	+42.9
1952	+84.0	+17.0	+0.1	+101.1	+9.0	+110.1
1953	+75.0	-30.0	-3.4	+41.6	+18.0	+59.6
1954	+62.0	+22.0	-0.9	+83.1	+30.0	+113.1
1955	+33.0	+4.0	+0.2	+37.2	+27.0	+64.2
1956	+71.0	+3.0	-0.9	+73.1	+38.0	+111.1
1957	+81.0	+17.0	+0.5	+98.5	+23.0	+121.5
1958	+164.0	-15.0	+6.5	+155.5	+23.0	+178.5
1959	-51.0	-8.0	-7.3	-66.3	+40.0	-26.3
1960	+26.0	-4.0 ^f	-2.0	+20.0	+36.0	+56.0
TOTAL						
1946-50 . . . . .	...	+23.0	...	...	+6.0	...
1951-55	+252.0	+45.0	-7.1	+289.9	+100.0	+389.9
1956-60	+291.0	-7.0	-3.2	+280.8	+160.0	+440.8
1961	+53.0	+27.0 ^f	-2.1	+77.9	+35.0	+112.9
1962	+85.0	+28.0 ^f	+0.9	+113.9	-22.0	+91.9
1963	+348.0	-4.5 ^{f g}	-0.4	+343.1	+10.0 ^h	+353.1

SOURCES: Board of Governors of the Federal Reserve System, *Supplement to Banking and Monetary Statistics*, section 15, Washington, March 1962, and *Treasury Bulletin*, various issues 1962, 1963 and 1964.

^a A plus sign indicates an inflow of Latin American capital into the United States. Conversely a minus sign indicates an outflow of Latin American capital from the United States.

^b This item covers net changes in short-term liabilities to the Latin American non-monetary private sector as reported by United States banks to the United States Treasury. It includes changes in banking liabilities to branches and subsidiaries of United States firms in Latin America, with the exception of the intercompany capital transactions of business enterprises in the United States with their own branches and subsidiaries in Latin America.

^c This item covers net changes in short-term liabilities to Latin American residents as reported by non-financial concerns to the United States Treasury, excluding intercompany capital transactions. It may include changes in non-financial concerns' short-term liabilities to the non-monetary official sector and to monetary sectors, but these changes can be taken as negligible over the period under consideration.

^d This item covers net changes in short-term liabilities to Latin American residents as reported by United States brokers to the United States Treasury. It may include net changes in brokers' short-term liabilities to the non-monetary official

sector and to monetary sectors, but these changes can be taken as negligible over the period under consideration.

^e This item covers net purchases of United States corporate securities (bonds and shares) by Latin American residents, excluding transactions carried out entirely abroad. It includes not only net purchases by the Latin American non-monetary private sector but also net purchases by other Latin American sectors. Nevertheless, it can be assumed that purchases made by these last sectors were negligible as far as corporate United States securities are concerned. Net purchases of government bonds and notes by Latin American residents have been excluded from the present table because they have apparently been carried out to a great extent by Latin American monetary sectors. Furthermore, net purchases of foreign securities in the United States by Latin American residents have also been excluded from the present statistics because these transactions have generally dealt with Latin American securities previously sold in the United States and therefore do not correspond to an inflow of Latin American capital into the United States but rather to a return flow of United States capital.

^f Under a continuing programme instituted at the end of 1960 to enlarge coverage and to improve reporting by non-financial concerns, data are included from a number of firms reporting for the first time as of 31 December 1960, 31 December 1961, 31 December 1962 and 31 March 1963.

^g Covers the first three quarters of 1963 only.

^h Preliminary figure.

Table 80. United States: short-term banking liabilities to the Latin American non-monetary private sector, 1950-63^a
(Millions of dollars)

Country	Position outstanding at year end						Net change ^b				
	1950	1955	1960	1961	1962	1963	1951-55	1956-60	1961	1962	1963
Argentina	37	37	70	69	108	155	—	+33	-1	+39	+47
Bolivia	12	16	15	17	18	c	+4	-1	+2	+1	c
Brazil	40	78	129	132	89	84	+38	+51	+3	-43	-5
Chile	34	47	47	51	83	98	+13	—	+4	+32	+15
Colombia	20	47	72	71	87	105	+27	+25	-1	+16	+18
Costa Rica	c	c	c	c	c	c	c	c	c	c	c
Dominican Republic . .	17	28	23	16	18	c	+11	-5	-7	+2	c
Ecuador	c	c	c	c	c	c	c	c	c	c	c
El Salvador	7	15	19	16	15	c	+8	+4	-3	-1	c
Guatemala	14	15	17	18	15	c	+1	+2	+1	-3	c
Haiti	c	c	c	c	c	c	c	c	c	c	c
Honduras	c	c	c	c	c	c	c	c	c	c	c
Mexico	80	116	132	174	197	234	+36	+16	+42	+23	+37
Nicaragua	c	c	c	c	c	c	c	c	c	c	c
Panama	43	64	103	74	77	122	+31	+39	-29	+3	+45
Paraguay	c	c	c	c	c	c	c	c	c	c	c
Peru	22	58	40	50	61	86	+36	-18	+10	+11	+25
Uruguay	45	41	31	30	54	81	-4	-10	-1	+24	+27
Other ^d	28	45	80	109	117	232	+17	+35	+29	+8	+49
<i>Subtotal I</i>	399	607	778	827	939	1,197	+208	+171	+49	+112	+258
Venezuela	52	78	200	234	233	326	+26	+122	+34	-1	+93
<i>Subtotal II</i>	451	685	978	1,061	1,172	1,523	+234	+293	+83	+111	+351
Cuba	52	70	66	41	13	10	+18	-4	-25	-28	-3
TOTAL^e	504	756	1,047	1,100	1,185	1,533	-252	+291	+53	+85	+348

SOURCE: Annex II.

^a This table covers the position outstanding at year end of short-term liabilities to the Latin American non-monetary private sector as reported by United States banks to the United States Treasury, and net changes in these liabilities for the periods 1951-55 and 1956-60 and the years 1961, 1962 and 1963. The short-term banking liabilities to branches and subsidiaries of United States firms in Latin America are included with the exception of the intercompany capital transactions of business enterprises in the United States with their own branches and subsidiaries in Latin America.

^b A plus sign corresponds to an increase in the short-term liabilities of United States banks and indicates an inflow of Latin American capital

figure (348 million dollars) according to the preliminary data available.

For the whole period 1951-63, there was a substantial increase in the flow into the United States of short-term private funds from each of the Latin American countries with the sole exception of Cuba (see again tables 79 and 80) as reported in the *United States Treasury Bulletin*. The biggest increases over the position at the end of 1950 were registered in order of importance by: Venezuela

into the United States. Conversely, a minus sign corresponds to a decrease in the short-term liabilities of United States banks and indicates an outflow of Latin American capital from the United States.

^c Data included under the heading of "Other".

^d This item covers not only the Latin American countries for which individual data are not available but also Caribbean and South American territories which were not independent during the period under consideration. Excepted are the Netherland Antilles and Surinam for which individual data are available so that it has been possible to exclude them from the series.

^e Totals may not add up because of rounding.

(whose short-term private assets in the United States banking system increased by 500 per cent), Colombia (400 per cent), Peru and Argentina (300 per cent), Chile, Mexico and Panama (200 per cent),³⁷ and finally Brazil and Uruguay (100 per cent).

³⁷ In the case of Panama, the private short-term assets reported by United States are to a great extent owned by companies which cannot be considered part of the Panamanian economy.

C. NET MOVEMENTS OF FOREIGN AND DOMESTIC FUNDS IN THE LATIN AMERICAN BALANCES OF PAYMENTS

1. REARRANGEMENT OF BALANCE-OF-PAYMENTS DATA IN ORDER TO DISTINGUISH BETWEEN NET MOVEMENTS OF FOREIGN AND DOMESTIC FUNDS

Domestic funds can be defined broadly as funds which are owned by residents of Latin America, and foreign funds as funds which are owned by residents of foreign

countries. Accordingly, movements of domestic funds are recorded in the Latin American balances of payments as changes in the region's assets from foreign countries and movements of foreign funds as changes in the region's liabilities to the same foreign countries. On this basis, it is interesting to rearrange the Latin American balance-

of-payments data on capital account, in order to distinguish between net movements of domestic and foreign funds.

To that end, the various items of these balances can be tentatively classified on the following basis:

I. *Net movements of foreign funds.* This account covers all changes in the region's short and long-term liabilities, as reported in the balance of payments. These transactions belong to two main categories: the *non-compensatory movements of foreign funds*, i.e., the transactions financed by foreign funds for specific economic purposes, and the *compensatory movements*, i.e., the transactions financed by foreign funds for the purpose of offsetting the overall deficit or surplus recorded by the balance of payments. The first category deals essentially with the changes in the long and short-term liabilities of the Latin American private and official sectors, with the exception of the

central monetary authorities.³⁸ The second category covers the changes in short-term liabilities of the Latin American central monetary authorities, plus the changes in the deferred import payments and balance-of-payments loans received by the region.

II. *Net movements of domestic funds.* This account covers all changes in the long and short-term assets of the Latin American private and official sectors with the exception of the central monetary authorities, as reported in the region's balances of payments.

III. *Net errors and omissions.*

IV. *Net movements of domestic funds plus net errors and omissions.*

V. *Net changes in the region's gross monetary reserves.* This account relates to changes in short-term assets and

³⁸ This account includes official donations.

Table 81. Latin America (excluding Cuba): a summary of net movements of foreign and domestic funds in the region's balances of payments, 1946-62

(Millions of dollars)

Year	I. Net movements of foreign funds <i>a</i> (1)	II. Net movements of domestic funds as reported in the balances of payments <i>b</i> (2)	III. Net errors and omissions <i>c</i> (3)	IV. Net movements of domestic funds plus net errors and omissions (2+3) (4)	V. Net changes in gross monetary reserves (increase -) (5)	VI. Net capital inflow (1+4+5) (6)
1946	-106.4	-86.0	-292.9	-378.9	+49.3	-436.0
1947	+585.1	-23.6	-146.5	-170.1	+550.5	+965.5
1948	-161.6	-14.0	-7.9	-21.9	+543.0	+359.5
1949	+474.2	-72.1	+147.1	+75.0	-54.6	+494.6
1950	+128.8	-8.5	-132.5	-141.0	-309.9	-322.1
1951	+896.5	+1.7	-113.7	-112.0	+267.7	+1,052.2
1952	+1,311.5	-84.9	+131.2	+46.3	-47.2	+1,310.6
1953	+340.6	-45.9	-145.2	-191.1	-235.0	-85.5
1954	+700.5	-90.6	-256.8	-347.4	+31.0	+384.1
1955	+588.6	-12.5	-71.0	-83.5	-78.6	+426.5
1956	+1,549.6	-148.8	-345.8	-494.6	-520.4	+534.6
1957	+2,037.1	-44.9	+62.6	+17.7	-194.2	+1,860.6
1958	+1,084.6	-260.8	-248.7	-509.5	+656.0	+1,231.1
1959	+929.2	-141.1	-74.8	-215.9	-18.9	+694.4
1960	+1,803.4	-255.8	-513.0	-768.8	-48.3	+986.3
<i>Average</i>						
1946-50	+184.0	-40.8	-86.5	-127.3	+155.7	+212.4
1951-55	+767.5	-46.4	-91.1	-137.5	-12.4	+617.6
1956-60	+1,480.8	-170.3	-223.9	-394.2	-25.2	+1,061.4
1961	+1,788.4	-442.5	-401.2	-843.7	+121.8	+1,066.5
1962 ^d	+1,104.3	-368.2	-537.9	-906.1	+192.7	+390.9

SOURCE: Annex II.

^a The series has been readjusted in order to: (i) include credit entries which are the counterpart of imports without official exchange coverage in Argentina (see footnote *b* to table 78); (ii) exclude net changes in Argentina's private short-term liabilities from 1955 onward (see footnote *c* to table 78); (iii) exclude certain receipts in respect of large foreign credits retroactively entered in Argentina's and Venezuela's balances of payments (see footnote *d* to table 78).

^b The series has been readjusted in order to exclude credit entries which are the counterpart of imports without official exchange coverage in

Argentina (see footnote *b* to table 78), and net changes in Argentina's private short-term assets from 1955 onward (see footnote *c* to table 78).

^c The series has been readjusted in order to include net changes in Argentina's private short-term assets and liabilities from 1955 onward (see footnote *c* to table 78), and to exclude debit entries which are the counterpart of certain receipts in respect of large foreign credits retroactively entered in Argentina's and Venezuela's balances of payments (see footnote *d* to table 78).

^d Preliminary figures. The first available data for Argentina, which were very approximate, have been excluded.

monetary gold of the Latin American central monetary authorities. Accordingly, it covers movements of domestic funds, but these funds are of a special kind since they are owned by the central monetary authorities.

VI. *Net capital inflow*, which is equal to the sum of accounts I, IV and V, and is also equal and of opposite sign to the balance on current account.

According to the previous study of the possible sources of error in the Latin American external payments records, it can be asserted that account I substantially covers the net movements of foreign funds, and account IV provides approximate coverage of the net movements of domestic funds. In this last case, accurate coverage depends on whether or not the figures registered under errors and omissions actually correspond to the net movement of domestic and mainly private funds, which are not reported under other balance-of-payments items.

2. FLOWS OF FOREIGN AND DOMESTIC FUNDS, AND CHANGES IN THE LEVEL OF THE GROSS MONETARY RESERVES

Tables 81 to 90 reproduce the balance-of-payments figures for the whole region and by country rearranged according to the previous pattern, after some readjustments have been made which are explained in the respective footnotes to these tables.

(a) *Net movements of foreign funds*

The figures covering the net movements of foreign funds warrant three observations:

First, the transactions financed by foreign funds have nearly always shown a balance in favour of the region. Since the Second World War the return flows have been larger than the new inflow in only two years (1946 and 1948), when some South American Governments (Argentina, Brazil, etc.) used a large part of the gold and foreign

Table 82. Latin America (excluding Cuba and Venezuela): a summary of net movements of foreign and domestic funds in the region's balances of payments, 1946-62

(Millions of dollars)

Year	I. Net movements of foreign funds ^a	II. Net movements of domestic funds as reported in the balances of payments ^b	III. Net errors and omissions ^c	IV. Net movements of domestic funds plus net errors and omissions (2+3)	V. Net changes in gross monetary reserves (increase -)	VI. Net capital inflow (1+4+5)
	(1)	(2)	(3)	(4)	(5)	(6)
1946	-206.8	-70.5	-249.3	-319.8	+73.6	-453.0
1947	+316.9	-20.1	-121.3	-141.4	+553.2	+728.7
1948	-501.1	+6.5	+53.6	+60.1	+671.6	+230.6
1949	+172.5	-56.9	+237.7	+180.8	+6.4	+359.7
1950	+93.5	+8.8	-31.6	-22.8	-381.1	-310.4
1951	+903.5	-6.3	-58.0	-64.3	+267.4	+1,106.6
1952	+1,152.6	-76.1	+256.2	+180.1	+18.1	+1,350.8
1953	+182.4	-21.4	-76.1	-96.5	-194.0	-109.1
1954	+649.1	-94.2	-243.1	-337.3	+29.5	+341.3
1955	+575.0	-44.8	-65.3	-110.1	-28.9	+436.0
1956	+915.0	-122.1	-224.4	-346.5	-103.4	+465.1
1957	+1,010.0	-7.5	-21.8	-29.3	+311.4	+1,292.1
1958	+1,362.7	-209.0	-337.8	-546.8	+261.6	+1,077.5
1959	+1,124.3	-128.3	-72.9	-201.2	-357.3	+565.8
1960	+1,954.7	-237.7	-142.8	-380.5	-197.2	+1,377.0
<i>Average</i>						
1946-50	-25.0	-26.4	-22.2	-48.6	+184.7	+111.1
1951-55	+692.5	-48.6	-37.3	-85.9	+18.4	+625.0
1956-60	+1,273.3	-140.9	-159.9	-300.8	-17.0	+955.0
1961	+1,928.3	-162.7	-344.8	-507.5	+93.1	+1,513.9
1962 ^d	+1,406.8	-188.4	-477.8	-666.2	-159.4	+900.0

SOURCE: Annex II.

^a The series has been readjusted in order to: (i) include credit entries which are the counterpart of imports without official exchange coverage in Argentina (see footnote *b* to table 78); (ii) exclude net changes in Argentina's private short-term liabilities from 1955 onward (see footnote *c* to table 78); (iii) exclude a receipt in respect of a foreign credit retroactively entered in Argentina's balance of payments (see footnote *d* to table 78).

^b The series has been readjusted in order to exclude credit entries which are the counterpart of imports without official exchange coverage in

Argentina (see footnote *b* to table 78), and net changes in Argentina's private short-term assets from 1955 onward (see footnote *c* to table 78)

^c The series has been readjusted in order to include net changes in Argentina's private short-term assets and liabilities from 1955 onward (see footnote *c* to table 78), and to exclude a debit entry which is the counterpart of a receipt in respect of a foreign credit retroactively entered in Argentina's balance of payments (see footnote *d* to table 78).

^d Preliminary figures. The first available data for Argentina, which were very approximate, have been excluded.

Table 83. Latin America (excluding Cuba): net movements of foreign and domestic funds in the region's balances of payments, 1946-61

(Millions of dollars)

	Aggregate totals by quinquennia			
	1946-50	1951-55	1956-60	1961
I. Net capital inflow	+1,061.5	+3,087.9	+5,307.0	+1,066.5
II. Net movements of foreign funds	+920.1	+3,837.7	+7,403.9	+1,788.4
1. Net non-compensatory foreign funds	+805.4	+2,804.6	+6,467.9	+1,527.9
Official donations	+105.1	+146.0	+494.0	+130.7
Private long-term capital (liabilities) ^a	+1,649.1	+2,149.9	+5,286.1	+604.2
Official long-term capital (liabilities) ^b	-1,330.0	+225.5	-87.4	+567.4
Short-term capital (liabilities) ^c	+181.2	+290.2	+775.2	+225.6
2. Net compensatory foreign funds	+114.7	+1,033.1	+936.0	+260.5
Deferred import payments	+50.9	+72.0	+10.3	-15.5
Balance-of-payments loans ^d	+27.9	+584.0	+538.0	+166.6
Monetary authorities' short-term liabilities	+63.0	+350.2	+289.6	-140.4
Net IMF position	-27.1	+26.9	+97.4	+249.8
III. Net movements of domestic funds as reported in the balances of payments	-204.2	-232.2	-851.4	-442.5
Private long-term capital (assets) ^e	-18.4	+5.8	-529.0	-161.4
Official long-term capital (assets)	-60.0	+9.9	-151.8	-138.5
Short-term capital (assets) ^f	-125.8	-247.9	-170.6	-142.6
IV. Net errors and omissions ^g	-432.7	-455.5	-1,119.7	-401.2
V. Net movements of domestic funds plus net errors and omissions	-636.9	-687.7	-1,971.1	-843.7
VI. Net changes on gross monetary reserves (increase -)	+778.3	-62.1	-125.8	+121.8
Monetary authorities' short-term assets	-263.9	+98.6	-484.9	+178.9
Official monetary gold	+1,042.2	-160.7	+359.1	-57.1

SOURCE: Annex II.

^a The series has been readjusted in order to include credit entries which are the counterpart of imports without official exchange coverage in Argentina.

^b The series has been readjusted in order to exclude receipts of foreign credits retroactively entered in Venezuela's balance of payments (credits of 256.0 million dollars in 1956, 498.0 million in 1957, and 75.0 million in 1958).

^c The series has been readjusted in order to exclude net changes in Argentina's private short-term liabilities from 1955 onward.

^d The series has been readjusted in order to exclude a receipt in respect of a foreign credit

retroactively entered in Argentina's balance of payments (credit of 244.8 million dollars in 1956).

^e The series has been readjusted in order to exclude credit entries which are the counterpart of imports without official exchange coverage in Argentina.

^f The series has been readjusted in order to exclude net changes in Argentina's private short-term assets from 1955 onward.

^g The series has been readjusted in order to include net changes in Argentina's private short-term liabilities and assets from 1955 onward and to exclude debit entries which were the counterpart of certain receipts in respect of large foreign credits retroactively entered in Argentina's and Venezuela's balances of payments.

exchange reserves accumulated during the war to reimburse external debts whose service had been interrupted since the crisis of 1929, and to purchase substantial private foreign investments in the sector of public utilities. But for the other fifteen years the new inflows of foreign funds largely exceeded the return flows. Accordingly, for the whole post-war period (1946-62) the net inflow of foreign capital into the region can be roughly estimated at 15,000 million dollars, i.e., an annual average inflow of some 900 million dollars.

Secondly, the net inflow of foreign funds, in spite of very sharp fluctuations from one year to another, has clearly followed an upward trend over the long term (see figure II). For the whole region (excluding Cuba for which data have not been available 1955), this inflow, calculated on a yearly average, rose from 184 million

dollars in 1946-50 to 767.5 million in 1951-55, 1,480.8 million in 1956-60, and 1,788.4 million in 1961.³⁹ The annual rate of growth of the foreign funds' inflow slackened somewhat over the long term (from 28.5 per cent between 1946-50 and 1951-55 to 18.2 per cent between 1951-55 and 1956-60), but the yearly increases in absolute value were on an average greater in the second half of the decade 1951-60 than during the first.

It is noteworthy that the net inflow of foreign funds, while rising sharply, underwent some structural changes. As a matter of fact, the relative share of the compensatory funds, which increased between the first and second quinquennia of the post-war period, has dropped sub-

³⁹ According to the first available data, the net inflow of foreign funds would have reached only 1,104.3 million dollars in 1962.

Table 84. Latin America (excluding Cuba and Venezuela): net movements of foreign and domestic funds in the region's balances of payments, 1946-61

(Millions of dollars)

	Aggregate totals by quinquennia			
	1946-50	1951-55	1956-60	1961
I. Net capital inflow	+555.6	+3,125.6	+4,777.5	+1,513.9
II. Net movements of foreign funds	-125.0	+3,462.6	+6,366.7	+1,928.3
1. Net non-compensatory foreign funds	-232.6	+2,417.6	+5,602.0	+1,632.5
Official donations	+104.7	+145.2	+493.4	+130.5
Private long-term capital (liabilities) ^a	+622.7	+1,779.9	+3,726.6	+671.5
Official long-term capital (liabilities)	-1,129.2	+227.6	+696.3	+613.6
Short-term capital (liabilities) ^b	+169.2	+264.9	+685.7	+216.9
2. Net compensatory foreign funds	+107.6	+1,045.0	+764.7	+295.8
Deferred import payments	+50.9	+72.0	+10.3	-15.5
Balance-of-payments loans ^c	+27.9	+584.0	+338.7	+199.9
Monetary authorities' short-term liabilities	+52.2	+362.1	+284.5	-138.4
Net IMF position	-23.4	+26.9	+131.2	+249.8
III. Net movements of foreign funds as reported in the balances of payments	-132.2	-242.8	-704.6	-162.7
Private long-term capital (assets) ^d	-18.4	+10.3	-519.9	+35.0
Official long-term capital (assets)	-52.8	+9.9	-143.4	-112.8
Short-term capital (assets) ^e	-61.0	-263.0	-41.3	-84.9
IV. Net errors and omissions ^f	-110.9	-186.3	-799.7	-344.8
V. Net movements of domestic funds plus net errors and omissions	-243.1	-429.1	-1,504.3	-507.5
VI. Net changes in gross monetary reserves (increase -)	+923.7	+92.1	-84.9	+93.1
Monetary authorities short-term assets	-286.5	+222.4	-441.3	+150.2
Official monetary gold	+1,210.2	-130.3	+356.4	-57.1

SOURCE: Annex II.

^a The series has been readjusted in order to include credit entries which are the counterpart of imports without official exchange coverage in Argentina.

^b The series has been readjusted in order to exclude net changes in Argentina's private short-term liabilities.

^c The series has been readjusted in order to exclude a receipt in respect of foreign credit retroactively entered in Argentina's balance of payments (credit of 244.8 million dollars in 1956).

^d The series has been readjusted in order to exclude credit entries which are the counterpart of imports without official exchange coverage in Argentina.

^e The series has been readjusted in order to exclude net changes in Argentina's private short-term assets from 1955 onward.

^f The series has been readjusted in order to include net changes in Argentina's private short-term assets and liabilities and to exclude a debit entry which is the counterpart of a receipt in respect of a foreign credit retroactively entered in Argentina's balance of payments.

tantially since 1955.⁴⁰ Accordingly, non-compensatory funds which had financed only 68.5 per cent of the increase in the net inflow of foreign capital between 1946-50 and 1951-55, were entirely responsible for the increase between 1951-55 and 1956-60.

These facts reflect the sharp rise since 1955 of the net contribution of foreign autonomous capital to the external financing of Latin America, which will be analysed more carefully in chapter VI of the present study.

Thirdly, every Latin American country has been almost constantly a net importer of foreign funds since the end of the Second World War, with only a few notable

exceptions.⁴¹ Nevertheless the distribution of these funds was very uneven from a geographical point of view. During the fifties, for example, four countries received 66.7 per cent of the total foreign capital inflow into the region (Brazil 25.7 per cent, Argentina 15.7 per cent, Mexico 13.4 per cent, and Venezuela 11.9 per cent).⁴² Four other countries obtained 20.3 per cent of the total (Cuba 5.5 per cent, Peru 5.3 per cent, Colombia 4.9 per

⁴¹ Such was the case of Argentina in 1946-50 because of substantial reimbursements on its external debt and of the purchase by the Government of foreign-owned railways and tramways, and that of Venezuela since 1958 as a consequence of large repayments on previous foreign credits and of relatively substantial net return flows on direct investments in the oil industry.

⁴² The percentage would be higher in the case of Venezuela if some large receipts on foreign credits, retroactively entered in the balance of payments of this country, had not been excluded.

⁴⁰ For the whole region excluding Cuba, the part of the net inflow of foreign capital financed by compensatory funds rose from 12.5 per cent in 1946-50 to 26.9 per cent in 1951-55, but was only 12.7 per cent in 1956-60.

Table 85. Latin America: net movements of foreign and domestic funds in the region's balances of payments by country, 1946-50

(Aggregate totals in millions of dollars)

Country	Net movements of foreign funds <i>a b</i>			Net movements of domestic funds as reported in the balances of payments <i>c</i>	Net errors and omissions	Net movements of domestic funds plus net errors and omissions (4+5)	Net changes in gross monetary reserves (increase -) <i>d</i>	Net capital inflow (3+6+7)
	Non-compensatory funds <i>a</i>	Compensatory funds <i>b</i>	Total (1+2)					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Argentina	-1,075.6	+23.4	-1,052.2	—	-31.6	-31.6	+659.4	-424.4
Bolivia	+28.7	+9.7	+38.4	-13.5	+18.4	+4.9	+3.0	+46.3
Brazil	+5.3	+71.0	+76.3	-26.6	-222.1	-248.7	+125.6	-46.8
Chile	+96.8	+16.7	+113.5	-3.7	+26.4	+22.7	+48.5	+184.7
Colombia	+145.6	-11.7	+133.9	-12.8	+34.7	+21.9	+70.9	+226.7
Costa Rica	+27.9	-1.3	+26.6	+1.6	+7.9	+9.5	+1.3	+37.4
Dominican Republic	-9.3	-4.6	-13.9	+1.3	-33.7	-32.4	+7.1	-39.2
Ecuador	+39.4	—	+39.4	-2.8	-6.9	-9.7	-4.3	+25.4
El Salvador	-0.5	-0.4	-0.9	-8.2	-14.6	-22.8	-12.7	-36.4
Guatemala	+18.6	+0.3	+18.9	-8.6	-14.3	-22.9	+4.3	+0.3
Haiti	-2.9	+0.1	-2.8	-1.0	—	-1.0	-0.3	-4.1
Honduras	+23.8	-4.5	+19.3	+5.8	+0.3	+6.1	-0.6	+24.8
Mexico	+337.2	-6.1	+331.1	-82.2	+102.5	+20.3	+63.0	+414.4
Nicaragua	+9.1	—	+9.1	-3.1	+5.9	+2.8	+3.6	+15.5
Panama	+45.9	-0.1	+45.8	+28.6	+10.5	+39.1	-0.1	+85.0
Paraguay	+3.9	+3.3	+7.2	—	+4.9	+4.9	-2.8	+9.3
Peru	+53.8	+7.7	+61.5	-4.9	+1.6	-3.3	-11.7	+52.1
Uruguay	+19.7	+4.1	+23.8	-2.1	-0.8	-2.9	-30.7	-15.4
<i>Subtotal I</i>	-232.6	+107.6	-125.0	-132.2	-110.9	-243.1	+923.7	+555.6
Venezuela	+1,038.0	+7.1	+1,045.1	-72.0	-321.8	-393.8	-145.4	+505.9
<i>Subtotal II</i>	+805.4	+114.7	+920.1	-204.2	-432.7	-636.9	+778.3	+1,061.5
Cuba	-53.4	-12.5	-65.9	-95.2	-39.0	-134.2	-187.3	-415.0
TOTAL	+752.0	+102.2	+854.2	-299.4	-471.7	-771.1	+591.0	+646.5

SOURCE: Annex II.

a This item covers net changes in private long-term liabilities including direct investment, official long-term liabilities other than balance-of-payments loans, and short-term liabilities of the private and official sectors excluding the central monetary authorities.

b This item covers net changes in deferred import

payments, balance-of-payments loans and short-term liabilities of the central monetary authorities.

c This item covers net changes in long-term and short-term assets of the private and official sectors excluding the central monetary authorities.

d This item covers net changes in short-term assets and gold reserves of the central monetary authorities.

cent, and Chile 4.6 per cent), so that the remaining 13 per cent was shared among twelve countries. This very unequal distribution has not been apparently corrected during the last few years, since in 1961 the five main recipient countries (Argentina, Brazil, Mexico, Chile and Colombia) received 93.6 per cent of the total foreign capital inflow.

(b) *Net movements of domestic funds*

The figures covering the movements of domestic funds, although very approximate, give some interesting information about the evolution of these movements.

First, the transactions financed by domestic funds have almost always shown a deficit in the region. The return flows exceeded new outflows in only three years (1949, 1952 and 1957) since the end of the Second World War. For all the other years new investments abroad were largely higher than capital repatriations. Accordingly, the total net outflow of domestic funds from the

whole region during the post-war period (1946-62) can be estimated at 5,400 million dollars, i.e., the figure close to the one previously suggested as representing the flight of non-monetary private capital.

Secondly, the outflow of domestic funds, like the inflow of foreign funds, has suffered very sharp fluctuations from one year to another, but its long-term trend can easily be detected (see again figure II). As a matter of fact, this outflow, estimated for the whole region (excluding Cuba) on an annual average basis by five-year periods, remained almost at the same level from 1946 to 1955, rising slightly from an average of 127.3 million dollars in 1946-50 to 137.5 million in 1951-55. It has risen consistently since then, reaching an average of 394.2 million dollars in 1956-60, 843.7 million in 1961 and a figure probably higher in 1962.⁴⁸ It must be noted

⁴⁸ The sum of 906.1 million dollars according to very preliminary data excluding Argentina.

Table 86. Latin America: net movements of foreign and domestic funds in the region's balances of payments by country, 1951-55

(Aggregate totals in millions of dollars)

Country	Net movements of foreign funds <i>a b</i>			Net movements of domestic funds as reported in the balances of payments <i>c</i>	Net errors and omissions	Net movements of domestic funds plus net errors and omissions (4+5)	Net changes in gross monetary reserves (increase -)	Net capital inflow (3+6+7)
	Non-compensatory funds <i>a</i>	Compensatory funds <i>b</i>	Total (1+2)					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Argentina	+282.6 <i>e</i>	+226.3	+508.9	+32.3 <i>f</i>	+16.0 <i>g</i>	+48.3	+144.9	+702.1
Bolivia	+64.5	-15.1	+49.4	-1.6	—	-1.6	+21.9	+69.7
Brazil	+478.0	+720.0	+1,198.0	-25.0	+112.0	+87.0	+159.0	+1,444.0
Chile	+118.1	+8.9	+127.0	-1.9	-24.9	-26.8	-30.2	+70.0
Colombia	+308.1	+38.0	+346.1	-64.9	-111.3	-176.2	-47.6	+122.3
Costa Rica	+19.6	+0.5	+20.1	—	+9.6	+9.6	-15.4	+14.3
Dominican Republic	+6.6	+7.0	+13.6	-24.0	-13.3	-10.7	-16.8	-13.9
Ecuador	+46.3	+7.7	+54.0	-17.6	-18.7	-36.3	+3.6	+21.3
El Salvador	+9.4	+2.2	+11.6	-24.2	-23.0	-47.2	+1.9	-33.7
Guatemala	+16.7	+1.6	+18.3	-9.1	-6.3	-15.4	-16.6	-13.7
Haiti	+47.0	+1.6	+48.6	-12.1	-9.9	-22.0	-0.8	+25.8
Honduras	+45.9	+0.2	+46.1	+1.6	-12.4	-10.8	-8.8	+26.5
Mexico	+588.1	-21.3	+566.8	-48.9	-162.9	-211.8	-122.3	+232.7
Nicaragua	+28.4	-1.2	+27.2	+1.6	-9.9	-8.3	-10.7	+8.2
Panama	+26.4	—	+26.4	-1.6	+68.8	+67.2	—	+93.6
Paraguay	+19.1	+2.6	+21.7	-3.3	-8.9	-12.2	+1.7	+11.2
Peru	+246.5	+6.9	+253.4	-44.6	-1.5	-46.1	+1.6	+208.9
Uruguay	+66.3	+59.1	+125.4	+0.5	-16.3	-15.8	+26.7	+136.3
<i>Subtotal I</i>	<i>+2,417.6</i>	<i>+1,045.0</i>	<i>+3,462.6</i>	<i>-242.8</i>	<i>-186.3</i>	<i>-429.1</i>	<i>+92.1</i>	<i>+3,125.6</i>
Venezuela	+387.0	-11.9	+375.1	+10.5	-269.2	-258.6	-154.2	-37.7
<i>Subtotal II</i>	<i>+2,804.6</i>	<i>+1,033.1</i>	<i>+3,837.7</i>	<i>-232.2</i>	<i>-455.5</i>	<i>-687.7</i>	<i>-62.1</i>	<i>+3,087.9</i>
Cuba	+301.7	-1.0	+300.7	+31.8	-6.0	+25.8	-87.6	+238.9
TOTAL	+3,106.3	+1,032.1	+4,138.4	-200.4	-461.5	-661.9	-149.7	+3,326.8

SOURCE: Annex II.

a Same as footnote *a* to table 85.

b Same as footnote *b* to table 85.

c Same as footnote *c* to table 85.

d Same as footnote *d* to table 85.

e The figure has been readjusted in order to include credit entries which are the counterpart of imports without

official exchange coverage, and to exclude net changes in private short-term liabilities in 1955.

f The figure has been readjusted in order to exclude credit entries which are the counterpart of imports without official exchange coverage, and net changes in private short-term assets in 1955.

g The figure has been readjusted in order to include net changes in private short-term liabilities and assets in 1955.

that the average annual growth rate of the outflow of domestic funds between 1951-55 and 1956-60 has been higher than that of the inflow of foreign funds (23 per cent instead of 18 per cent).

The Latin American funds transferred abroad during the post-war period came from three sectors: the non-monetary private sector; the non-monetary official sector and the monetary private sector (commercial banks). It is obvious that the main contribution was that of the first of these three sectors. The increase in short-term assets of the non-monetary official sector ⁴⁴ was negligible and the increase in long-term assets corresponded to the payments of contributions, largely made in local

currencies, to international non-monetary institutions ⁴⁵ so that these payments were offset by credit entries under the heading of short-term liabilities. Furthermore, there is reason to believe that assets of commercial banks did not expand substantially over the long term. This point of view is confirmed by data reproduced in table 89. According to these data, the non-monetary private sector has constantly furnished 90 per cent or more of the funds which have left the region since the end of the Second World War, except in 1961 when payments of new contributions to international non-monetary institutions by the Latin American Governments reached a sizable amount. It is clear, then that the upward trend of the outflow of domestic funds since the middle of the decade 1951-60, and more specifically since 1958, largely

⁴⁴ As a matter of fact only the monetary official sector (central monetary authorities) holds substantial amounts of short-term assets.

⁴⁵ International financial institutions other than IMF.

Table 87. Latin America: net movements of foreign and domestic funds in the region's balances of payments by country, 1956-60

(Aggregate totals in millions of dollars)

Country	Net movements of foreign funds <i>a b</i>			Net movements of domestic funds as reported in the balances of payments <i>c</i>	Net errors and omissions	Net movements of domestic funds plus net errors and omissions (4+5)	Net changes in gross monetary reserves (increase -)	Net capital inflow (3+6+7)
	Non-compensatory funds <i>a</i>	Compensatory funds <i>b</i>	Total (1+2)					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Argentina	+1,351.7 ^e	+5.5	+1,357.2	-534.1 ^g	+273.0 ^h	-261.1	-208.5	+887.6
Bolivia	+179.4	+18.2	+197.6	-5.5	-57.8	-63.3	+2.5	+136.8
Brazil	+1,469.0	+396.0	+1,865.0	-89.0	-351.0	-440.0	+63.0	+1,488.0
Chile	+321.9	+104.9	+426.8	+6.8	+15.5	+22.3	-27.5	+421.6
Colombia	+56.2	+180.7	+236.9	-27.1	-313.1	-340.2	-1.8	-105.1
Costa Rica	+59.1	+7.7	+66.8	-8.5	+24.7	+16.2	+7.5	+20.5
Dominican Republic	+49.8	+4.4	+54.2	-5.7	-101.2	-106.9	+10.6	-42.1
Ecuador	+81.2	-7.4	+73.8	-9.6	+2.7	-6.9	-5.3	+61.6
El Salvador	+23.3	+16.7	+40.0	-2.2	-18.5	-20.7	+2.0	+21.3
Guatemala	+193.7	+6.1	+199.8	-5.2	-19.0	-24.2	+4.0	+179.6
Haiti	+44.9	-0.1	+44.8	-37.4	-16.6	-54.0	+4.9	-4.3
Honduras	+16.4	+2.4	+18.8	-8.4	+15.4	+7.0	+6.3	+32.1
Mexico	+1,048.9	-18.7	+1,030.2	-27.4	-307.5	-334.9	+16.1	+711.4
Nicaragua	+42.6	+1.6	+44.2	+0.7	-11.4	-10.7	+4.7	+38.2
Panama	+141.0	—	+141.0	+4.1	+35.8	+39.9	—	+180.9
Paraguay	+42.9	-1.6	+41.3	+1.7	+3.6	+5.3	+4.3	+50.9
Peru	+382.2	-1.2	+381.0	+28.0	-30.6	-2.6	-16.5	+361.9
Uruguay	+97.8	+49.5	+147.3	+14.2	+56.3	+70.5	+48.8	+266.6
<i>Subtotal I</i>	+5,602.0	+764.7	+6,366.7	-704.6	-799.7	-1,504.3	-84.9	+4,777.5
Venezuela	+865.9 ⁱ	+171.3	+1,037.2	-146.8	-320.0 ⁱ	-466.8	-40.9	+529.5
<i>Subtotal II</i>	+6,467.9	+936.0	+7,403.9	-851.4	-1,119.7	-1,971.1	-125.8	+5,307.0
Cuba ^k	+291.6	+61.7	+353.3	-36.1	-218.3	-254.4	+248.9	+347.8
TOTAL	+6,759.5	+997.7	+7,757.2	-887.5	-1,338.0	-2,225.5	+123.1	+5,654.8

SOURCE: Annex II.

a Same as footnote *a* to table 85.

b Same as footnote *b* to table 85.

c Same as footnote *c* to table 85.

d Same as footnote *d* to table 85.

e The figure has been readjusted in order to include credit entries which are the counterpart of imports without official exchange coverage, and to exclude net changes in private short-term liabilities.

f The figure has been readjusted in order to exclude a receipt in respect of a foreign credit retroactively entered in the balance of payments (credit of 244.8 million dollars in 1956).

g The figure has been readjusted in order to exclude credit entries which are the counterpart of imports without

official exchange coverage and net changes in private short-term assets.

h The figure has been readjusted in order to exclude a debit entry which was the counterpart of a receipt in respect of a foreign loan retroactively entered in the balance of payments in 1956, and to include net changes in private short-term liabilities and assets.

i The figure has been readjusted in order to exclude receipts in respect of large foreign credits retroactively entered in the balance of payments (credits of 256.0 million dollars in 1956, 498.0 million in 1957 and 75.0 million in 1958).

j The figure has been readjusted in order to exclude debit entries which were the counterpart of receipts in respect of large foreign loans retroactively entered in the balance of payments.

k The figures for Cuba cover the period 1956-59 only.

reflects the sharp increase in the open or concealed flight of private capital.

Thirdly, the geographical origin of the outflow of domestic funds changed substantially from one year to another and from one period to another since 1946. These variations are obviously the consequence of the fact that the private capital sent out of the region did not always come from the same countries, as has been already observed in the present study.

(c) *Net changes in gross monetary reserves*

Gross monetary reserves can be defined as liquid foreign exchange assets plus the gold stock held by the

region's central monetary authorities. It is clear that net changes in the gross monetary reserves so defined depend on three factors: the net inflow of foreign funds, the net outflow of domestic funds, and the net capital inflow, i.e., the deficit on current account. This problem need not be examined in detail here, since the evolution of the region's monetary reserves estimated both on a gross and net basis will be studied in chapter V of the present report.

It is enough to observe that Latin American monetary reserves diminished by some 600 million dollars during the first five years of the post-war period (1946-50) in spite of the relatively low level of the net outflow of

Table 88. Latin America (excluding Cuba): net movements of foreign and domestic funds in the region's balances of payments by country, 1961

(Aggregate totals in millions of dollars)

Country	Net movements of foreign funds ^{a b}			Net movements of domestic funds as reported in the balances of payments ^c	Net errors and omissions ^d	Net movements of domestic funds plus net errors and omissions ^e (4+5)	Net changes in gross monetary reserves (Increase -) ^d	Net capital inflow (3+6+7)
	Non-compensatory funds ^a (1)	Compensatory funds ^b (2)	Total (1+2) (3)					
Argentina	+361.8 ^e	-67.0	+294.8	+39.6 ^f	+49.0 ^g	+88.6	+201.0	+584.4
Bolivia	+36.5	-2.6	+33.9	-4.3	-2.0	-6.3	—	+27.6
Brazil	+424.0	+78.0	+502.0	-71.0	+2.0	-69.0	-141.0	+292.0
Chile	+200.6	+72.0	+272.6	+14.7	-47.1	-32.4	+39.4	+279.6
Colombia	+84.2	+106.6	+190.8	-43.7	-9.2	-52.9	+3.9	+141.8
Costa Rica	+11.0	+5.1	+16.1	-2.6	-1.9	-4.5	+6.1	+17.7
Dominican Republic	-24.3	-0.3	-24.6	+8.6	-41.6	-33.0	+16.8	-40.8
Ecuador	+26.1	+14.7	+40.8	-12.8	-3.3	-16.1	-1.3	+23.4
El Salvador	+12.2	-3.6	+8.6	+2.9	-17.8	-14.9	+8.2	+1.9
Guatemala	+33.5	+3.2	+36.7	-4.2	-2.9	-7.1	-1.1	+28.5
Haiti	+18.1	-1.3	+16.8	-7.8	-2.7	-10.5	-1.4	+4.9
Honduras	+2.3	+1.5	+3.8	-3.4	-1.2	-4.6	+0.7	-0.1
Mexico	+363.1	+42.2	+405.3	-52.3	-248.8	-301.1	-12.8	+21.4
Nicaragua	+13.4	+8.5	+21.9	-9.3	-1.2	-10.5	-4.4	+7.0
Panama	+26.5	—	+26.5	+2.2	+16.9	+19.1	—	+45.5
Paraguay	+15.7	-1.6	+14.1	-1.0	-0.9	-1.9	-1.5	+10.7
Peru	+28.9	-0.6	+28.3	-16.8	+4.0	-12.8	-33.7	-18.2
Uruguay	-1.1	+41.0	+39.9	-1.5	-36.1	-37.6	+14.2	+16.5
<i>Subtotal</i>	<i>+1,632.5</i>	<i>+295.8</i>	<i>+1,928.3</i>	<i>-162.7</i>	<i>-344.8</i>	<i>-507.5</i>	<i>+23.1</i>	<i>+1,513.9</i>
Venezuela	-104.6	-35.3	-139.9	-279.8	-56.4	-336.2	+28.7	-447.4
TOTAL	+1,527.9	+260.5	+1,788.4	-442.5	-401.2	-843.7	+121.8	+1,066.5

SOURCE: Annex II.

- ^a Same as footnote ^a to table 85.
- ^b Same as footnote ^b to table 85.
- ^c Same as footnote ^c to table 85.
- ^d Same as footnote ^d to table 85.

^e The figure has been readjusted in order to exclude net changes in private short-term liabilities.

^f The figure has been readjusted in order to exclude net changes in private short-term assets.

^g The figure has been readjusted in order to include net changes in private short-term liabilities and assets.

Table 89. Latin America: main sources of net domestic capital outflow by sector, 1946-61 ^a

	1946-50		1951-55		1956-60		1961	
	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage
I. Latin America (excluding Cuba)								
Non-monetary private sector ^b	572.7	89.9	693.6	101.0	1,874.3	95.1	626.3	74.2
Other sectors	64.2	10.1	-5.9	-1.0	96.8	4.9	217.4	25.8
TOTAL	636.9	100.0	687.7	100.0	1,971.1	100.0	843.7	100.0
II. Latin America (excluding Cuba and Venezuela)								
Non-monetary private sector ^b	190.7	78.4	396.0	92.3	1,432.0	95.2	327.7	64.6
Other sectors	52.4	21.6	33.1	7.7	72.3	4.8	179.8	35.4
TOTAL	243.1	100.0	429.1	100.0	1,504.3	100.0	507.5	100.0

SOURCE: Tables 78, 85, 86, 87 and 88.

^a No sign means a net outflow of domestic funds, while a minus sign means a net return flow of domestic funds.

^b Figures under this heading may include some outflow of domestic funds from other sectors and some return flow of foreign capital under the head of direct investment.

Table 90. Latin America: net outflow of domestic funds as a percentage of the net inflow of foreign funds by country, 1946-61

Country	1946-50	1951-55	1956-60	1961
Argentina	a	a	19.2	a
Bolivia	a	3.2	32.0	18.6
Brazil	327.1	a	23.6	13.7
Chile	a	21.1	a	11.9
Colombia	a	50.9	143.6	27.7
Costa Rica	a	a	a	27.9
Dominican Republic	a	78.7	197.2	a
Ecuador	24.6	67.2	9.3	39.4
El Salvador	a	406.9	51.7	173.2
Guatemala	121.2	84.1	12.1	19.3
Haiti	a	45.3	120.5	62.5
Honduras	a	23.4	a	121.0
Mexico	a	37.4	32.5	74.2
Nicaragua	a	30.5	24.2	47.9
Panama	a	a	a	a
Paraguay	a	a	a	13.5
Peru	5.4	18.2	0.7	45.2
Uruguay	12.2	12.6	47.9	94.2
Subtotal I	a	12.4	23.6	26.3
Venezuela	37.7	68.9	45.0	a
Subtotal II	69.2	17.9	26.6	47.2
Cuba	a	a	72.0	...
TOTAL	90.3	16.0	28.7	...

SOURCE: Tables 85 to 88.

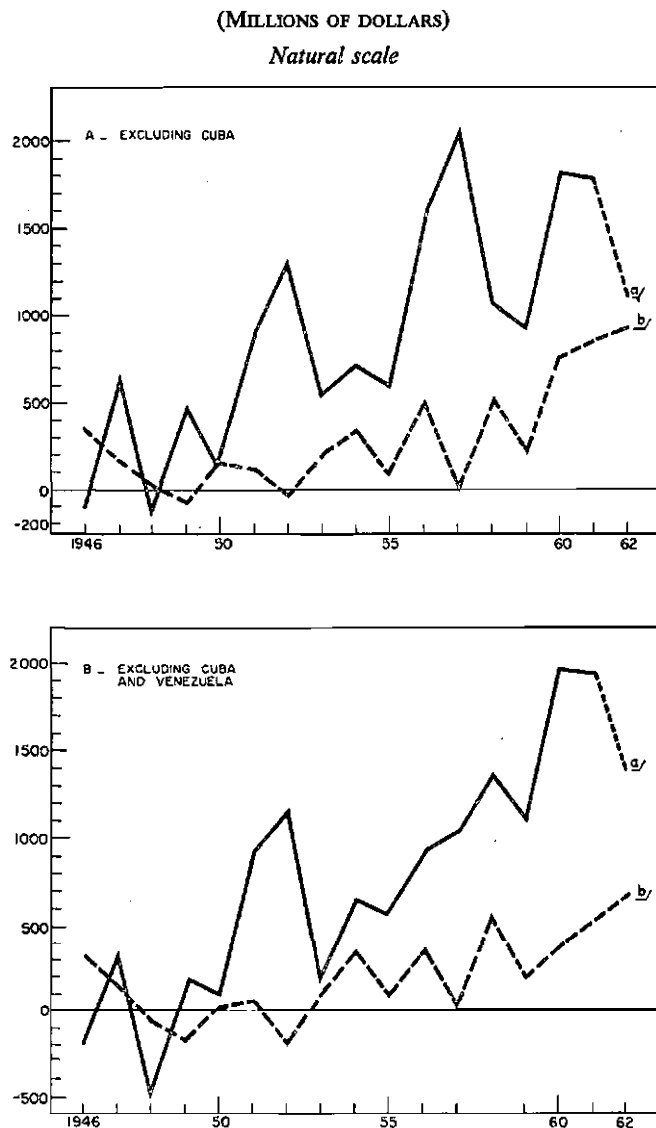
a A net return flow of domestic funds and/or a net outflow of foreign funds.

domestic funds, but the net inflow of foreign funds was also relatively small during this period. As a matter of fact, some countries had to use the reserves accumulated during the war to finance return flows on foreign capital and even the deficit of their balances on current account.

The situation changed during the following decade (1951-60). The outflow of domestic funds grew substantially but the inflow of foreign funds expanded too so that the gross monetary reserves remained approximately at the same level or even increased slightly (by some 25 million dollars in ten years). Nevertheless, this stability was more apparent than real for three main reasons: (i) the losses were greater than the gains for the whole region from 1958 to 1960, so that a downward trend began at the end of the fifties; (ii) seven countries (Bolivia, Brazil, El Salvador, Haiti, Paraguay, Uruguay and Cuba) suffered large losses during the decade; (iii) in countries which have increased their gross reserves this increase has often been due to a substantial rise in the level of long and especially short-term liabilities of central monetary authorities, so that their net reserves have in fact diminished (Argentina).

During the last two years (1961 and 1962), the growing inflow of foreign funds was partly offset by capital flight so that the gross monetary reserves sharply decreased. As the short-term liabilities of monetary authorities increased again, the net reserves reached a very low level in many countries, strongly reducing the ability of the monetary authorities of these countries to deal with new external payments crises.

Figure II. Latin America: Net inflow of foreign funds and net outflow of domestic funds, 1946-62



SOURCE: Tables 81 and 82.

a Net inflow of domestic funds. A positive figure means a net inflow and a negative figure a net outflow of foreign funds.

b Net outflow of domestic funds (including net errors and omissions). A positive figure means a net outflow and a negative figure a net return flow of domestic funds.

3. RELATIONSHIP BETWEEN NET INFLOW OF FOREIGN FUNDS AND NET OUTFLOW OF DOMESTIC FUNDS

Since the region has almost constantly received foreign funds and exported domestic funds, it is natural to ask whether these two phenomena are not linked together. Obviously, it is difficult to answer this question because the capital movements involved are of a different kind and accordingly can be the result of several factors. Nevertheless, it is possible to make a few general remarks.

First, there is apparently no direct correlation between the outflow of domestic funds and the inflow of *non-compensatory foreign funds*. There can undoubtedly be an indirect correlation between the two flows, because both of them depend on the action of the same factors. For example, social unrest, political insecurity and monetary instability can induce Latin American residents to

transfer abroad part of their savings at a time when the same factors discourage foreign capitalists from making new investments in the region. But there is no reason to think that these common factors are more powerful than individual factors which affect specifically the transactions on foreign or domestic funds.

Secondly, there is perhaps a more direct correlation between the outflow of domestic funds and the inflow of compensatory foreign funds. For example, a positive correlation between both flows which would increase and decrease simultaneously is conceivable. On the one hand, a country may need more substantial compensatory financing when it suffers growing capital flights, especially when its gross monetary reserves are already at a low level. On the other hand, an increase in the compensatory inflow of foreign funds can permit the monetary authorities of the recipient country to sell more foreign exchange on the market, thus accelerating capital flight. Nevertheless, it is difficult to admit that such a mechanism can work, except under very special conditions. As a matter of fact, in the case of an increase in the inflow of compensatory foreign funds, the monetary authorities are generally tempted to take appropriate measures in order to improve the financial external situation of their country so that the capital flight can be eased.

To summarize, it does not seem that there exists a constant correlation of one kind or another between the net outflow of domestic funds and the net inflow of foreign funds, except perhaps in a very broad sense. It is clear that a developing country is naturally inclined to ask for more foreign funds in order to offset the deficit to its balance of payments on current account, and to finance its development, if its residents export a more substantial amount of domestic funds. This point of view is apparently corroborated by figure II, which shows that for the whole region there is no clear relation between the short-term fluctuations of the outflow of domestic funds and the inflow of foreign funds, but that both movements have followed a rising trend since the middle of the decade 1951-60. In this respect the outflow

of net domestic funds might be calculated as a percentage of the net inflow of foreign funds.

Table 90, which reproduces the results of this calculation, shows that the Latin American funds which have been sent out of the region (excluding Cuba) represented roughly 70 per cent of the foreign capital transferred to the region in 1946-50, because of the relatively low level of such transfers during this period. This percentage sharply decreased during the following five-year period (1951-55), as a result of the substantial growth of foreign financing while the net outflow of Latin American funds remained approximately at the same level as previously. But it has increased rapidly since the middle of the last decade, rising from 17.9 per cent in 1951-55 to 26.6 per cent in 1956-60, and 47.2 per cent in 1961, as a consequence of the more rapid growth of Latin American investments abroad than of foreign investments in the region.

It is not always possible to calculate similar percentages by country since certain Latin American countries have registered net aggregate return flows on domestic capital during some of the periods referred to above. Considering only the second half of the fifties, it is interesting to note that the net outflow of domestic funds has been larger than the net inflow of foreign funds in three countries (Colombia, Dominican Republic, and Haiti) among the fifteen for which a ratio between both flows can be calculated. The same outflow has represented more than 40 per cent of new foreign investments in the broadest sense of the term in four other countries (Cuba, El Salvador, Uruguay and Venezuela), and between 20 and 40 per cent of these investments in another group of five countries (Argentina, Brazil, Nicaragua, Bolivia and Mexico). The ratio has been relatively low in the three remaining countries. In 1961 the outflow of domestic capital has represented a very substantial share of the net inflow of foreign funds in El Salvador and Honduras (more than 100 per cent of the inflow), Uruguay (94.2 per cent), Mexico (74.2 per cent), Haiti (62.5 per cent), Nicaragua (47.9 per cent) and Peru (45.2 per cent).

D. CONCLUSIONS

The analysis presented in this chapter leads to three main conclusions.

First, the net capital inflow into Latin America has followed a rising trend over the long term during the post-war period in spite of relatively strong annual fluctuations. This tendency has been particularly clear since the middle of the decade 1951-60, so that the favourable balance on capital account reached its highest figures at the end of the fifties and beginning of the sixties. Furthermore, almost all the Latin American countries have registered large increases in the net capital inflow they have received, no matter what their relative share in the regional total. Nevertheless, it has been observed in another study by ECLA⁴⁶ that the rates of growth of the domestic product have declined in most of the countries of the region during the past few years.

According increases in net capital inflows, though considerable, were apparently not sufficient to maintain satisfactory rates of growth, largely because the purchasing power of the region's exports was at a standstill, or even declined slightly.

Secondly, the increase in net capital inflow has largely reflected the rising trend of foreign capital inflow into the region since the middle of the fifties. Furthermore, the net outflow of domestic funds has also grown sharply over the same period, so that an increasing part of these funds should have been compensated by the outward movements of Latin American funds.

Thirdly, the net outflow of domestic capital has come almost entirely from the non-monetary private sector of the Latin American countries. The funds exported by this sector have not been registered under specific items of the balance of payments but rather under the residual item of net errors and omissions.

⁴⁶ *The economic development of Latin America during the post-war period*, op. cit., p. 4.

Chapter V

COMPENSATORY FINANCING

Deficits in the balance on current account are financed by movements of capital which can be divided into two broad categories according to their role in external payments:

(a) "Non-compensatory" or "autonomous" movements,¹ which are intended to finance the transactions carried out by private persons or by Governments, such as purchases or sales of goods, direct or portfolio investments, charitable donations, etc.

(b) "Compensatory" movements, which comprise official compensatory financing, i.e., the financial operations of monetary authorities aimed at offsetting the deficit or surplus recorded for other balance-of-payments items.

According to the terminology employed by IMF, the former type of movement is commonly said to be above the line and the latter under the line. This refers to the line of demarcation between the two groups into which the various entries in the balance of payments must be divided so that the credit or debit balance of external transactions can be calculated. The first group comprises operations on current account and autonomous movements of capital, which produce a cumulative credit or debit balance generally known as the over-all balance of payments before compensation.² The second group covers official compensatory financing and has a balance exactly

equal but opposite to the first, since every balance of payments is by definition balanced.

It is plain that this accounting distinction has economic implications when applied to Latin America's external payments. If the net compensatory inflow constitutes only a fraction of the total new inflow of capital in one of the Latin American countries, it may be concluded that the net autonomous inflow was large enough to cover most of the country's deficit on current account; in other words, the balance of payments tended to adjust itself "spontaneously". The opposite assumption is that the net autonomous inflow would not have sufficed to offset the current deficit, with all the adverse repercussions that such a state of affairs might have brought in its train for the exchange and the monetary situation.

The main problem is that it is not always easy to decide which capital movements should be entered above and which under the line. This is particularly true of some of the transactions that are recorded under the heading of non-compensatory short-term operations (short-term operations by private individuals, commercial banks and official non-monetary institutions), but might more properly be regarded as forming part of an intermediate category. For example, an increase in the short-term liabilities of private persons or commercial banks vis-à-vis external sources may be due to the development of foreign trade, or to an accumulation of trade debts at a time when foreign exchange is in short supply, which has been a means of financing a foreign payments deficit. It has usually been difficult to single out such operations. Similarly, the movements of "hot money", which have acquired some importance during recent years in certain of the Latin American countries, may, according to the circumstances, have a stabilizing or unsettling effect on the balance of payments, and their classification thus becomes a debatable point.

¹ The term "autonomous" is apt to be confusing, since it suggests that all induced movements of capital on current account are compensatory, which is obviously not the case. For instance, a capital movement resulting from the opening of short- or medium-term credits to finance a commercial transaction is clearly a non-compensatory induced movement. When the adjective autonomous is used hereafter in this study it should therefore be taken to mean specifically "non-compensatory".

² The errors and omissions which are largely attributable to unrecorded private capital movements have been entered above the line.

A. COMPENSATORY FINANCING AND THE OVER-ALL EQUILIBRIUM OF THE BALANCE OF PAYMENTS

Compensatory transactions show a net balance which is by definition equal to the net total of extraordinary compensatory financing and of changes in the net monetary reserves. A positive figure, which signifies an inflow from the standpoint of foreign payments accounting, corresponds either to a net inflow of external funds in the form of extraordinary compensatory loans or to a decrease in net monetary reserves. Conversely, a negative figure, which, for the purpose of foreign payments

accounts signifies an outflow, represents either the repayment of extraordinary credits granted at some earlier date or an increase in net monetary reserves.

In the first case, when compensatory transactions are positive, it may be concluded that the balance of payments before compensation is *unfavourable*, since the autonomous movements of capital — including net errors and omissions — have been insufficient to compensate the deficit on current account (or have shown a deficit larger

Table 91. Latin America: a summary of international transactions on capital account, 1946-62^a

(Millions of dollars)

Item	Annual averages			1961	1962 ^b
	1946-50	1951-55	1956-60		
I. Latin America					
Balance on goods, services and private donations	-129.3	-665.4	-1,131.1 ^c	...	...
Net official donations and non-compensatory capital	+85.0	+578.9	+1,340.0 ^c	...	...
Net errors and omissions	-94.3	-90.0	-482.1 ^c	...	...
Net compensatory financing	+138.6	+176.5	+273.2 ^c	...	...
II. Latin America (excluding Cuba)					
Balance on goods, services and private donations	-212.3	-617.6	-1,061.4	-1,066.5	-663.7
Net official donations and non-compensatory capital	+120.2	+512.2	+1,288.8	+1,145.4	+675.0
Net errors and omissions	-86.5	-88.8	-438.4	-461.2	-544.5
Net compensatory financing	+178.6	+194.2	+211.0	+382.3	+533.2
III. Latin America (excluding Cuba and Venezuela)					
Balance on goods, services and private donations	-111.1	-625.1	-955.5	-1,513.9	-1,172.8
Net official donations and non-compensatory capital	-73.0	+432.7	+979.2	+1,529.8	+1,090.6
Net errors and omissions	-22.2	-35.0	-208.6	-404.8	-484.4
Net compensatory financing	+206.3	+227.4	+184.9	+388.9	+566.6

SOURCE: ANNEX II.

^a In the balance on current account a plus sign means that the inflow of funds on this account has been larger than the outflow whereas a minus sign means that the outflow of funds has been larger than the inflow. In net official donations and non-compensatory capital a plus sign indicates that the inflow of autonomous capital (inflow of foreign funds and return flows of domestic capital) has been larger than the outflow of capital (outflow of domestic funds and return flows of foreign funds); a minus sign means that the outflow of autonomous capital has been larger than the inflow. In net errors and omissions a plus sign indicates an excess of recorded debits over credits in the balance of payments as a whole, suggesting an unrecorded

inflow of capital into the Latin American countries; a minus sign indicates an excess of recorded credits over debits, suggesting an unrecorded outflow of capital from the region. In net compensatory financing a plus sign means a net inflow of funds under the heading of extraordinary financing and/or a decrease in net monetary reserves; a minus sign means a net return flow of funds under the heading of extraordinary financing and/or an increase in net monetary reserves. Accordingly, a plus sign indicates a deficit in the balance of payments before compensation while a minus sign indicates a surplus on the same balance.

^b Preliminary figures.

^c Excluding Cuba, on which no data are available for 1960.

than the credit balance on current account). In the second case, when compensatory transactions are negative, the pre-compensation balance can be regarded as favourable, since the autonomous movements have more than offset the deficit on current account (or have shown a deficit smaller than the surplus on current account).

Consequently, the changes in the net compensatory financing give some interesting indications of the direction in which the so-called over-all equilibrium of the external payments has evolved. If a debit entry under the heading of compensatory financing has been replaced by a credit entry, it is clear that the over-all equilibrium of the balance of payments has deteriorated since a pre-compensation deficit has replaced the previous pre-compensation surplus. Conversely, if a credit entry under the same heading has been replaced by a debit entry, it can be asserted that the over-all equilibrium has improved. Nevertheless, if changes in the compensatory financing entry affect the absolute value but not the sign,

it is more difficult to draw conclusions regarding the evolution of the over-all equilibrium.³

³ In this case, it would be necessary to make some distinctions according to various hypotheses: (a) economies with a negative balance of payments (i.e., a pre-compensation deficit), and a deficit on current account; (b) economies with a negative balance of payments and a surplus on current account; (c) economies with a positive balance of payments (i.e., a pre-compensation surplus) and a surplus on current account; (d) economies with a positive balance of payments and a deficit on current account. As a matter of fact it is sufficient to study the first of these hypotheses, which most often corresponded to the actual situation of Latin American external payments during the post-war period. According to this hypothesis, if the credit entry under the heading of net compensatory financing rises, the absolute imbalance of payments becomes greater but the relative imbalance may lessen if the net inflow of autonomous capital expands more quickly than the net inflow of compensatory financing, so that a decreasing share of the current deficit is actually financed through compensatory transactions. In other words, the over-all equilibrium of the external payments may improve in spite of an

Table 92. Latin America: a summary of international transactions on capital account by country, 1946-50^a

(Aggregate totals in millions of dollars)

Country	Balance on goods, services and private donations	Net official donations and non-compensatory capital	Net errors and omissions	Net compensatory financing
Argentina	+424.4	-1,075.6	-31.6	+682.8
Bolivia	-46.3	+15.2	+18.4	+12.7
Brazil	-46.8	-21.3	-222.1	+196.6
Chile	-184.7	+93.1	+26.4	+65.2
Colombia	-226.7	+132.8	+34.7	+59.2
Costa Rica	-37.4	+29.5	+7.9	—
Dominican Republic	+39.2	-8.0	-33.7	+2.5
Ecuador	-25.4	+36.6	-6.9	-4.3
El Salvador	+36.4	-8.7	-14.6	-13.1
Guatemala	-0.3	+10.0	-14.3	+4.6
Haiti	+4.1	-3.9	—	-0.2
Honduras	-24.8	+29.6	+0.3	-5.1
Mexico	-414.4	+255.0	+102.5	+56.9
Nicaragua	-15.5	+6.0	+5.9	+3.6
Panama	-85.0	+74.5	+10.5	—
Paraguay	-9.3	+3.9	+4.9	+0.5
Peru	-52.1	+48.9	+1.6	+1.6
Uruguay	+15.4	+17.6	-0.8	-32.2
Subtotal I	-555.6	-364.8	-11.9	+1,031.3
Venezuela	-505.9	+966.0	-321.8	-132.3
Subtotal II	-1,061.5	+601.2	-432.7	+893.0
Cuba	+415.0	-176.2	-39.0	-199.8
TOTAL	-646.5	+425.0	-471.7	+693.2

SOURCE: Annex II.

^a Same as footnote ^a to table 91.

Changes in net compensatory financing depend on fluctuations in both the balance on current account and the balance of autonomous capital movements (including net errors and omissions), so that their magnitude is not only a function of the magnitude of the fluctuations in both balances, but also of the relation which may eventually exist between these fluctuations. For example, the changes in net compensatory financing will be relatively small if there is a positive relationship between the fluctuations of the balance on current account and those of the balance of autonomous capital movements, i.e., if the deficit on current account and the net inflow of autonomous capital increase (or decrease) simultaneously. Conversely, these changes will be large if there is a negative relationship between the fluctuations in both balances, i.e., if the net inflow of autonomous capital increases when the deficit on current account decreases, and vice versa.

increase in the absolute value of the pre-compensation deficit. Conversely, if the credit entry under the heading of net compensatory financing decreases, the absolute imbalance of payments is reduced but the relative imbalance may become greater if the net inflow of autonomous capital diminishes more rapidly than the net inflow of compensatory financing, so that the share of the deficit on current account actually financed through compensatory transactions increases. In other words, the over-all equilibrium of the external payments may deteriorate in spite of a decrease in the absolute value of the pre-compensation deficit.

Table 93. Latin America: a summary of international transactions on capital account by country, 1951-55^a

(Aggregate totals in millions of dollars)

Country	Balance on goods, services and private donations	Net official donations and non-compensatory capital	Net errors and omissions	Net compensatory financing
Argentina	-702.1	+303.4	+27.5	+371.2
Bolivia	-69.7	+62.9	—	+6.8
Brazil	-1,444.0	+453.0	+112.0	+879.0
Chile	-70.0	+116.2	-24.9	-21.3
Colombia	-122.3	+243.2	-111.3	-9.6
Costa Rica	-14.3	+19.6	+9.6	-14.9
Dominican Republic	+13.9	-17.4	+13.3	-9.8
Ecuador	-21.3	+28.7	-18.7	+11.3
El Salvador	+33.7	-14.8	-23.0	+4.1
Guatemala	+13.7	+7.6	-6.3	-15.0
Haiti	-25.8	+34.9	-9.9	+0.8
Honduras	-26.5	+47.5	-12.4	-8.6
Mexico	-232.7	+539.2	-162.9	-143.6
Nicaragua	-8.2	+30.0	-9.9	-11.9
Panama	-93.6	+24.8	+68.8	—
Paraguay	-11.2	+15.8	-8.9	+4.3
Peru	-208.9	+201.9	-1.5	+8.5
Uruguay	-136.3	+66.8	-16.3	+85.8
Subtotal I	-3,125.6	+2,163.3	-174.8	+1,137.1
Venezuela	+37.7	+397.6	-269.2	-166.1
Subtotal II	-3,087.9	+2,560.9	-444.0	+971.0
Cuba	-238.9	+333.5	-6.0	-88.6
TOTAL	-3,326.8	+2,894.4	-450.0	+882.4

SOURCE: Annex II.

^a Same as footnote ^a to table 91.

This study of the changes in net compensatory financing in relation to the variations in the balances on current and autonomous capital accounts can be made on a short or long-term basis. In the first case, it involves determining whether a short-term automatic mechanism exists for readjusting flows of goods and services to autonomous capital flows, independently of the mechanisms which may eventually help to stabilize the balance on current account. In the second case, the problem of the existence of a relatively permanent gap between the deficit on current account and the inflow of autonomous capital into the region is studied, together with the evolution of this gap in the long run, and the factors affecting its evolution. Since the first of these two problems will be examined in chapter VII of the present study, a few observations can appropriately be made here regarding the second. In this respect, some general conclusions can be drawn from tables 91-95.

1. THE GENERALLY UNFAVOURABLE POSITION OF LATIN AMERICA'S BALANCE OF PAYMENTS DURING THE POST-WAR PERIOD

The fluctuations in net compensatory financing indicate that the region's balance of payments before compensation changed substantially from one year to another. Nevertheless, this balance showed a surplus in 1949,

Table 94. Latin America: a summary of international transactions on capital account by country, 1956-60^a

(Aggregate totals in millions of dollars)

Country	Balance on goods, services and private donations	Net official donations and non-compensatory capital	Net errors and omissions	Net compensatory financing
Argentina	-887.6	+816.1	+29.7	+41.8
Bolivia	-136.8	+173.9	-57.8	+20.7
Brazil	-1,488.0	+1,380.0	-351.0	+459.0
Chile	-421.6	+328.7	+15.5	+77.4
Colombia	+105.1	+29.1	-313.1	+178.9
Costa Rica	-90.5	+50.6	+24.7	+15.2
Dominican Republic	+42.1	+44.1	-101.2	+15.0
Ecuador	-61.6	+71.6	+2.7	-12.7
El Salvador	-21.3	+21.1	-18.5	+18.7
Guatemala	-179.6	+188.5	-19.0	+10.1
Haiti	+4.3	+7.5	-16.6	+4.8
Honduras	-32.1	+8.0	+15.4	+8.7
Mexico	-74.4	+1,021.5	-307.5	-2.6
Nicaragua	-38.2	+43.3	-11.4	+6.3
Panama	-180.9	+145.1	+35.8	—
Paraguay	-50.9	+44.6	+3.6	+2.7
Peru	-361.9	+410.2	-30.6	-17.7
Uruguay	-266.6	+112.0	+56.3	+98.3
Subtotal I	-4,777.5	+4,895.9	-1,043.0	+924.6
Venezuela	-529.5	+1,548.1	-1,149.0	+130.4
Subtotal II	-5,307.0	+6,444.0	-2,192.0	+1,055.0
Cuba	-347.8 ^b	+255.5 ^b	-218.3 ^b	+310.6 ^b
TOTAL	-5,654.8 ^b	+6,699.5 ^b	-2,410.3 ^b	+1,365.6 ^b

SOURCE: Annex II.

^a Same as footnote ^a to table 91.

^b Excluding Cuba, on which no data were available for 1960.

1950, 1953, 1955, 1956 and 1957 only, i.e., for six out of the seventeen years of the post-war period (1946-62), and a deficit for all the other years. Accordingly, the pre-compensation deficit estimated on a net aggregate basis for the whole period was about 4,000 million dollars.

It is true that the situation was not exactly the same in every country. The balance of payments before compensation calculated by homogeneous five-year periods was constantly unfavourable in four countries (Argentina, Bolivia, Brazil and Paraguay) out of a total of nineteen.⁴ In all the other countries it was positive or negative according to the different periods. However, if the post-war period (1946-62) is taken as a whole, it can be noted that the aggregate balances before compensation show a surplus in only six countries (Ecuador, Honduras,

⁴ Panama has been excluded from the regional total because it has no central monetary authorities and the changes in the short-term assets and liabilities of the commercial banks therefore constitute the source of compensatory financing. But according to the restrictive definition of compensatory transactions used in the present study, such transactions are those realized by the central monetary authorities in order to offset the deficit or surplus shown by the other external transactions. This definition, and consequently the concept of over-all equilibrium of the balance of payments to which the present report makes reference, do not apply to Panama.

Table 95. Latin America (excluding Cuba): a summary of international transactions on capital account by country, 1961^a

(Aggregate totals in millions of dollars)

Country	Balance on goods, services and private donations	Net official donations and non-compensatory capital	Net errors and omissions	Net compensatory financing
Argentina	-584.4	+461.4	-11.0	+134.0
Bolivia	-27.6	+32.2	-2.0	-2.6
Brazil	-292.0	+353.0	+2.0	-63.0
Chile	-279.6	+215.3	-47.1	+111.4
Colombia	-141.8	+40.5	-9.2	+110.5
Costa Rica	-17.7	+8.4	-1.9	+11.2
Dominican Republic	+40.8	-15.7	-41.6	+16.5
Ecuador	-23.4	+13.3	-3.3	+13.4
El Salvador	-1.9	+15.1	-17.8	+4.6
Guatemala	-28.5	+29.3	-2.9	+2.1
Haiti	-4.9	+10.3	-2.7	-2.7
Honduras	+0.1	-1.1	-1.2	+2.2
Mexico	-91.4	+36.8	-248.8	+29.4
Nicaragua	-7.0	+4.1	-1.2	+4.1
Panama	-45.6	+28.7	+16.9	—
Paraguay	-10.7	+14.7	-0.9	-3.1
Peru	+18.2	+12.1	+4.0	-34.3
Uruguay	-16.5	-2.6	-36.1	+55.2
Subtotal	-1,513.9	+1,529.8	-404.8	+388.9
Venezuela	+447.4	-384.4	-56.4	+6.6
TOTAL	-1,066.5	+1,145.4	-461.2	+382.3

SOURCE: Annex II.

^a Same as footnote ^a to table 91.

Mexico, Nicaragua, Peru and Venezuela), and a deficit in the thirteen others. This cumulative deficit was very large in some as, for example, Brazil (about 1,700 million dollars), Argentina (about 1,500 million dollars), Colombia (about 370 million dollars) and Chile (about 260 million dollars).

These facts clearly demonstrate that the external payments of Latin America, and especially of some of the larger countries, have been in a state of almost constant imbalance since the end of the Second World War.

2. THE RISING TREND FOLLOWED BY THE PRE-COMPENSATION DEFICIT IN THE BALANCE OF PAYMENTS OVER THE LONG TERM

The figures for the whole region indicate that the upward trend was relatively moderate until the middle of the fifties, but much more marked from then on. As a matter of fact, the pre-compensation deficit estimated on the basis of annual averages rose from 138.6 million dollars in 1946-50 to 176.5 million in 1951-55 and 273.2 million in 1956-60. The movement apparently accelerated during the last few years since the negative balance before compensation amounted to 382.3 million dollars in 1961 and 533.2 million in 1962.⁵

⁵ Excluding Cuba on which figures for 1961 and 1962 are not available.

This general evolution for the region as a whole is clearly the result of trends that may differ from one country to another. Nevertheless, the study by countries leads to almost the same conclusions as the analysis of the aggregate figures for Latin America as a whole.

The number of countries whose external payments showed a pre-compensation surplus, which had risen from seven in 1946-50 to ten in 1951-55, dropped to only three in 1956-60 (Ecuador, Mexico and Peru). On the other hand, the countries with a pre-compensation deficit, numbering eleven in 1946-50 and nine in 1951-55, totalled sixteen in 1956-60.

3. THE CHANGING CAUSES OF THE PRE-COMPENSATION DEFICIT IN THE BALANCE OF PAYMENTS OVER THE LONG TERM

The pattern of evolution is already clear from the aggregate figures for the whole region. These figures indicate that autonomous capital transactions (including net errors and omissions) showed a small deficit in 1946-50, so that the over-all deficit of external payments was due both to this deficit on capital account and to the negative balance on current account. On the other hand, during the periods 1951-55 and 1956-60, and in the last two years, the balance of autonomous capital movements (always including net errors and omissions) was favourable to the region so that the pre-compensation deficit reflected a gap between the net inflow of autonomous capital and the negative balance on current account.

The study by countries leads to similar conclusions. The number of countries that simultaneously registered a deficit for autonomous capital movements and a surplus on current account totalled seven in 1946-50 (Argentina, Brazil, Dominican Republic, El Salvador, Haiti, Uruguay and Cuba),⁶ one in 1951-55 (El Salvador) and three in 1956-60 (Colombia, Dominican Republic and Haiti). Conversely, the number of countries with a surplus for non-compensatory capital transactions and a deficit for current transactions rose from ten in 1946-50 to fifteen in 1951-55 and sixteen in 1956-60.⁷ Furthermore, among this last group, those countries where the surplus for autonomous capital was insufficient to offset the deficit for current transactions numbered seven in 1946-50, eight in 1951-55 and thirteen in 1956-60, including some of the principal importers of foreign funds, namely, Argentina, Brazil, Venezuela, Chile and Cuba.

To sum up, at the beginning of the post-war period, the deficit in the balance of payments before compensation was due in some countries to a negative balance for autonomous capital transactions and in others to the fact that the autonomous capital inflow was insufficient

to offset the deficit on current account. But since 1951 and more clearly from 1955 onwards, the pre-compensation deficit has nearly always reflected the existence of a gap between the deficit on current account and the net inflow of autonomous capital. The existence of such a gap, at a time when the net inflow of foreign funds was undoubtedly following an upward trend, obviously resulted from two phenomena which have been studied in previous chapters of the present report: (a) the deterioration in the terms of trade, which became more marked after 1955 and caused losses on current account that have partially offset the increase in the inflow of autonomous foreign funds; (b) the outflow of domestic funds which has become progressively larger since approximately the same date.

It might be interesting to come to closer grips with the problem of the imbalance in Latin America's external payments by attempting to express this imbalance in mathematical terms. One way would be to determine the portion of the deficit on current account that remains after the autonomous capital movements have taken place, in other words, to work out the proportion of the deficit on current account that is met each year by compensatory financing. The same result can be attained by calculating the percentage of the net capital inflow that represents the net amount of compensatory financing, since this inflow is by definition equal and of opposite sign to the deficit on current account.

Tables 96 and 97 reproduce the results of this calculation for periods and countries in which there was a net inflow of capital, i.e., when the balance on current account actually showed a deficit. The ratios so obtained are preceded by the same sign as that of the balance of the compensatory transactions. Therefore, a positive ratio indicates the percentage of the net capital inflow into the region (or the country under consideration) that was financed by net disbursements of extraordinary funds and/or by drawing upon the region's gold and foreign exchange reserves. Conversely, a negative ratio indicates the percentage of the net capital inflow into the region

Table 96. Latin America: net compensatory financing as a percentage of the net capital inflow,^a 1946-62

Period or year	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
1946-50	+107.2	+84.1	+185.7
1951-55	+26.5	+31.4	+36.4
1956-60	+24.1 ^b	+19.9	+19.3
1961 . . . . .	...	+35.8	+25.7
1962 ^c . . . . .	...	+80.3	+48.3

SOURCE: Table 91.

^a The ratios are preceded by the same sign as that of the balance of compensatory transactions. Since the region has constantly registered a net inflow of capital, a positive ratio indicates the percentage of this inflow that was financed through compensatory transactions, i.e., the percentage of the deficit on current account that was offset by resorting to extraordinary financing or by drawing upon the region's net monetary reserves. Accordingly, it can be assumed that the over-all equilibrium of external payments deteriorated when the positive ratio increased and improved when the same ratio decreased.

^b Excluding Cuba, on which no data were available for 1960.

^c Preliminary figures.

⁶ The existence of a deficit for non-compensatory capital transactions in these countries during this period was due not only to the outflow of domestic capital but also to some important return flows of foreign funds.

⁷ Besides the countries which had balances of different sign on current and autonomous capital accounts, two countries registered a deficit on both accounts or had a balance of payments that was exceptionally stabilized before compensation (Guatemala and Costa Rica) in 1946-50, and three countries registered a surplus on both current and autonomous capital accounts in 1951-55 (Dominican Republic, Venezuela and Cuba).

(or the country under consideration) used by the region to redeem the consolidation credits previously granted and/or to reconstitute its net monetary reserves. Accordingly, it is clear that the ratio between net compensatory financing and the net capital inflow gives a much more precise idea of the over-all equilibrium of external payments than the net amount of compensatory financing, since the former measures the relative over-all imbalance of payments, while the latter represents the absolute imbalance only.

If the region is considered as a whole, as in table 96, it must be noted that the share of the net capital inflow (i.e., of the deficit on current account) financed by compensatory transactions decreased over the long run

Table 97. Latin America: net compensatory financing as a percentage of the net capital inflow by country,^a 1946-61

Country	1946-50	1951-55	1956-60	1961
Argentina . . . . .	... b	+52.9	+4.7	+22.9
Bolivia	+27.4	+9.7	+15.1	-9.4
Brazil . . . . .	... b	+60.9	+30.8	-21.4
Chile	+35.3	-30.4	+18.3	+39.8
Colombia	+26.1	-7.8	+170.2	+128.3
Costa Rica	—	-104.2	+16.8	+63.2
Dominican Republic . . . . .	... b	... b	... b	... b
Ecuador	-16.9	+53.0	-20.6	+57.2
El Salvador . . . . .	... b	... b	... b	+242.1
Guatemala . . . . .	... b	... b	... b	+7.3
Haiti . . . . .	... b	+3.1	... b	-55.1
Honduras	-20.5	-32.4	+27.1	... b
Mexico	+13.7	-61.7	-0.4	+32.2
Nicaragua	+23.2	-145.1	+16.5	+58.6
Panama	— ^c	— ^c	— ^c	— ^c
Paraguay	+5.4	+38.3	-53.0	-29.0
Peru	+3.2	+4.1	-4.9	... b
Uruguay . . . . .	... b	+62.9	+36.9	+298.9
<i>Subtotal I</i>	<i>+107.2</i>	<i>+36.4</i>	<i>+19.3</i>	<i>+80.3</i>
Venezuela	-27.3	... b	... b	... b
<i>Subtotal II</i>	<i>+84.1</i>	<i>+31.4</i>	<i>+19.9</i>	<i>+35.8</i>
Cuba . . . . .	... b	-37.1	+89.3 ^d	...
TOTAL	+185.7	+26.5	+24.1	...

SOURCES: Tables 92 to 95.

^a The ratios have been calculated only for the countries where and when there was actually a net inflow of capital, i.e., where and when the balance on current account showed a deficit. They are preceded by the same sign as that of the balance of compensatory operations. Therefore, a positive ratio indicates the percentage of the net capital inflow into the region that was financed by net disbursements of extraordinary financing and/or by drawing upon the region's gold and foreign exchange reserves. On the other hand, a negative ratio indicates the percentage of the net capital inflow into the country under consideration that represented the funds used by the country to redeem the consolidation credits previously granted to it and/or to reconstitute its net monetary reserves. Accordingly, it can be assumed that the over-all equilibrium of the balance of payments has improved if a positive ratio has been replaced by a negative one, if a positive ratio has decreased or if a negative ratio has increased. Conversely, it can be asserted that the over-all equilibrium has deteriorated if a negative ratio has been replaced by a positive one, if a negative ratio has decreased or if a positive ratio has increased.

^b Period when the balance on current account showed a surplus, i.e., when a net outflow of capital was registered in the balance of payments.

^c The restrictive concept of compensatory financing does not apply to Panama.

^d Excluding 1960, for which no data were available.

from 107.2 per cent in 1946-50, when autonomous capital movements showed a negative balance, to 26.5 per cent in 1951-55 and 24.1 per cent in 1956-60. The downswing is still more marked, at least during the fifties, if the data for Cuba are excluded from the total in order to obtain an entirely homogeneous series, since in this case the ratio between compensatory financing and net capital inflow declined from 84.1 per cent in 1946-50 to 31.4 per cent in 1951-55 and as little as 19.9 per cent in 1956-60. This evolution is noteworthy because the absolute amount of net compensatory financing (i.e., of the pre-compensation deficit) tends to increase in the long run. The reason for this apparent discrepancy lies in the fact that the net inflow of autonomous capital increased much more quickly than net compensatory financing over the long term. This case shows clearly that the changes in the ratio between net compensatory financing and net capital inflows reflect more exactly the evolution of the over-all balance-of-payments equilibrium than the changes in the absolute amount of total compensatory financing. As a matter of fact, in the present case there was a certain tendency towards better spontaneous equilibrium in Latin America's external payments in spite of the noticeable increase in the absolute amount of net compensatory financing. Nevertheless, this tendency towards a reduction in the relative negative imbalance was apparently reversed during the last few years, when the share of the net capital inflow (i.e., of the deficit on current account) financed by compensatory transactions became much larger, reaching 35.8 per cent in 1961 and 80.3 per cent in 1962.

The situation actually differed very considerably from one country to another. During the fifties, the over-all equilibrium of external payments tended to deteriorate in eight countries, since table 97 shows that a negative ratio was replaced by a positive one (Chile, Colombia, Costa Rica, Honduras, Nicaragua and Cuba), i.e., a pre-compensation surplus was replaced by a pre-compensation deficit, or a positive ratio increased (Bolivia), i.e., a relative negative imbalance became more accentuated, or a negative ratio decreased (Mexico), i.e., a relative positive imbalance was reduced.⁸ On the other hand, the over-all equilibrium improved in six countries. In three of them (Ecuador, Paraguay and Peru) the shift from a negative to a positive ratio reflected the move to rebuild net monetary reserves. In the three others (Argentina, Brazil and Uruguay), the decrease in the positive ratio showed that these countries were less dependent on compensatory financing to support their external payments owing to the increasing inflow of autonomous capital. According to the same criterion, the over-all equilibrium of the external payments deteriorated in 1961 in relation to the position during the second half of the

⁸ To this group should be added five countries from among those for which the ratio between net compensatory capital and net capital inflow has not been calculated because they registered a net outflow of capital, i.e., their balance on current account showed a surplus during the periods of reference: *Dominican Republic* where the surplus on current account decreased from 1951-55 to 1956-60, and a pre-compensation surplus was replaced by a pre-compensation deficit; *El Salvador* and *Haiti* where the balance on current account passed from a positive to a negative sign and the pre-compensation deficit increased; *Guatemala* and *Venezuela* where a surplus was replaced by a deficit both on current account and in the balance of payments before compensation.

fifties in eight countries (Argentina, Chile, Costa Rica, Ecuador, Mexico, Nicaragua, Paraguay and Uruguay), and improved in three others (Bolivia, Brazil, Colombia).

It should be noted, however, that the improvement in the technical equilibrium of the external payments of certain countries did not necessarily lead to any real strengthening of their external financial situation. On the one hand, it was primarily due to a substantial increase in autonomous capital receipts, which, as will be

seen later, led to a marked increase of the external public and private debt with all the inevitable adverse effects on the future levelling of the balance. On the other, a mere reduction in the contribution of compensatory financing to the total net capital inflow, as in Argentina, Brazil and Uruguay in 1956-60, was not enough to reverse the downward trend of monetary reserves which greatly impaired the ability of the authorities to deal with new foreign payments crises.

B. SOURCES OF COMPENSATORY FINANCING

In the case of Latin America, compensatory movements have been actuated by accumulated trade debts, balance-of-payments loans or the gold and foreign exchange holdings of the monetary authorities.

1. ACCUMULATION OF TRADE DEBTS AND BALANCE-OF-PAYMENTS LOANS

A summary but effective method of covering the pre-compensation deficit in the balance of payments for a country in the grip of foreign payments problems would be to allow short-term trade debts to accumulate. Within the scope of a clearing agreement, this would take the form of an increase in the short-term liabilities of the central bank in the debtor country with its counterpart in the creditor country, which presupposes a certain degree of consent on the part of the latter bank since the dates for the settlement of accounts between the two issuing bodies fall due in a relatively short space of time. Outside such clearing agreements, it would consist of a forced dilatation of the liabilities of the private sector in the debtor country, since the monetary authorities do not grant importers — or grant them only after considerable delay — the foreign exchange they need to meet their external commitments. It is thus an expedient that has an extremely adverse effect on the international credit of the country resorting to it, since it is tantamount to a partial or total unilateral suspension or prorogation of foreign payments.

These practices, which played a considerable part in Latin America's foreign monetary relations during the Depression and above all immediately after the Second World War,⁹ lost their importance during the fifties.

In the form of an increase in the swings granted by European central banks to the Latin American countries, they gradually disappeared after the elimination of bilateralism as a result of the creation of The Hague and Paris Clubs (1955 and 1961) and the establishment of the convertibility of European currencies in favour of non-residents (1958). In the form of a unilateral suspension or extension of payments, they were applied in exceptional cases only.

In any case, these measures were obviously in the nature of a stop-gap since — lest external transactions should

come to a standstill — they had to be superseded by agreements to consolidate outstanding debts between the currency-issuing institutions if clearing agreements existed, or by agreements to refinance the debts vis-à-vis foreign exporters if they did not, that is to say, in any event by the concession of balance-of-payments loans.

These loans, that might perhaps be described as long-term extraordinary compensatory financing according to IMF terminology, may be defined as credits accorded for more than a year to the Government or monetary authorities of a country to enable them to surmount a foreign payments crisis. The feature that distinguishes them¹⁰ from ordinary financing over the long run (long-term loans that are not granted for the purpose of solving a foreign payments crisis) is their exceptional character. It may be said, in fact, that balance-of-payments loans are not granted except in special circumstances that are not likely to recur often, as opposed to development credits and medium-term commercial loans that maintain permanent flows of capital. This criterion has undoubtedly lost some of its significance as a result of the external financial crises from which the Latin American countries have been suffering more and more frequently owing to the structural disequilibria in their balances of payments.

There is no difficulty, however, in classifying under the heading of extraordinary long-term financing the credits granted exceptionally by foreign institutions for the purpose of refinancing short-term trade debts, either after a suspension or unilateral extension of payments or — more commonly — in order to prevent the debtor country from taking such a decision.

The credits have usually been opened as part of the parallel arrangements signed by the Latin American countries with public institutions (United States Treasury, Export-Import Bank, etc.) or United States private banks, concurrently with the stand-by arrangements made with IMF. Their purpose has been to settle accounts with respect to unpaid imports and other outstanding debts, as distinct from the right of drawing upon IMF, which, in principle, should not be used for paying debts but for reconstituting gross gold and foreign exchange holdings so as to stabilize the exchange rate and restore confidence in the currency of the recipient countries. The amounts

⁹ It should be noted that it was not not always the Latin American countries that resorted to these practices; the European countries were more prone to them, in particular immediately after the Second World War.

¹⁰ This criterion has been adopted on various occasions by IMF, particularly in the document entitled *Measurements of Imbalance in World Payments 1947-58* (DM/62/13), 10 April 1962.

involved have usually exceeded the sums placed by IMF at the disposal of the Latin American countries.

For example, in 1956, Colombia obtained 25 million dollars under a stand-by arrangement with IMF, 60 million from the Export-Import Bank and 27 million from a consortium of New York private banks. Similarly in 1958 Brazil received 37.5 million dollars from IMF, 100 million from the Export-Import Bank and 58 million from United States commercial banks. In December 1958 Argentina was given 75 million by IMF and 100 million by the Export-Import Bank acting in conjunction with a group of United States private banks, 25 million by the Development Loan Fund and 50 million by the United States Treasury, and so on.

A comparison can be made between these United States credits and those granted to Latin American countries on several occasions by European countries for the purpose of consolidating the trade debts accumulated under the bilateral or multilateral payments agreements (Paris and The Hague Clubs).

It is not always so easy, however, to distinguish between extraordinary and ordinary financing. This is the case, for instance, of certain credits that were granted by the Export-Import Bank to official Latin American organizations, but whose purpose is not specified. As it is impossible to scrutinize all the long-term transactions of the twenty countries during the last decade, a rough line of demarcation has to be drawn.

Table 98 shows, subject to the above reservations, that net capital inflows under the head of long-term compensatory loans were about 1,600 million dollars during the post-war period (1946-62) for the region as a whole, and that they tended to increase during the fifties (rising from 584.0 million dollars in 1951-55 to 783.5 million in 1956-60). The flow was very unequally distributed — it went to eleven countries only: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Nicaragua, Paraguay, Peru and Venezuela, two of these — Argentina and Brazil — obtaining more than half. In both, receipts exceeded the sum of the other long-term capital inflows intended for the public sector (being five times higher in Argentina and fourteen times higher in

Brazil), which were chiefly fed by development loans from the International Bank, the Export-Import Bank and other United States Government agencies. This last point should be carefully borne in mind because consolidated credits, unlike development loans, can be regarded as dispersed in purchases of goods — of which only a fraction consists of equipment — even before they have been granted, so that in actual fact their amortization is simply a financial burden for the recipient country with no economic counterpart.

The Export-Import Bank is the agency that has granted most to Latin America under the head of extraordinary compensatory financing. The net total during the ten fiscal years 1951-60¹¹ was 406.1 million dollars, i.e., about a third of the aggregate net resources of the same kind obtained by the region in the course of the ten calendar years 1951-60. The concession of these funds has in fact been one of the principal activities of the Export-Import Bank, since they accounted for 36.5 per cent of its net disbursements to Latin America between 1 July 1950 and 30 June 1960.

2. VARIATIONS IN NET MONETARY RESERVES

The net monetary reserves of a country may be defined as equal to the balance of liquid assets less the short-term foreign liabilities of the monetary authorities of that country. The movement of these reserves therefore includes variations in:¹²

The gold reserves of the monetary authorities;

¹¹ The Export-Import Bank transactions are entered in the accounts for the United States fiscal year, which runs from 1 July to 30 June.

¹² According to the IMF definition, the monetary authorities hold the official gold and foreign exchange reserves, intervene in the exchange market, issue currency and rediscount the bills of exchange held in portfolio by private banks (IMF, *Balance of Payments Manual*, 3rd ed., para. 342). In most of the Latin American countries these functions are performed by the central bank, although the Treasury occasionally retains certain faculties in this sphere. But some countries do not have a real central bank, which means that the activities proper to the monetary authorities are scattered among a number of organizations (e.g., Panama and, more particularly, Brazil).

Table 98. Latin America: net balance-of-payments loans by country, 1946-62
(Millions of dollars)

Country	Aggregate totals by quinquennia				
	1946-50	1951-55	1956-60	1961	1962 ^a
Argentina	—	+77.3	+417.5	-98.0	-19.3
Bolivia	+8.3	-7.5	+0.1	—	—
Brazil	—	+490.0	-54.0	+201.0	+119.0
Chile	+14.0	+4.3	+81.2	+37.4	+6.3
Colombia	—	—	+129.9	+55.8	-15.6
Costa Rica	—	—	+10.0	—	—
Dominican Republic	—	+7.0	-2.0	-0.3	-1.0
Nicaragua	—	—	+4.0	+4.0	-0.8
Paraguay	—	+2.9	-3.2	—	—
Peru	+5.6	+10.0	—	—	—
Venezuela	—	—	+200.0	-33.3	-66.7
TOTAL	+27.9	+584.0	+783.5	+166.6	+21.9

SOURCE: Annex II.

^a Preliminary figures.

- The official foreign exchange holdings;
- Short-term liabilities vis-à-vis the monetary authorities of other countries;
- Their debit or credit balances within the framework of bilateral payments agreements;
- Their net position with the International Monetary Fund;¹³
- Their liquid debit or credit balances with private banks and private individuals in other countries.

The Fund sometimes makes use of a narrower definition of the net reserves, which excludes the short-term transactions of monetary authorities with private banks and foreign private individuals.¹⁴ This point of view may be justified by the fact that the transactions differ very little from those of commercial banks, so that it is hard to place them under the line. Nevertheless, it is open to argument. On the one hand, it is rather artificial to try to make a definite distinction between the foreign commercial transactions of central banks and their external monetary transactions, at any rate in Latin America, where the first often resemble the second. Such banks often obtain foreign currency by buying it from private individuals — usually foreign investors — with the option of repurchase (cf. the swap operations of the Banco do Brasil, which have expanded enormously in the last few years). Similarly, in drawing periods when they find it hard to supply the exchange market, they are more ready to “accept” drafts drawn on importers in their own countries in order to stagger over a period of time the payments they have to make in foreign currency. On the other hand, from a purely accounting standpoint, it is extremely difficult to separate the external commercial transactions of central banks in the region, the distinction between a banking department and a currency department being quite exceptional (it exists in Bolivia and Uruguay only).

If only for statistical convenience, it seems best to adopt the widest possible definition of the movement of reserves.

The figures which cover changes in net monetary reserves in the Latin American balances of payments drawn up by the IMF have to be readjusted in order to cover solely the transactions coming within the definition adopted in the present study. Broadly speaking, these readjustments were less considerable for 1956-62 than for 1946-55, according to a change in the presentation of the IMF balances of payments.¹⁵ The figures derived

¹³ The net position of a member State with IMF is equal to the amount of its subscription in gold, plus whatever proportion of its subscription in local currency it may have been able to redeem, less its net drawings on the Fund, plus the net total sales of its currency by the Fund, plus or minus the administrative and operational expenditure and receipts of the Fund, in its currency. It is a measure of the resources that the member State has placed at the disposal of the Fund or has obtained from it.

¹⁴ See, for instance, *Measurements of Imbalance in World Payments 1947-58*, op. cit.

¹⁵ The presentation of the standard balance was substantially modified in the third edition of the *Balance of Payments Manual* in 1960. However, the series were retroactively revised to 1956 in volume 13 of the *Balance of Payments Yearbook* in which the new

from these successive adjustments undoubtedly fail to give an entirely accurate picture of the variations in the net monetary reserves of the Latin American countries, but they do at least give some idea of their magnitude.

Tables 99 and 100 reproduce these figures preceded by the relevant sign attributed to them in the balance of payments so that a positive figure means a decrease in the net monetary reserves and a negative figure an increase in the same reserves (see also figures III and IV).¹⁶

presentation of the standard balance was used for the first time. Consequently, the figures covering changes in net monetary reserves for 1946-55 are treated according to the definitions adopted in the first and second editions of the *Balance of Payments Manual*, and those for 1956-62 according to the definitions used in the third edition of the *Manual*.

In order to get homogeneous series within the scope of the definition used in the present study, the following readjustments had to be made:

(a) *Period 1946-55*

The original figures were regrouped under different headings in the IMF balances of payments so that their readjustment involved three main problems.

(i) The variations in the short-term credits and liabilities of the monetary authorities are recorded under the respective headings of short-term assets and liabilities of official and banking institutions, which means that they are combined with variations in the credits and liabilities of commercial banks and official institutions other than of a monetary kind. The transactions of the last two categories of organization have therefore had to be eliminated, but this has not always proved feasible in practice. For instance, in the case of Brazil, it has not been possible to single out the operations of non-monetary official institutions; moreover, between 1951 and 1954, commercial banks' liabilities vis-à-vis foreign private individuals could not be distinguished from those of the Banco do Brasil. Similarly, in Haiti the short-term transactions of commercial banks were inextricably mingled with those of the Banque Nationale during the same period.

(ii) Certain long-term assets held by the monetary authorities, which consist of securities that are readily marketable (bonds issued by IBRD, United States Treasury bonds, etc.), should be considered as an intrinsic part of the monetary holdings. The variations recorded against the item “long-term assets of official and banking institutions” were therefore transferred to the reserve account. It should be noted, however, that they were of scant importance during the last decade, except in a few countries in the dollar area (particularly Cuba and, to a lesser extent, El Salvador, Guatemala and Honduras).

(iii) The transactions between the Latin American monetary authorities and international organizations have given rise to the most difficult problem of all, which is set forth at length in the General Methodological Note. The solution adopted is that usually advocated by IMF, which consists in placing all transactions with that organization under the line and all those with other international bodies (IBRD, etc.) above the line. Hence, IMF's operations either compensate one another (for instance, new subscriptions in local currency) or are offset by a variation in official gold and foreign exchange holdings (e.g., new subscriptions in gold and foreign currencies and net drawings on the Fund).

(b) *Period 1956-62*

For this period the transactions of the central monetary authorities were regrouped under a single heading in the IMF balances of payments. But the balance of this account does not correspond exactly to the movement of the net reserves under the definition used in the present study, owing to the inclusion of the transactions in respect of the long-term loans accorded to the central monetary authorities. As far as possible these operations have been transferred from the account of the monetary reserves to the account of the balance-of-payments loans.

¹⁶ The same figures have been used for preparing these charts, but in this case they are preceded by an opposite sign to that under which they were entered in the balance of payments, in order to get a more significant graphic representation.

Table 99. Latin America (excluding Cuba): changes in net monetary reserves, 1946-62

(Millions of dollars)

Year	Net foreign exchange reserves					Official monetary gold (increase -)	Total (increase -)
	Liabilities	Assets (increase -)	Net IMF position (increase -)	Net total (increase -)			
1946	-5.8	-205.5	-1.6	-212.9	+254.8	+41.9	
1947	-10.7	-402.8	-22.9	-415.0	+953.3	+538.3	
1948	+6.4	+335.0	-36.8	+304.6	+208.0	+512.6	
1949	-11.5	+75.1	+34.3	+97.9	-129.7	-31.8	
1950	+63.2	-65.7	-0.1	-2.6	-244.2	-246.8	
1951	+291.2	+332.7	+2.1	+626.0	-65.0	+561.0	
1952	+126.8	-58.4	-36.9	+31.5	+11.2	+42.7	
1953	-148.8	-113.6	+37.1	-225.3	-121.4	-346.7	
1954	+127.0	-51.4	+47.0	+122.6	+82.4	+205.0	
1955	-46.0	-10.7	-22.4	-79.1	-67.9	-147.0	
1956	-327.9	-501.8	-60.8	-890.5	-18.6	-909.1	
1957	+14.3	-176.5	+136.5	-25.5	-17.7	-43.2	
1958	+97.9	+554.9	+57.7	+710.5	+101.1	+811.6	
1959	+128.1	-85.6	-40.3	+2.2	+66.7	+68.9	
1960	+377.2	-275.9	+4.1	+105.4	+227.6	+333.0	
1961	-140.4	+178.9	+249.8	+288.3	-57.1	+231.2	
1962 ^a	+102.6	+239.2	-70.5	+271.3	+240.0	+511.3	
TOTAL							
1946-50.	+63.0	-263.9	-27.1	-228.0	+1,042.2	+814.2	
1951-55.	+350.2	+98.6	+26.9	+475.7	-160.7	+315.0	
1956-60.	+289.6	-484.9	+97.4	-97.9	+359.1	+261.2	

SOURCE: Annex II.

^a Preliminary figures.

Table 100. Latin America (excluding Cuba and Venezuela): changes in net monetary reserves, 1946-62

(Millions of dollars)

Year	Net foreign exchange reserves					Official monetary gold (increase -)	Total (increase -)
	Liabilities	Assets (increase -)	Net IMF position (increase -)	Net total (increase -)			
1946	-5.8	-191.1	-1.6	-198.5	+264.7	+66.2	
1947	+10.7	-400.2	-19.2	-408.7	+953.4	+544.7	
1948	+6.4	+355.4	-36.8	+325.0	+316.2	+641.2	
1949	-11.5	+86.3	+34.3	+109.1	-79.9	+29.2	
1950	+52.4	-136.9	-0.1	-84.6	-244.2	+328.8	
1951	+296.1	+332.4	+2.1	+630.6	-65.0	+565.6	
1952	+131.7	+6.9	-36.9	+101.7	+11.2	+118.9	
1953	-145.8	-72.6	+37.1	-181.3	-121.4	-302.7	
1954	+126.1	-83.1	+47.0	+90.0	+112.6	+202.6	
1955	-46.0	+38.8	-22.4	-29.6	-67.7	-97.3	
1956	-328.0	-284.6	-60.8	-373.4	+181.2	-492.2	
1957	+12.2	+212.9	+136.7	+361.8	+98.5	+460.3	
1958	+96.4	+160.5	+57.7	+314.6	+101.1	+415.7	
1959	+121.6	-359.0	-40.3	-277.7	+1.7	-276.0	
1960	+382.3	-171.1	+37.9	+249.1	-26.1	+223.0	
1961	-138.4	+150.2	+249.8	+261.6	-57.1	+204.5	
1962 ^a	+102.6	+205.9	-70.5	+238.0	+240.0	+478.0	
TOTAL							
1946-50.	+52.2	-286.5	-23.4	-257.7	+1,210.2	+952.5	
1951-55.	+362.1	+222.4	+26.9	+611.4	-130.3	+481.1	
1956-60.	+284.5	-441.3	+131.2	-25.6	+356.4	+330.8	

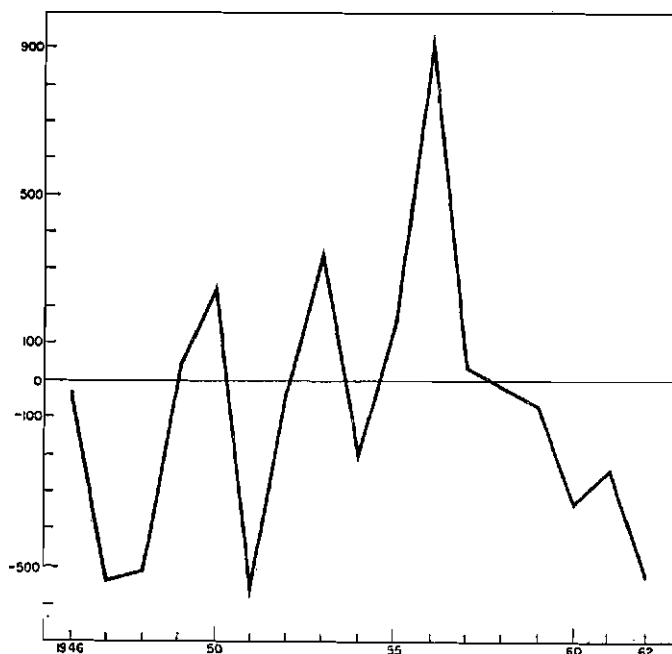
SOURCE: Annex II.

^a Preliminary figures.

Figure III. Latin America (excluding Cuba): changes in net monetary reserves,^a 1946-62

(MILLIONS OF DOLLARS)

Natural scale



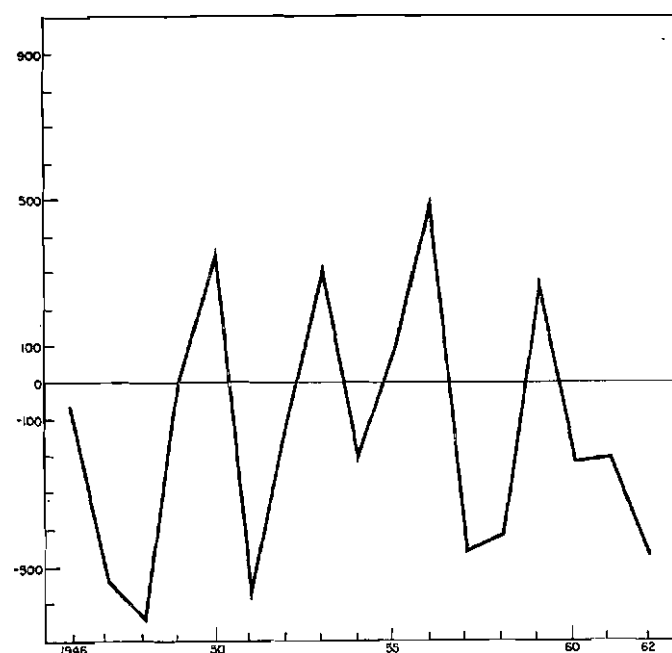
SOURCE: Table 99.

^a The figures are preceded by an opposite sign to that under which they are entered in table 99, so that a positive figure means an increase in the net monetary reserves and a negative figure a decrease in the same reserves.

Figure IV. Latin America (excluding Cuba and Venezuela): changes in net monetary reserves,^a 1946-62

(MILLIONS OF DOLLARS)

Natural scale



SOURCE: Table 100.

^a The figures are preceded by an opposite sign to that under which they are entered in table 100 so that a positive figure means an increase in net monetary reserves and a negative figure a decrease in the same reserves.

These tables show that the variations in net reserves were particularly marked over the short term, so that it is possible to distinguish five periods since the end of the Second World War for Latin America as a whole (excluding Cuba for which data have not been available since 1959):

(i) During the first three years of the post-war period (1946-48), the Latin American net monetary reserves decreased by more than 1,000 million dollars (1,092.8 million dollars for the whole region and 1,252.1 million dollars if Venezuela is excluded from the regional total). There were two main reasons for this diminution: on the one hand, the balance on current account, which had showed a surplus during the Second World War and up to 1946, changed to the debit side in 1947 and 1948 because the volume of imports, artificially reduced during the war years, grew more rapidly than that of exports, and the region's terms of trade began to deteriorate from 1948 onwards; on the other hand, the balance of autonomous capital transactions was unfavourable to the region in 1946 and 1948, owing to a net outflow of domestic funds and to net return flows of foreign funds for the reasons explained above.

(ii) In 1949-50 the region's net monetary reserves increased by some 300 million dollars (278.6 million dollars for the whole region and 299.6 million if Venezuela is excluded from the regional total). The balance on current account improved to the point where it showed a surplus in 1950, largely because of the measures adopted by the Latin American Governments to reduce purchases abroad. Furthermore, the balance for autonomous capital transactions was favourable to the region owing to the stabilization of the net outflows of domestic funds and to a substantial net inflow of foreign funds.

(iii) The situation worsened again in 1951-52, when Latin America's net monetary reserves declined by some 600 million dollars (603.7 million dollars for the whole region, and 684.5 million with Venezuela excluded). During this period, which roughly corresponds to the Korean conflict, the deficit on current account rose substantially to about 1,000 million dollars per year. This evolution, which may seem difficult to explain since the terms of trade improved at that time, was due to the fact that the volume of imports sharply increased because of a tendency to stock-pile imported goods in the region in anticipation of a new world war. The increase in the current deficit was not offset by the moderate growth in the net inflow of foreign funds, and transactions in respect of domestic funds remained unfavourable to the region.

(iv) From 1953 to 1957 the region's net monetary reserves increased steadily (except in 1954), the total gains in six years being about 1,200 million dollars. But the increase was largely due to Venezuela, so that if this country is excluded from the regional total, the gains constituted little more than 200 million dollars, i.e., a figure inferior by some 1,700 million dollars to the losses suffered in 1946-48 and 1951-52. This relatively slight improvement in the situation of the net monetary reserves was not attributable to the same reasons throughout the period under consideration. In 1953 it was largely due to the fact that the balance on current account showed a small surplus thanks to a temporary improvement in

the terms of trade and of new government measures to reduce the volume of imports. On the other hand, in 1955, 1956 and 1957, it was caused by a sharp increase in the net inflow of autonomous foreign funds, which was sufficient in some countries to offset the growing deficit on current account in spite of a certain tendency towards an acceleration in the flight of domestic funds (Venezuela). In addition, some other countries, like Argentina and Brazil, received a large amount of capital under the head of extraordinary financing.

(v) From 1958 onward net reserves began to shrink again, and in the space of five years Latin America lost nearly 2,000 million dollars (1,956.0 million dollars for the whole region and 1,045.2 million with Venezuela excluded), while it received over 600 million dollars in special credits during the same period to stabilize the balance of payments. The downward movement can clearly be ascribed to the fact that the rising trend of the net foreign capital inflow was more than offset by the tendency towards an increasing deficit on current account due to the sharp deterioration of the region's terms of trade from 1958 onwards and the acceleration in the flight of domestic capital.

These short-term fluctuations in gold and foreign exchange holdings need not be regarded as anything but normal, since it is natural that the monetary authorities should make use of their international liquid assets to ensure the equilibrium of external payments over the

short term. But unfortunately they were not compensated for from one year to the next with the result that the volume of net liquid assets held by central banks tended to shrink over the long term. For Latin America as a whole, the losses amounted to more than 2,000 million dollars (2,132.9 million dollars) during the post-war period (1946-62).¹⁷ With Venezuela eliminated from the regional total they would be a little more (2,446.9 million).

It is interesting to compare this evolution of net monetary reserves over the long term with that of gross monetary reserves, which has been already noted before.

It can be observed that for the first five years of the post-war period (1946-50) the diminution in net reserves can be essentially attributed to the reduction in gross reserves and especially in the stock of official gold, while the short-term liabilities of the central monetary authorities remained almost constant.

On the contrary, the drop in the region's net reserves during the decade 1951-60 was accompanied by a slight increase of 187.9 million dollars in gross reserves, which was more than counterbalanced by the substantial

¹⁷ Always excluding Cuba whose net reserves went up by 199.8 million dollars in 1946-50 and by 88.6 million dollars in 1951-55, but diminished by 310.6 million in 1951-59. If these figures are included in the regional total, Latin America's reserves may be considered to have shrunk by 2,155.1 million dollars during the post-war period.

Table 101. Latin America: changes in net monetary reserves, by country (increase —) and by period, 1946-62
(Millions of dollars)

Country	Aggregate totals					
	1946-50	1951-55	1956-60	1946-62	1961	1962 ^a
Argentina	+682.8	+293.9	-375.7	+1,110.5	+232.0	+277.5
Bolivia	+4.4	+14.3	+20.6	+40.8	-2.6	+4.1
Brazil	+156.6	+317.0	+599.0	+906.6	-253.0	+97.0
Chile	+51.2	-25.6	-3.8	+115.6	+74.0	+19.8
Colombia	+59.2	-9.6	-47.3	+114.6	+69.2	+43.1
Costa Rica	—	-14.9	+5.2	-3.5	+11.2	-5.0
Dominican Republic	+2.5	-16.8	+17.0	+7.8	+16.8	-11.7
Ecuador	-4.3	+11.3	-12.7	-3.9	+13.4	-11.6
El Salvador	-13.1	+4.1	+18.7	+5.3	+4.6	-9.0
Guatemala	+4.6	-15.0	+10.1	+15.3	+2.1	+13.5
Haiti	-0.2	+0.8	+4.8	+7.4	-2.7	+4.7
Honduras	-5.1	-8.6	+8.7	-2.7	+2.2	+0.1
Mexico	+56.9	-143.6	-2.6	-68.4	+29.4	-8.5
Nicaragua	+3.6	-11.9	+2.3	-10.2	+0.1	-4.3
Panama	—	—	—	—	—	—
Paraguay	+0.5	+1.4	+5.9	+5.3	-3.1	+0.6
Peru	-14.9	-1.5	-17.7	-74.6	-34.3	-6.2
Uruguay	-32.2	+85.8	+98.3	+281.0	+55.2	+73.9
Subtotal I	+952.5	+481.1	+330.8	+2,446.9	+204.5	+478.0
Venezuela	-138.3	-166.1	-69.6	-314.0	+26.7	+33.3
Subtotal II	+814.2	+315.0	+261.2	+2,132.9	+231.2	+511.3
Cuba	-199.8	-88.6	+310.6 ^b	...	...	...
TOTAL	+614.4	+226.4	+571.8 ^a	...	...	...

SOURCE: Annex II.

^a Preliminary figures.

^b 1956-59 only.

expansion in the short-term foreign debt of the monetary authorities (639.8 million dollars between 1951 and 1960) and by the increase in their net liabilities vis-à-vis IMF (124.3 million dollars during the same period). The increase in the latter was caused by further drawings on IMF within the framework of the stand-by arrangements. As has been said, these drawings can be defined as purchases of foreign exchange against a disbursement effected by the drawer in his own currency, on the option of repurchase of the currency for three years in the first instance with the possibility of extension up to five years. Each new drawing further reduces the drawer's net position vis-à-vis IMF, as defined above, i.e., as an entry in the foreign payments accounts. Conversely, any new subscription to IMF in gold or dollars adds to the net position, that is, it constitutes an outflow as far as the balance of payments is concerned. The net cumulative receipts credited to the net position of the Latin American countries with IMF, particularly during the second half of the decade (97.4 million dollars in 1956-60 in comparison with only 26.9 million in 1951-55) when these countries were increasing their gold and dollar subscriptions to IMF, clearly indicate that IMF has put a growing amount of money at the region's disposal.

During the last two years (1961 and 1962) the contraction in net reserves was due both to a decrease in the liquid assets of the central monetary authorities and to an increase in their short-term liabilities as a result of new net drawings against IMF (amounting to 179.3 million dollars for this period).

Table 101 shows that the trend of net reserves held by the central monetary authorities was not the same in every country.

Reserves climbed cumulatively during the post-war period in seven countries (Costa Rica, Ecuador, Honduras, Mexico, Nicaragua, Peru and Venezuela), but the increase was sizable in Venezuela, Peru and Mexico only. The other twelve countries¹⁸ registered cumulative losses, the largest in Argentina (1,110.5 million dollars), Brazil (906.6 million), Uruguay (281.0 million), Chile (115.6 million) and Colombia (114.6 million).

Admittedly these figures should be compared with those for the net reserves of various Latin American countries at the beginning of the period if the relative volume of the losses suffered by the regional monetary authorities during the last ten years is to be properly appreciated. However, the net reserves envisaged by one series and another would have to respond to the same definition. This requirement raises statistical problems that cannot be solved on the basis of the information currently available.

It may simply be noted that, in *International Financial Statistics*, IMF publishes data on the gross volume of gold and foreign exchange reserves (official gold reserves and liquid assets in the form of foreign exchange held by the monetary authorities) in the Latin American countries. The same publication also contains an estimate of the foreign liabilities of the monetary authorities of

Table 102. Selected Latin American countries: net monetary reserves,^a 1950-62

(Millions of dollars at year end)

Year	Argentina	Brazil	Chile	Haiti	Uruguay
1950	+509.0	...		+7.9	+312.0
1951	+169.0	...		+11.8	+262.9
1952	-4.0	+499.0		+12.8	+243.0
1953	+276.0	+577.0		+6.6	+305.0
1954	+242.0	+465.0		+11.6	+268.0
1955	+67.0	+393.0	+20.0	+6.8	+181.0
1956	+48.0	+481.0	+2.1	+5.1	+202.0
1957	-12.0	+371.0	+20.7	+3.1	+149.0
1958	-229.0	+311.0	-3.5	+0.6	+135.0
1959	+4.3	+257.0	+44.5	+3.6	+107.0
1960	+178.0	+34.0	-14.0	+5.0	+76.0
1961	+63.0	+33.6	-72.4	+3.6	+49.0
1962	-198.0	+91.0	-105.0	+1.2	+52.0

SOURCE: IMF, *International Financial Statistics*, supplement to 1962-63 issues, and December 1963 issue.

^a Net outstanding monetary reserves are equal to the balance of the official gold reserve and foreign liquid assets *minus* the external short-term liabilities of the monetary authorities. The plus sign means net outstanding assets, and the minus sign net outstanding liabilities. The series are not comparable because the definition and coverage of monetary authority liabilities differ from one country to another. Furthermore, changes in net monetary reserves calculated on the basis of data from *International Financial Statistics* cannot be compared with the figures from the *Balance of Payments Yearbook* given in table 97 because of differences in definition and coverage. The main differences are as follows:

Argentina: The series differs from the series in table 101, because it excludes the net IMF position and a long-term claim on Spain representing the balance of a former bilateral agreement, and includes large amounts of consolidated debts to members of the former Paris Club.

Brazil: The series differs from the series in table 101 because it excludes the net IMF position, the foreign claims of the Brazilian Treasury Delegation in New York, short-term liabilities of the Banco do Brasil to European banks and foreigners (swaps), and short-term foreign liabilities of non-monetary official institutions. In compensation it apparently includes some long-term liabilities of the Banco do Brasil to the Eximbank.

Chile: The series differs from the series in table 101 because it excludes the net IMF position, and the coverage of the Central Bank's foreign liabilities is different.

Haiti: The series differs from the series in table 101, because it excludes the net IMF position, and the coverage of liabilities is different.

Uruguay: The series differs from the series in table 101 because it excludes the net IMF position and includes foreign liabilities and assets of the Banco de la República with respect to forward exchange operations.

five countries (Argentina, Brazil, Chile, Haiti and Uruguay). In their case the sum of the net monetary reserves can be arrived at by subtraction. The results obtained in this way from information supplied in *International Financial Statistics* (table 102) are not comparable with those previously calculated on the basis of data in the *Balance of Payments Yearbook* (table 101), since the assets — and particularly the liabilities — of the monetary authorities are defined in different ways and are given different coverage in the two IMF publications.

They do, however, provide some interesting indications of the relative magnitude of long-term net monetary reserve movements in the five countries. These countries lost a large proportion of their net assets in gold and foreign currency between December 1950 and December 1962: Haiti 84.8 per cent, Uruguay 83.3 per cent and Brazil 81.8 per cent, while the position of the net reserves

¹⁸ It should be remembered that there are no central monetary institutions in Panama.

of Argentina and Chile was negative at the end of the period, i.e., the outstanding amount of the liabilities of the central monetary authorities was larger than that of their liquid assets.¹⁹

3. RELATIVE IMPORTANCE OF THE DIFFERENT SOURCES OF COMPENSATORY FINANCING

It might be interesting to determine what proportions of the net compensatory inflows — in other words, of the pre-compensation deficit in the balance of payments — were financed during the fifties (1951-60)²⁰ by extraordinary loans or by a decrease in net monetary reserves respectively.

The problem does not arise of course except in the countries that recorded a cumulative pre-compensation deficit in their balance of payments and received emergency loans to cover it (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic and Paraguay).²¹ The proportion of the deficit that was made good through the reduction of reserves was not large except in Bolivia (126.9 per cent),²² Paraguay (104.3 per cent)

¹⁹ It is true that the figures entered in table 102 for these two countries cover not only the short-term but also a large amount of long-term liabilities of the central monetary authorities.

²⁰ As has already been observed, the balance-of-payments loans were negligible before 1951.

²¹ Three other countries (Nicaragua, Peru and Venezuela) received extraordinary loans in the course of the decade (see table 98), but nevertheless showed a cumulative surplus in their pre-compensation balance of payments.

²² Repayments of special loans during 1951 to 1960 exceeded the new extraordinary loans.

and Brazil (68.5 per cent). It was negligible in the Dominican Republic (3.8 per cent). In the other four countries (Argentina, Chile, Colombia and Costa Rica), net extraordinary financing was greater than the pre-compensation deficit in external payments and therefore raised net monetary reserves slightly.

For the region as a whole,²³ the proportion of the compensatory capital inflow financed by reducing monetary reserves tended to become smaller over the long term, from 32.4 per cent in 1951-55 to 24.7 per cent in 1956-60, as a result of the substantial increase in extraordinary financing. The same trend seems to have persisted in 1961, when extraordinary operations again showed appreciable inflows. However, if the years from 1951 to 1960 are reviewed as a whole, it will be seen that a sizable proportion of the net compensatory inflow (32.3 per cent) came from a reduction in net monetary reserves.

In other words, the Latin American countries were unable to cover more than 70 per cent of the respective pre-compensation deficits in their balances of payments by mobilizing external financial assistance in the form of extraordinary loans, and had to call upon their own foreign exchange reserves to supply the remaining 30 per cent.

²³ Excluding Cuba. If account is taken of the data available for this country which drew heavily on its foreign exchange reserves from 1956 to 1959 without receiving extraordinary loans, the trend will be altered, the share of compensatory inflows financed by a cut in reserves being 25.7 per cent in 1951-55 and 41.8 per cent in 1956-60.

C. CONCLUSIONS

The analysis of the problems dealt with in the present chapter leads to three main conclusions.

Firstly, the Latin American balance of payments before compensation has nearly always been unfavourable to the region during the post-war period, so that the aggregate pre-compensation deficit can be estimated at about 4,000 million dollars for this period. The existence of such a constant and considerable deficit clearly shows that the external financial difficulties suffered by most of the Latin American countries cannot be attributed to transitory factors but are rather due to more permanent factors acting over the long term.

Secondly, the pre-compensation deficit has increased progressively in absolute value especially since 1955, but has diminished as a percentage of the deficit on current account because of the rising trend of autonomous

foreign financing. Consequently there has been a certain tendency towards better spontaneous equilibrium on the part of the region's external payments. However, this tendency did not make itself felt in every country, and moreover, was apparently reversed in the last couple of years (1961 and 1962).

Thirdly, an important part of the pre-compensation deficit was offset by mobilizing foreign assistance in the form of extraordinary loans, but the remaining portion had to be financed through drawings against the liquid gold and foreign exchange assets of the central monetary authorities, and/or an increase in the short-term indebtedness of the same authorities. The net monetary reserves of the region have therefore been reduced by approximately 2,200 million dollars since the end of the Second World War.

Chapter VI

NON-COMPENSATORY OR AUTONOMOUS CAPITAL FLOWS

Autonomous capital flows deserve more detailed study than compensatory financing, since they have a direct influence on present and future balance-of-payments positions. The resulting inflows or outflows have the immediate effect of increasing or reducing the total capacity to import of the country concerned, whereas other inflows and outflows are merely for the purpose of stabilizing the balance of payments from a book-keeping standpoint by adjusting the surplus or deficit capacity to import in relation to the actual level of purchases abroad. In addition autonomous movements have a long-term effect inasmuch as they alter the volume of external debt, the servicing of this debt being one of the factors that determine the subsequent trend of the recipient country's international payments; whereas the changes brought about by compensatory financing are not necessarily in the amount of the external debt, but rather in the monetary authorities' net reserves of gold or foreign currency, and consequently in their ability to meet further exchange crises.¹

¹ Compensatory inflows, financed by reduction of reserves of gold or foreign currency, obviously involve a decrease in the volume

The difficulty of the analysis lies mainly in the fact that autonomous movements are of very different kinds. This term may include such dissimilar types of transfers as those resulting from direct investment by a foreign firm, the granting of a development loan by an international body, the opening of a documentary credit by a commercial bank, or the establishment by a private individual of a short-term deposit abroad.

The best method might be to apply successively to each of these transactions certain currently-used classification criteria, and then to study more closely the operations that have resulted in the largest financial transfers.

of net monetary reserves without changing the amount of the external debt, inasmuch as they have served to pay for current imports. On the other hand, compensatory inflows deriving from extraordinary compensatory financing or an increase in the short-term obligations of the monetary authorities result in an increase in the external debt. However, balance-of-payments loans have never represented more than a relatively unimportant source of long-term debts in the region. Short-term commitments of the central banks constitute a form of preferred debt, which imposes a burden less on account of servicing than because it implies a decrease in net monetary reserves.

A. THE PRINCIPAL METHODS OF CLASSIFYING AUTONOMOUS CAPITAL MOVEMENTS

A distinction must primarily be drawn between those capital movements which are financed internally, i.e., by funds belonging to persons resident in Latin America, and those which are financed externally, i.e., by funds whose owners are domiciled outside the region. The former are reflected in changes in the external assets of the Latin American countries, and the latter in changes in their external liabilities. As consideration has already been given to the first group of transactions, attention may now be concentrated on the second.

1. SHORT-TERM AND LONG-TERM MOVEMENTS

The first traditional distinction² that can be applied is based on the behaviour of capital movements in time. Short-term movements are those likely to be, or at least capable of being, reversed within a period of one year. Long-term movements, on the other hand, are those likely to be reversed only after several years, or not at all. Although this criterion does not correspond to the more formal one of original maturity, it is more useful from the standpoint of analysis.

² See International Monetary Fund, *Balance of Payments Manual* (3rd ed., July 1961), paragraphs 350-352.

Autonomous flows of foreign capital that can be considered as short-term movements represent three different types of transaction, according to whether they involve changes in the international liabilities of the non-monetary private sector (individuals), of the monetary private sector (commercial banks), or of the non-monetary official sector. In this last group, which is to some extent residual, have been included increases in commitments of Governments (rather than of the central banks) to non-monetary international institutions (IBRD, IFC, IDA, IDB), resulting from additional contributions to these bodies in local currency, and changes in the short-term debts of these Governments to the United States arising from the sale of United States agricultural surpluses under the terms of Public Law 480.

The analysis of the final balance of all these movements raises many problems, for such widely differing reasons as insufficient coverage of certain transactions, the great variety of transactions involved, and the difficulty of recognizing which short-term operations are autonomous and which are compensatory. It does not seem necessary to dwell on these problems, for short-term capital movements, although they make it easier, or more difficult, to adjust the annual balance of payments, can contribute

but little to the financing of development, since they should cancel one another out more or less completely from one year to the next.

However, in considering the region as a whole, it should be noted that these movements became progressively more important during the period 1946-62 (see table 103). This trend is particularly marked from 1955

Table 103. Latin America: net changes in short-term liabilities,^a 1946-62
(Millions of dollars)

Year	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
1946.	+17.2	+28.0	+28.0
1947.	+98.6	+42.6	+38.5
1948.	+5.4	+21.5	+21.5
1949.	-55.5	+6.9	+6.9
1950.	+86.6	+82.2	+74.3
1951.	+54.1	+40.4	+43.8
1952.	-2.4	-8.5	-13.6
1953.	+30.3	+21.7	+24.0
1954.	+153.3	+147.0	+127.2
1955.	+136.6	+89.6	+83.5
1956.	+279.9	+271.9	+229.1
1957.	+139.5	+123.4	+74.1
1958.	+147.6	+113.2	+136.5
1959.	-18.0	+15.5	-17.6
1960.	+251.2 ^b	+251.2	+263.6
<i>Average</i>			
1946-50	+30.5	+36.2	+33.8
1951-55	+74.4	+58.0	+53.0
1956-60	+160.0 ^b	+155.0	+137.1
1961.	...	+225.6	+216.9
1962 ^c	...	+172.6	+210.0

SOURCE: ANNEX II.

^a The figures entered in the present table cover net changes in the short-term liabilities of the non-monetary and monetary private sectors and of the non-monetary official sector. The series covering changes in the short-term liabilities of the non-monetary private sector has been readjusted in order to exclude from 1955 onwards any figures relative to Argentina, which have been compiled according to a specific method.

^b Excluding Cuba in 1960, for which data are not available.

^c Preliminary figures.

onwards. Up to that date, short-term transactions financed with funds from abroad showed insignificant annual balances (net inflows averaging 36.2 million dollars a year in 1946-50 and 58 million in 1951-55 for the region as a whole, with the exception of Cuba). As from 1955, in contrast, these yearly balances grew much larger (average annual net inflows of 155 million dollars throughout the five-year period 1956-60). This movement seems to have continued in 1961 and 1962, when Latin America's net short-term inflows of external funds amounted to 225.6 million dollars and 172.6 million, respectively.

There are a number of reasons for this development (see table 104). First, the short-term external commitments of official institutions other than the central banks have increased appreciably since 1955 as a result of additional contributions in local currency to the above-mentioned non-monetary international institutions (IBRD, IFC, IDA, IDB), and more especially, of the implementation of the United States programme of agricultural assistance to other countries (Public Law 480). This programme provides for the sale of United States agricultural surpluses abroad against non-transferable local currency. The funds from these sales are held in the country concerned at the disposal of the authorities in Washington, to be used for financing United States expenditure or for long-term loans to private enterprise or the public sector. The consequence is that for a time there is an increase in the short-term commitments to the United States of the Government (rather than the central bank) of the country that has purchased the surplus products. These commitments have tended to accumulate in most of the Latin American countries that have availed themselves of the programme (Argentina, Bolivia, Brazil, Chile, Colombia, El Salvador, Guatemala, Mexico, Paraguay, Peru and Uruguay), as the negotiation of long-term loans has generally involved considerable delay. From the entry into force of the programme in 1954 to the end of 1962, they reached a cumulative total of about 240 million dollars.

Secondly, the short-term commitments of the commercial banks increased by over 450 million dollars during the post-war period, 60 per cent of this increment being

Table 104. Latin America (excluding Cuba): net changes in short-term liabilities by sector, 1946-62
(Millions of dollars)

	Monetary private sector		Non-monetary official sector			Total (1+2+5)
	Non-monetary private sector ^a (1)	(commercial banks) (2)	United States claims (3)	Other (4)	Total (3+4) (5)	
<i>Aggregate totals</i>						
1946-50.	+68.7	+82.5	—	+30.0	+30.0	+181.2
1951-55.	+157.5	+111.7	+21.6	-0.6	+21.0	+290.2
1956-60.	+382.5	+164.8	+162.3	+65.6	+227.9	+775.2
1961.	+54.5	+62.0	+41.1	+68.0	+109.1	+225.6
1962 ^b	+50.3	+42.7	+55.6	+24.0	+79.6	+172.6

SOURCE: ANNEX II.

^a The figures under this heading differ from those entered in table 76 because data on changes in the short-term liabilities of the Argentina non-monetary private sector from 1955 onwards have been excluded.

^b Preliminary figures.

registered from 1955 onwards. This trend was largely due to a rise in the annual value of the exports, and more especially the imports, of the region, most of the short-term transactions of the commercial banks that were recorded in the balance of payments having been documentary credit operations. Another contributory cause was the fact that at the end of the period private banks in many countries obtained large revolving credit funds from the foreign correspondents in order to deal with the external payments difficulties with which the region was faced.

Lastly, the post-war period witnessed a 700-million-dollar increase in the short-term liabilities of private persons, two-thirds of which were for the years 1956-62. Such an increment in the short-term commitments of the non-monetary private sector is all the more noteworthy inasmuch as the figures taken into account do not include the sector's trade arrears.

Short-term cumulative inflows of external funds accounted for an appreciable proportion (22 per cent) of the total inflow of autonomous foreign capital into Latin America (excluding Cuba) only in the first five years of the post-war period (1946-50), when the level reached by long-term inflows was low. From 1951 onwards, a mere 10 per cent of the total inflow of foreign capital was represented by short-term transactions, owing to the more rapid upward trend of long-term inflows. Recently, however, the proportion in question increased, rising to 12.6 per cent in 1961 and 12.9 per cent in 1962.

Naturally, the relative importance of short-term operations financed by autonomous external funds differed greatly from one country to another. From 1955 onwards, however, only in five countries did such operations play a comparatively significant role,³ for various reasons. One or two of these countries (El Salvador and Nicaragua) received small total inflows of autonomous foreign capital.

³ During the five-year period 1956-60, short-term capital inflows represented 60.9 per cent of the total inflow of autonomous foreign capital in Uruguay, 46.3 per cent in El Salvador, 20.6 per cent in Nicaragua, 18.8 per cent in Mexico and 18.7 per cent in Brazil.

Others were particularly active centres of short-term financial transactions, cases in point being Uruguay, whose exchange and banking system is relatively liberal as compared with the régimes in force in neighbouring countries, and Mexico, which maintains special financial relations with the United States. In Brazil, the external financial situation was so difficult that both the private sector and the non-monetary public sector were compelled to resort freely to short-term foreign credit. Thus it is clear that the bulk of the external financial resources available to the countries of the region during the last ten years have been supplied by long-term operations, which should be analysed in greater detail.

2. PUBLIC AND PRIVATE LONG-TERM FOREIGN CAPITAL

At this point it may be useful to distinguish between transfers of public and private capital, but the meaning of these terms must be made perfectly clear. At either the national or international level, any process of savings and investment involves three parties: the saver, the financial intermediary, or lender, and the recipient, or borrower. Any of these parties may be public or private in character, so that a number of combinations are logically possible, and some are found to exist in practice (see table 105). There is no problem in classifying an international capital transfer when all the parties have the same juridical status, but the situation is more complicated when one of the parties does not have the same status as the others, as is generally the case.

Thus it is very important to determine at what stage of the savings investment process the criterion for distinguishing between public and private capital flows should be applied. It should be noted that classification of these flows at the saver's level is of some value from the standpoint of creditor countries, since flows of government origin may be financed by inflationary methods. From the standpoint of the Latin American countries, as debtors, the only choice is between classification from the angle of the lending agency, which for these countries represents the origin of the flow, and classification at the level of the recipient.

Table 105. Examples of possible combinations between the main parties to an international capital transfer

<i>Savings</i>	<i>Lender</i>	<i>Borrower</i>	<i>Examples</i>
Private	Private	Private	Direct or portfolio investment in private securities
Private	Private	Public	Government bonds publicly offered by a private intermediary on foreign stock exchanges
Private	Public	Private	International Bank for Reconstruction and Development (IBRD) loans to private firms financed by the sale of IBRD bonds on stock exchanges
Private	Public	Public	IBRD loans to public institutions financed by the sale of IBRD bonds on stock exchanges
Public	Public	Private	Export-Import Bank (Eximbank) loans to private firms
Public	Public	Public	Eximbank loans to public institutions
Public	Private	Private	Medium-term export credits granted by private banks and financed by rediscount of the Central Bank

SOURCE: F. Pazos, "Private versus public foreign investment in under-developed areas", *Economic Development for Latin America, Proceedings of a Conference held by the International Economic Association*, Macmillan and Co. Ltd., 1961.

This question is practical, not theoretical, since the composition of each of these two flows differs appreciably according to the choice made. Thus long-term credits granted by Eximbank to Latin American private enterprises without government guarantee will be classified under public capital movements according to origin, but under private capital movements according to recipient. Conversely, medium-term export credits opened by European commercial banks in favour of Latin American official institutions will be considered as private capital movements by origin, but as public capital movements by recipient.

The choice between these two systems of classification depends in fact on the aim pursued in analysing long-term autonomous capital movements. If the object is to determine the effects of these movements on external payments, classification by origin is to be preferred, since it can be assumed that official institutions will grant recipients more favourable terms than are offered by private institutions, as regards both the rate of interest and the time allowed for repayment. It should also be noted that there are great differences between the various flows within each group. Private capital movements include, for example, direct investments, long-term financial credits, and medium-term commercial credits. All these transfers have the immediate effect of increasing

the recipient country's total capacity to import. Ultimately, however, they induce reverse capital flows that vary as to the amount involved and the time that elapses before they take place.

If, on the other hand, the aim is to study the contribution of long-term autonomous capital inflows to the financing of the economic development of the recipient country, it is preferable to distinguish between public and private capital flows by recipient. Latin American experience since the Second World War shows that in fact foreign capital flows into the public sector have served mainly to finance new investments in public utilities, whereas capital flows into the private sector have been concentrated on petroleum, mining, and to some extent the transforming industries. Thus it can be assumed that the role of foreign funds devoted to financing infrastructure activities required for economic development was more significant when a larger proportion of these funds went to the public sector, though, of course, much depends on the structure of the sector in question.

In the light of the foregoing considerations, the classification of public and private capital movements by recipient will be adopted in the rest of the present chapter. This choice has the additional advantage of being in line with the IMF classification, which also uses this criterion for reproducing the long-term capital operations recorded

Table 106. Latin America: net non-compensatory inflow of foreign long-term capital ^a into private and official sectors, 1946-62
(Millions of dollars)

Year	Latin America			Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Private sector	Official sector	Total	Private sector	Official sector	Total	Private sector	Official sector	Total
1946	+97.2	-233.3	-136.1	+101.2	-228.2	-127.0	-0.1	-227.3	-227.4
1947	+440.2	-84.5	+355.7	+444.8	-77.1	+367.7	+177.2	-77.3	+99.9
1948	+483.4	-693.8	-210.4	+486.6	-686.8	-200.2	+147.3	-687.0	-539.7
1949	+462.6	+7.4	+470.0	+464.4	+10.6	+475.0	+162.7	+10.6	+173.3
1950	+175.1	-54.6	+120.5	+152.1	-43.4	+108.7	+135.6	-43.5	+92.1
1951	+352.6	-18.0	+334.6	+313.5	-17.4	+296.1	+313.6	-18.8	+294.8
1952	+518.2	+99.4	+617.6	+498.5	+100.0	+598.5	+343.5	+96.3	+439.8
1953	+425.2	+30.5	+455.7	+425.0	+43.7	+468.7	+261.2	+44.0	+305.2
1954	+318.2	+185.8	+504.0	+290.8	+148.6	+439.4	+255.6	+153.1	+408.7
1955	+380.8	+166.5	+547.3	+339.9	+96.6	+436.5	+330.8	+98.2	+429.0
1956	+1,284.2	+458.9	+1,743.1	+1,227.7	+460.9	+1,688.6	+637.0	+203.9	+840.9
1957	+1,835.3	+660.6	+2,495.9	+1,708.0	+669.0	+2,377.0	+728.0	+175.3	+903.3
1958	+822.7	+47.7	+870.4	+786.2	+13.7	+799.9	+694.6	+286.6	+981.2
1959	+942.9	-155.2	+787.7	+862.2	-97.2	+765.0	+809.7	+190.0	+999.7
1960	+599.5 ^b	+189.2 ^b	+788.7 ^b	+599.5	+189.2	+788.7	+754.8	+333.9	+1,088.7
<i>Average</i>									
1946-50	331.7	-211.8	+119.9	+329.8	-205.0	+124.8	+124.5	-204.9	-80.4
1951-55	+399.0	+92.9	+491.9	+373.5	+74.3	+447.8	+300.9	+74.5	+375.4
1956-60	+1,096.9	+240.2	+1,337.1	+1,036.7	+247.3	+1,284.0	+724.8	+237.9	+962.7
1961 . . . . .	...	...	...	+604.2	+698.1	+1,302.3	+671.5	+744.1	+1,415.6
1962 ^c . . . . .	...	...	...	+599.0	+568.3	+1,167.3	+779.0	+586.7	+1,365.7

SOURCE: Annex II.

^a This covers only non-compensatory long-term capital flows caused by changes in the external liabilities of Latin American countries, and excludes capital flows due to changes in external assets. According to this definition, the net non-compensatory long-term capital inflow into the private sector covers net changes in the long-term liabilities of private firms without government guarantee.

The net non-compensatory long-term capital inflow into the official sector covers donations to official institutions and net changes in long-term liabilities of official institutions and private firms with government guarantee, excluding balance-of-payments loans.

^b Excluding Cuba, on which data are not available.

^c Preliminary figures.

by the balance of payments for various Latin American countries.

However, in practice certain problems arise. There has in fact been a decisive change in the IMF definition of the public and private sectors since 1960, when the Fund adopted a new format for presenting the external payments of member States. Up to that date the public sector included public institutions, banking establishments, and private enterprises that had obtained a government guarantee for their borrowings abroad. Since then, the public sector has included only certain institutions whose assets belong to the central or local governments, and has excluded the monetary authorities and most of the profit-making public enterprises, these now being classified in the private sector; it has also excluded banks, and private enterprises whose external debts are guaranteed by the Government. This has led to very important differences in the classification of capital movements. Thus new direct investments in banks, which before 1960 were entered under the head of capital inflows into the public sector, have since been considered as capital inflows into the private sector. Similarly, long-term loans to private enterprises enjoying a government guarantee have been transferred from the public to the private sector.

In order to eliminate these discrepancies, a fixed definition of the two sectors must be adopted for the whole of the period studied (1951-61). Thus the public sector is defined as all institutions, agencies and enterprises of

the central government, excluding the monetary authorities, plus private enterprises whose external debt is guaranteed by the Government, and the private sector as all other private enterprises, including commercial banks.

As far as possible, these definitions have been used to correct the data relating to changes in the long-term external commitments of Latin American countries entered in the balance of payments compiled by IMF. The two series of figures thus obtained provide a relatively uniform measurement of capital inflows into the private and public sectors, respectively. The first series covers new direct investments, including reinvested profits, and long-term loans to private enterprises without government guarantee. The second series comprises long-term credits granted to private enterprises which have obtained such a guarantee, and donations and long-term loans to non-monetary official institutions, and thus excludes extraordinary compensatory financing, which usually involves an increase in the debt of the monetary authorities.⁴

Tables 106 to 110, based on these data, give a clear indication of the evolution of long-term autonomous capital flows financed by funds from abroad.

⁴ In the interests of uniformity this was assumed to be the case even when such financing was not formally provided to the central bank of each country or to other monetary authorities.

Table 107. Latin America: percentage distribution of the net inflow of non-compensatory foreign long-term capital between private and official sectors,^a 1946-62

Year	Latin America		Latin America (excluding Cuba)		Latin America (excluding Cuba and Venezuela)	
	Private sector	Official sector	Private sector	Official sector	Private sector	Official sector
1946	b	b	b	b	b	b
1947	+123.7	-23.7	+121.0	-21.0	+177.4	-77.4
1948	b	b	b	b	b	b
1949	+98.4	+1.6	+97.7	+2.3	+93.9	+6.1
1950	+145.3	-45.3	+139.9	-39.9	+147.2	-47.2
1951	+105.4	-5.4	+105.9	-5.9	+106.4	-6.4
1952	+83.9	+16.1	+83.3	+16.7	+78.1	+21.9
1953	+93.3	+6.7	+90.7	+9.3	+85.6	+14.4
1954	+63.1	+36.9	+66.2	+33.8	+62.5	+37.5
1955	+69.6	+30.4	+77.9	+22.1	+77.1	+22.9
1956	+73.7	+26.3	+72.7	+27.3	+75.8	+24.2
1957	+73.5	+26.5	+71.9	+28.1	+80.6	+19.4
1958	+94.5	+5.5	+98.3	+1.7	+70.8	+29.2
1959	+119.7	-19.7	+112.7	-12.7	+81.0	+19.0
1960	+76.0 ^c	+24.0 ^c	+76.0	+24.0	+69.3	+30.7
<i>Average</i>						
1946-50	+296.2	-196.2	+264.3	-164.3	b	b
1951-55	+76.7	+23.3	+83.4	+16.6	+80.2	+19.8
1956-60	+82.0	+18.0	+80.7	+19.3	+75.3	+24.7
1961 . . . . .	...	...	+46.4	+53.6	+47.4	+52.6
1962 ^d . . . . .	...	...	+51.3	+48.7	+57.0	+43.0

SOURCE: Table 106.

^a Same definitions of the net non-compensatory long-term capital inflow and the private and public sectors as in footnote ^a to table 106.

^b Net outflow of non-compensatory foreign long-term capital.

^c Excluding Cuba, on which data are not available.

^d Preliminary figures.

Table 108. Latin America: net inflow of non-compensatory foreign long-term capital into private and official sectors by country,^a 1951-60

(Aggregate totals in millions of dollars)

Country	1951-55			1956-60			1951-60		
	Private sector	Official sector	Total	Private sector	Official sector	Total	Private sector	Official sector	Total
Argentina . . .	+38.3	-18.5	+19.8	+1,074.8	+121.5	+1,196.3	+1,113.1	+103.0	+1,216.1
Bolivia	+3.6	+58.2	+61.8	+69.7	+102.3	+172.0	+73.3	+160.5	+233.8
Brazil	+501.0	+26.0	+52.7	+1,152.0	+42.0	+1,194.0	+1,653.0	+68.0	+1,721.0
Chile	+92.1	+12.8	+104.9	+245.0	+74.8	+319.8	+337.1	+87.6	+424.7
Colombia	+95.1	+82.0	+177.1	+48.3	+11.1	+59.4	+143.4	+93.1	+236.5
Costa Rica . . .	+14.1	+6.4	+20.5	+16.9	+36.1	+53.0	+31.0	+42.5	+73.5
Dominican Re- public	+10.2	-12.1	-1.9	+43.1	+0.6	+43.7	+53.3	-11.5	+41.8
Ecuador	+22.8	+23.5	+46.3	+28.6	+50.6	+79.2	+51.4	+74.1	+125.5
El Salvador . . .	+0.3	+11.9	+12.2	+0.7	+11.8	+12.5	+1.0	+23.7	+24.7
Guatemala . . .	+0.9	+11.7	+12.6	+88.4	+96.8	+185.2	+89.3	+108.5	+197.8
Haiti	+21.1	+25.9	+47.0	+2.1	+41.5	+43.6	+23.2	+67.4	+90.6
Honduras	+41.4	+3.5	+44.9	-12.0	+26.4	+14.4	+29.4	+29.9	+59.3
Mexico	+414.7	+87.3	+502.0	+406.8	+444.8	+851.6	+821.5	+532.1	+1,353.6
Nicaragua	+12.4	+9.9	+22.3	+21.7	+12.1	+33.8	+34.1	+22.0	+56.1
Panama	+27.3	-7.1	+20.2	+78.5	+47.8	+126.3	+105.8	+40.7	+146.5
Paraguay	—	+2.4	+2.4	+15.3	+29.2	+44.5	+15.3	+31.6	+46.9
Peru	+169.4	+34.0	+203.4	+301.7	+44.6	+346.3	+471.1	+78.6	+549.7
Uruguay	+40.0	+15.0	+55.0	+42.5	-4.3	+38.2	+82.5	+10.7	+93.2
<i>Subtotal I</i>	<i>+1,504.7</i>	<i>+372.8</i>	<i>+1,877.5</i>	<i>+3,624.1</i>	<i>+1,189.7</i>	<i>+4,813.8</i>	<i>+5,128.8</i>	<i>+1,562.5</i>	<i>+6,691.3</i>
Venezuela	+363.0	-1.3	+361.7	+1,559.5	+45.9	+1,605.4	+1,922.5	+44.6	+1,967.1
<i>Subtotal II</i>	<i>+1,867.7</i>	<i>+371.5</i>	<i>+2,239.2</i>	<i>+5,183.6</i>	<i>+1,235.6</i>	<i>+6,419.2</i>	<i>+7,051.3</i>	<i>+1,607.1</i>	<i>+8,658.4</i>
Cuba	+127.3	+92.7	+220.0	+301.0 ^b	+34.4 ^b	+266.6 ^b	+428.3 ^b	+58.3 ^b	+486.6 ^b
TOTAL	+1,995.0	+464.2	+2,459.2	+5,484.6^b	+1,201.2^b	+6,685.8^b	+7,479.6^b	+1,665.4^b	+9,145.0^b

SOURCE: Annex II.

^a Same definitions of the net non-compensatory long-term capital inflow and of the private and official sectors as in footnote ^a to table 106.

^b Excluding Cuba in 1960, for which data are not available.

First, long-term autonomous capital flows followed a sharp upward trend during the post-war period. In the region as a whole (excluding Cuba), the average annual figure for these autonomous flows increased from 124.8 million dollars in 1946-50 to 447.8 million in 1951-55 and 1,284.8 million in 1956-60, or, in other words, was almost trebled between the first and second quinquennia of the post-war period and again between the second and third. If Venezuela is excluded from the regional total, the increase between the first and second halves of the fifties is a little less striking (from an annual average of 375.4 million dollars in 1951-55 to one of 962.7 million in 1956-60). This represents an increment of 156.4 per cent from one five-year period to the next, as against 186.7 per cent with the inclusion of Venezuela. The rising trend definitely continued in 1961 and 1962, long-term net inflows of external funds having reached a maximum of 1,415.6 million dollars in the former year and remained at almost the same level in the latter.

Secondly, a steadily increasing proportion of these flows was absorbed by the public sector. In 1946-50, this sector reimbursed more long-term foreign capital than it received, for the reasons set forth above. The situation altered in 1951-55, when the official sector absorbed

16.6 per cent of the total net inflow of long-term foreign capital; its share continued to increase, attaining 19.3 per cent in 1956-60.

The increase is even sharper if the figures for Venezuela are excluded from the regional total, since the public sector's share then increases from 19.8 per cent in 1951-55 to 24.7 per cent in 1956-60. Nevertheless, this development has not raised Latin America to the level of other underdeveloped areas, which have devoted a relatively larger proportion of their long-term external financial resources to financing public sector activities.⁵ The trend was, however, greatly intensified in 1961 and 1962, when half

⁵ See *International Flow of Long-term Capital and Official Donations, 1951-1959*, United Nations publication, Sales No.: 62.II.D.1, table 8. This report states that during 1951-59 the official and banking sector absorbed the following percentages of the total net inflow of long-term capital (including official donations): South-East Asia 93.8, the Middle East 86.6, Africa 64.6, and Latin America only 27.3 per cent. However, it should be noted that these percentages have been calculated on the basis of figures that are not fully comparable with those given in the present study, since they cover all net long-term inflows, including those that take the form of a change in the assets of the recipient countries and those that represent balance-of-payments loans.

Table 109. Latin America: percentage distribution of the net inflow of non-compensatory foreign long-term capital between private and official sectors, by country,^a 1951-60

Country	1951-55		1956-60		1951-60	
	Private sector	Official sector	Private sector	Official sector	Private sector	Official sector
Argentina	+193.4	-93.4	+89.9	+10.1	+91.5	+8.5
Bolivia	+5.8	+94.2	+40.5	+59.5	+31.4	+68.6
Brazil	+95.1	+4.9	+96.5	+3.5	+96.1	+3.9
Chile	+87.8	+12.2	+76.6	+23.4	+79.4	+20.6
Colombia	+53.7	+46.3	+81.3	+18.7	+60.6	+39.4
Costa Rica	+68.8	+31.2	+31.9	+68.1	+42.2	+57.8
Dominican Republic . . . . .	...	...	+98.6	+1.4	+187.5	-27.5
Ecuador	+49.3	+50.7	+36.1	+63.9	+41.0	+59.0
El Salvador	+2.5	+97.5	+5.6	+94.4	+4.1	+95.9
Guatemala	+7.2	+92.8	+47.7	+52.3	+45.2	+54.8
Haiti	+44.9	+55.1	+4.8	+95.2	+25.6	+74.4
Honduras	+92.2	+7.8	-83.3	+183.3	+49.6	+50.4
Mexico	+82.6	+17.4	+47.4	+52.6	+60.7	+39.3
Nicaragua	+55.1	+44.9	+64.2	+35.8	+60.9	+39.1
Panama	+135.1	-35.1	+73.6	+26.4	+72.2	+27.8
Paraguay	—	+100.0	+34.4	+65.6	+32.6	+67.4
Peru	+83.3	+16.7	+87.1	+12.9	+85.7	+14.3
Uruguay	+72.7	+27.3	+111.2	-11.2	+88.5	+11.5
<i>Subtotal I</i>	<i>+81.2</i>	<i>+19.8</i>	<i>+75.3</i>	<i>+24.7</i>	<i>+76.7</i>	<i>+23.3</i>
Venezuela	+100.3	-0.3	+97.2	+2.8	+97.7	+2.3
<i>Subtotal II</i>	<i>+83.4</i>	<i>+16.6</i>	<i>+80.7</i>	<i>+19.3</i>	<i>+81.4</i>	<i>+18.6</i>
Cuba	+57.9	+42.1	+112.9 ^b	-12.9 ^b	+88.0 ^b	+12.0 ^b
TOTAL	+76.7	+23.3	+82.0^b	+18.0^b	+81.8^b	+18.2^b

SOURCE: Table 108.

^a Same definitions of the net non-compensatory long-term capital inflow and the private and public sectors as in footnote ^a to table 106.

^b Excluding Cuba in 1960, for which data are not available.

Table 110. Groups of countries according to percentage share of net inflow of non-compensatory foreign long-term capital received by the official sector,^a 1951-60

Percentage of the net non-compensatory long-term capital inflow received by the official sector	1951-55 ^b			1956-60			1951-60		
Group I (over 50 per cent)	El Salvador	El Salvador	El Salvador	El Salvador	El Salvador	El Salvador	El Salvador	El Salvador	El Salvador
	Haiti	Haiti	Haiti	Haiti	Haiti	Haiti	Haiti	Haiti	Haiti
	Bolivia	Bolivia	Bolivia	Bolivia	Bolivia	Bolivia	Bolivia	Bolivia	Bolivia
	Paraguay	Paraguay	Paraguay	Paraguay	Paraguay	Paraguay	Paraguay	Paraguay	Paraguay
	Ecuador	Ecuador	Ecuador	Ecuador	Ecuador	Ecuador	Ecuador	Ecuador	Ecuador
	Guatemala	Guatemala	Guatemala	Guatemala	Guatemala	Guatemala	Guatemala	Guatemala	Guatemala
		Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica
Group II (25-50 per cent)		Honduras	Honduras	Honduras	Honduras	Honduras	Honduras	Honduras	Honduras
		Mexico	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico
		Nicaragua	Nicaragua	Nicaragua	Nicaragua	Nicaragua	Nicaragua	Nicaragua	Nicaragua
		Colombia	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia
		Panama	Panama	Panama	Panama	Panama	Panama	Panama	Panama
Group III (10-25 per cent)		Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica	Costa Rica
		Cuba	Cuba	Cuba	Cuba	Cuba	Cuba	Cuba	Cuba
		Mexico	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico
		Uruguay	Uruguay	Uruguay	Uruguay	Uruguay	Uruguay	Uruguay	Uruguay
Group IV (under 10 per cent)		Chile	Chile	Chile	Chile	Chile	Chile	Chile	Chile
		Peru	Peru	Peru	Peru	Peru	Peru	Peru	Peru
		Mexico	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico
		Colombia	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia
		Argentina	Argentina	Argentina	Argentina	Argentina	Argentina	Argentina	Argentina
		Brazil	Brazil	Brazil	Brazil	Brazil	Brazil	Brazil	Brazil
Group IV (under 10 per cent)		Venezuela	Venezuela	Venezuela	Venezuela	Venezuela	Venezuela	Venezuela	Venezuela
		Honduras	Honduras	Honduras	Honduras	Honduras	Honduras	Honduras	Honduras
		Cuba	Cuba	Cuba	Cuba	Cuba	Cuba	Cuba	Cuba
		Uruguay	Uruguay	Uruguay	Uruguay	Uruguay	Uruguay	Uruguay	Uruguay
		Dominican Republic	Dominican Republic	Dominican Republic	Dominican Republic	Dominican Republic	Dominican Republic	Dominican Republic	Dominican Republic

SOURCE: Table 109.

^a Same definitions of net non-compensatory long-term capital inflow and the official sector as in footnote ^a to table 106.

^b Excluding the Dominican Republic, which had a net outflow of foreign capital during the period in question.

the long-term foreign capital inflow went to government bodies⁶ which, in addition to receiving aid on a larger scale from the United States Government and long-established international institutions (IBRD), were also able to call on the assistance of new international bodies (IDA, IDB, etc.).

Thirdly, the distribution of foreign long-term capital between the public and private sectors was not the same in all Latin American countries. It is of course not possible to study this aspect of the subject year by year for each country, but it may be useful to determine an average value for each country during the decade 1951-60 as a whole. As shown in table 110, the countries of the region can be divided into four groups, according to whether the public sector received over 50 per cent, between 25 and 50 per cent, between 10 and 25 per cent, or under 10 per cent of the net autonomous inflow of long-term capital in 1951-60. Group I (over 50 per cent) comprises Bolivia, Paraguay, Ecuador, Haiti and four Central American countries (El Salvador, Costa Rica, Guatemala, and Honduras). Group II (25-50 per cent) includes the other two Central American countries (Panama and Nicaragua), Mexico and Colombia, Group III (10-25 per cent) comprises Chile, Peru, Cuba and Uruguay, and group IV (less than 10 per cent) consists of Argentina, Brazil, Venezuela and the Dominican Republic.

This distribution changes fairly substantially if the benchmark period is not 1951-60, but the two quinquennia 1951-55 and 1956-60. Without going into details, it can be stated that these changes affect the intermediate rather than the extreme groups. Group I would still include six of the eight countries it comprised in 1951-60 (El Salvador, Haiti, Bolivia, Paraguay, Ecuador and Guatemala), and group IV would still include Argentina, Brazil and Venezuela.

The composition of the various groups throws light on some of the factors that are responsible for the unequal distribution of foreign long-term capital flows between the public and private sectors of the recipient countries

The first of these factors is undoubtedly the difference in size between one domestic market and another. In countries where the market is limited, because the population is small, average *per capita* income is low or badly distributed, or for other reasons, there is every likelihood that long-term capital inflows will be scanty and will be mainly directed to the public sector. There is little incentive to foreign investment in the private sector, except possibly in export industries. Consequently it is often the public sector alone that receives funds from abroad, and these funds are usually supplied by inter-governmental transfers which are not based — or at least not exclusively — on considerations of return. In countries that provide a large market, on the other hand, long-term capital inflows are apt to be plentiful and to go mainly to the private sector. There are then strong incentives to foreign investment, not only in private

⁶ For the region as a whole (excluding Cuba), the percentage of the net autonomous inflow of long-term capital going to the public sector in 1961 was 53.6 per cent and in 1962 48.7 per cent. If Venezuela is also excluded, the percentages are 52.4 and 43 per cent respectively.

export industries, but also in the industries that meet domestic demand. Whatever, the absolute value of transfers in favour of official institutions, they are liable in that case to be small compared with those going to private enterprise.

In this connexion the composition of groups I and IV is highly significant. The eight countries in which over 50 per cent of the capital inflow went to the public sector were among the smallest importers of foreign capital⁷ during the last decade, and also have very small internal markets. On the other hand, two of the four countries where less than 10 per cent of the capital inflow is received by official institutions can be classified both as major importers of long-term capital⁸ and as the largest domestic markets (Brazil and Argentina).

The size of the internal market is not, however, the only factor to be taken into account, as certain cases indicate. It is easy to see why Venezuela, although its internal market is only of moderate size, received 21.5 per cent of long-term capital imported by the region in 1951-60,⁹ and why only 2.3 per cent of these funds went to the public sector, since extremely large direct investments were made in the petroleum-exporting industry in this country. On the other side, there is Mexico, where the share of the public sector was much higher, and the Dominican Republic, where the long-term transactions of official institutions resulted in cumulative net outflows for the decade as a whole.

Another factor is the different size of the various public sectors. Mexico, for example, has an extremely large domestic market, and received 14.8 per cent of all the long-term funds imported by Latin America during the decade in question. Nevertheless nearly 40 per cent of the external long-term financial resources of this country went to cover the expenditure of the public sector. This sector is particularly large, not only because official institutions are relatively numerous, but also because the Government gives its guarantee, through the Nacional Financiera, to loans contracted abroad both by public enterprises and by certain private enterprises.

The third factor to be considered is the policy of the recipient countries as regards private foreign capital, although it is not easy to evaluate their actual effects. All other things being equal, it can no doubt be assumed that the proportion of the external funds that is absorbed by the public sector will tend to be larger when this policy is less liberal, since official institutions generally receive inter-governmental transfers, whereas private enterprises mainly draw on private foreign resources. However, this is not always so in practice, since two of the most important bodies concerned with granting loans to official agencies (IBRD and Eximbank) are reluctant to lend funds to countries whose policy is systematically

⁷ These eight countries each received less than 3 per cent (Bolivia 2.6 per cent, Guatemala 2.2, Ecuador 1.4, Haiti 1.0) and in several cases less than 1.0 per cent (Paraguay 0.9 per cent, Costa Rica 0.8, Honduras 0.6 and El Salvador 0.3) of the long-term capital imported by the region (including Cuba) during 1951-60.

⁸ These two countries each received more than 10 per cent of the long-term capital imported by the region (including Cuba) during the decade (Brazil 18.8 per cent and Argentina 13.3 per cent).

⁹ Here the regional total includes Cuba.

unfavourable to private foreign investments. It can often be observed that it is precisely when the policy toward private capital relaxes that the public sector receives more extensive financial assistance from abroad. This is particularly well illustrated by the case of Argentina during the first half of the decade, when its legislation and the general climate were not very favourable to investment by private foreign interests; however, the few capital inflows that existed went to the private sector, whereas the long-term transactions of official institutions usually resulted in net outflows. In the second half of the decade, and particularly during the last few years, government policy underwent a fundamental change, so that capital inflows to the private sector increased sharply (from 38.3 million dollars in 1951-55 to 1,074.8 million in 1956-60), but at the same time the public sector received more extensive assistance from abroad.

3. OFFICIAL DONATIONS, LONG-TERM LOANS AND DIRECT INVESTMENT

Autonomous long-term capital inflows, as defined previously,¹⁰ as well as being classified on a formal basis, according to the juridical status of the financial intermediaries or the recipients, can also be classified on a functional basis, according to the method of transfer. From this standpoint they can be placed in three main categories: official donations, long-term loans and portfolio investment, and direct investment.

Donations can be defined as capital transfers which give rise neither to a reverse flow of capital nor to repayments, or which at least are not regarded as giving rise to these consequences when the transfer takes place. Admittedly there is much discussion as to whether donations belong to the category of current operations, or capital operations, or constitute an intermediate category. As far as Latin America is concerned, the following seems a reasonable line to adopt. *Private donations* (that is, donations received or made by private persons resident in the region) are considered as current operations (services), since they consist essentially of charitable gifts obtained by private institutions to finance their operating costs, or remittances sent abroad by immigrants.¹¹ *Official donations* (that is, donations received or granted by Latin American official institutions), on the other hand, are regarded as capital operations, since most of them represent inter-governmental gifts intended to finance reconstruction or even development projects.

Unlike donations, *long-term loans* give rise to reverse capital flows after a certain period, and to payments of interest. Portfolio investment might be regarded as something similar; this is traditionally defined as investment in foreign securities not involving control by the investors of the issuing institutions. Such investment consists either of bonds issued by government or non-government bodies, or of shares issued by private corporations. In the first case it is very similar to long-term

loans, since the bonds are repayable in accordance with a previously established plan, and generally bear a fixed rate of interest; the only difference lies in the nature of the credit instrument (stock exchange shares as against bank paper). In the second case there is a manifest difference, since there is no provision for the return of the capital, and the dividends vary according to the success of the enterprise, its financial policy, and so forth. However, operations in the second category involve only relatively minor sums as far as Latin America is concerned. Thus there seems to be no major objection to putting long-term loans and portfolio investment in the same group. In addition, there is a clear historical link between these two forms of transfer. As previously indicated, before the 1929 crisis, portfolio investment was mainly in the form of government bonds which, when offered on foreign stock exchanges, provided Latin American Governments with the greater part of their foreign exchange resources. Since the Second World War this role has been filled by long-term loans mainly directed to the public sector, with portfolio investment, especially in government bonds, playing a very minor part only.

Lastly, *direct investment* can be defined as transfers of capital to private enterprises established abroad in a form that allows the authors of the transfer to control the enterprises. Such transfers do not result in reverse capital flows except in the unlikely event of the investment's liquidation. On the contrary, the result is usually the repatriation of more or less substantial profits.

This functional classification has a twofold advantage. In the first place, it enables a distinction to be made between capital movements that ultimately affect the external payments of the recipient countries in different ways. It is an accepted fact that capital transfers may have a number of effects on the balance of payments. They may change the level of the external debt, and thus the volume of capital flow for the servicing of this debt (amortization of the principal, interest and dividends); they may perhaps affect the level of domestic prices and the terms of trade; again they may lead to an increase in the national income, and thus in imports; or they may bring about a change in the value and structure of exports and imports, according to whether they are directed towards the export sector or the import substitution industries.

At a preliminary glance, the first of these effects seems to be the only one that can be measured statistically without any great difficulty. But it will obviously differ depending on whether the initial transfer was in the form of a donation (not eventually resulting in a reverse capital flow or repayment), of a long-term loan (involving the repayment of the principal within a given period and payment of interest), or of a direct investment (ultimately resulting in the repatriation of profits).

The capital movements belonging to each of these categories are not motivated in the same way either. Direct investment is based on considerations of long-term returns, as assessed by international enterprises within the framework of their long-term expansion programmes. Long-term loans and official donations are based on considerations of more immediate returns, or, more usually, on other factors, when the lending organiza-

¹⁰ This covers net donations plus net changes in the long-term liabilities of the public and private sectors, excluding balance-of-payments loans.

¹¹ The former are entered as inflows in the balance of payments, and the latter as outflows.

tion is a public body (for example, an international organization or an agency of the United States Government), or when its policy is to some extent government controlled (such as a European private bank granting medium-term export credits as part of an official system of credit insurance).

Consequently the behaviour of these capital flows over a period of time is very different. Direct investment is made on the basis of programmes that are not easily changed over the short term, and is therefore not likely to vary greatly over a short period. Other types of transfers may, however, undergo more violent fluctuations as a result of changes in interest or exchange rates, or other reasons, especially when they are supplied from public funds, whose volume is determined yearly at the time when the budget is voted.

In addition, it is more than likely that the various flows will be distributed in different ways among the recipient countries and economic sectors. Direct investment will be apt to go to the countries and sectors that offer the best returns from the point of view of the large international firms. Long-term loans and official donations may be channelled in other directions, since the distribution of inter-governmental transfers among the various countries will be influenced by political factors, and intersectoral distribution within each country will be contingent upon the priorities given to particular investments.

Before a more detailed review is made of direct investment and long-term loans, it will be useful to cast a glance at official donations, which have provided only a small flow of resources to Latin America during the post-war period. Statistical determination of the transfers involved raises certain problems, since their coverage has changed somewhat in the balances of payments compiled by IMF, owing to the adoption in 1960 of a new method of presenting the external payments of member States, which was applied retroactively to 1956. Up to 1956 official donations had comprised only unilateral transfers abroad by official institutions and transfers to such institutions by foreign Governments; in other words, they were essentially inter-governmental loans. But since then, official donations have covered all unilateral transfers abroad to or from official institutions, whether the other party to the transaction is a private or government body. However, the element of heterogeneity thus introduced into the statistical series is of little importance.

According to this series, donations received by official bodies in Latin America (excluding Cuba) have increased sharply since 1955. They averaged no more than 21 million dollars a year in 1946-50 and 29.2 million in 1951-55, but rose to nearly 100 million in 1956-60 (see table 111). The upward movement seems to have continued in the last two years, since the level for 1961 was 130.7 million dollars and 121 million in 1962.

Table 111. Latin America: net inflow of non-compensatory foreign long-term capital by main types,^a 1946-62

Year	Latin America				Latin America (excluding Cuba)				Latin America (excluding Cuba and Venezuela)			
	Official donations ^b	Long-term loans ^c	Direct investment ^d	Total	Official donations ^b	Long-term loans ^c	Direct investment ^d	Total	Official donations ^b	Long-term loans ^c	Direct investment ^d	Total
1946.	+7.5	-252.9	+109.3	-136.1	+11.7	-252.0	+113.3	-127.0	+11.7	-251.1	+12.0	-227.4
1947.	+33.7	-110.7	+432.7	+355.7	+34.4	-104.0	+437.3	+367.7	+34.4	-104.2	+169.7	+99.9
1948.	+10.4	-717.3	+496.5	-210.4	+10.4	-710.3	+499.7	-200.2	+10.0	-710.1	+160.4	-539.7
1949.	+28.2	-16.2	+458.0	+470.0	+28.2	-13.0	+459.8	+475.0	+28.2	-13.0	+158.1	+173.3
1950.	+20.4	-91.7	+191.8	+120.5	+20.4	-80.5	+168.8	+108.7	+20.4	-80.6	+152.3	+92.1
1951.	+13.4	-2.1	+323.3	+334.6	+13.4	-12.6	+295.3	+296.1	+13.2	-13.8	+295.4	+294.8
1952.	+17.8	+90.6	+509.2	+617.6	+17.8	+85.5	+495.2	+598.5	+17.7	+81.9	+340.2	+439.8
1953.	+21.2	+53.2	+381.3	+455.7	+21.2	+63.2	+384.3	+468.7	+21.1	+63.0	+221.1	+305.2
1954.	+37.6	+228.5	+237.9	+504.0	+37.6	+190.9	+210.9	+439.4	+37.4	+198.4	+172.9	+408.7
1955.	+56.4	+227.1	+263.8	+547.3	+56.0	+139.7	+240.8	+436.5	+55.8	+143.0	+230.2	+429.0
1956.	+79.8	+560.9	+1,102.4	+1,743.1	+79.3	+545.9	+1,063.4	+1,688.6	+79.2	+290.3	+471.4	+840.9
1957.	+108.3	+790.7	+1,596.9	+2,495.9	+107.7	+790.4	+1,478.9	+2,377.0	+107.5	+298.0	+497.8	+903.3
1958.	+96.0	+140.4	+634.0	+870.4	+95.4	+100.5	+604.0	+799.9	+95.3	+370.5	+515.4	+981.2
1959.	+105.5	-102.6 ^b	+784.8	+787.7	+105.1	-48.9	+708.8	+765.0	+105.0	+237.8	+656.9	+999.7
1960.	+106.5 ^e	+270.9 ^e	+411.3 ^e	+788.7 ^e	+106.5	+270.9	+411.3	+788.7	+106.4	+408.2	+574.1	+1,088.7
<i>Average</i>												
1946-50	+20.0	-237.8	+337.7	+119.9	+21.0	-232.0	+335.8	+124.8	+20.9	-231.8	+130.5	-80.4
1951-55	+29.3	+119.5	+343.1	+491.9	+29.2	+93.3	+325.3	+447.8	+29.0	+94.5	+251.9	+375.4
1956-60	+99.2	+332.0	+905.9	+1,337.1	+99.0	+331.7	+853.3	+1,284.0	+98.6	+321.0	+543.1	+962.7
1961. . . . .	...	...	...	...	+130.7	+885.7	+285.9	+1,302.3	+130.5	+928.8	+356.3	+1,415.6
1962 ^f. . . . .	...	...	...	...	+121.0	+801.3	+245.0	+1,167.3	+120.8	+815.5	+429.4	+1,365.7

SOURCE: Annex II.

^a Same definition of the net non-compensatory long-term capital inflow as in footnote ^a to table 106.

^b Transfer payments received by Latin American public institutions from foreign Governments.

^c Loans received by Latin American private and public sectors from private or public lending institutions, excluding balance-of-payments loans.

^d Capital flow to foreign-owned direct investment enterprises in Latin American countries, including the reinvested earnings of these enterprises.

^e Excluding Cuba, for which data are not available.

^f Preliminary figures.

Table 112. Latin America: net inflow of non-compensatory foreign long-term capital by main type and country,^a 1946-60
(Aggregate totals in millions of dollars)

Country	1946-50				1951-55				1956-60				1951-60			
	Official donations	Long-term loans	Direct investment	Total	Official donations	Long-term loans	Direct investment	Total	Official donations	Long-term loans	Direct investment	Total	Official donations	Long-term loans	Direct investment	Total
Argentina	—	-961.8	-113.8	-1,075.6	—	+4.0	+15.8	+19.8	+1.2	+366.3	+828.8	+1,196.3	+1.2	+370.3	+844.6	+1,216.1
Bolivia	+1.4	+23.0	+0.2	+24.6	+37.6	+20.6	+3.6	+61.8	+106.5	-0.7	+66.2	+172.0	+144.1	+19.9	+69.8	+233.8
Brazil	-16.0	-216.9	+219.6	-13.3	+11.0	+166.0	+350.0	+527.0	+24.0	+427.0	+743.0	+1,194.0	+35.0	+593.0	+1,093.0	+1,721.0
Chile	+5.1	+50.5	+41.5	+97.1	+5.2	+5.8	+93.9	+104.9	+100.6	+10.9	+208.3	+319.8	+105.8	+16.7	+302.2	+424.7
Colombia	—	+6.7	+98.9	+105.6	+3.6	+161.3	+12.2	+177.1	+10.5	+30.2	+18.7	+59.4	+14.1	+191.5	+30.9	+236.5
Costa Rica	+1.4	-1.4	+20.9	+20.9	+6.9	+6.2	+7.4	+20.5	+25.5	+11.6	+15.9	+53.0	+32.4	+17.8	+23.3	+73.5
Dominican Republic	+0.4	-18.1	+4.4	-13.3	+1.2	-12.2	+9.1	-1.9	+0.6	+22.8	+20.3	+43.7	+1.8	+1.6	+29.4	+41.8
Ecuador	+4.1	+7.6	+27.2	+39.8	+5.9	+21.2	+19.2	+46.3	+13.3	+36.3	+29.6	+79.2	+19.2	+57.5	+48.8	+125.5
El Salvador	+0.6	-3.2	+0.2	-2.4	+3.0	+9.3	-0.1	+12.2	+5.5	+6.4	+0.6	+12.5	+8.5	+15.7	+0.9	+24.7
Guatemala	+7.2	-0.5	+12.0	+18.7	+11.1	+3.5	-2.0	+12.5	+75.1	+38.3	+71.8	+185.2	+86.2	+41.8	+69.8	+197.8
Haiti	+0.5	-8.1	+4.7	-2.9	+5.1	+20.8	+21.1	+47.0	+30.2	+11.3	+2.1	+43.6	+35.3	+32.1	+23.2	+90.6
Honduras	+0.1	-1.6	+24.9	+23.4	+4.0	-0.5	+41.4	+44.9	+12.1	+14.3	-12.0	+14.4	+16.1	+13.8	+29.4	+59.3
Mexico	+87.5	+24.0	+176.9	+288.4	+17.5	+45.1	+439.4	+502.0	+1.6	+426.5	+423.5	+851.6	+19.1	+471.6	+862.9	+1,353.6
Nicaragua	+4.0	-0.7	+5.5	+8.8	+4.0	+9.3	+9.0	+22.3	+14.2	+9.3	+10.3	+33.8	+18.2	+18.6	+19.3	+56.1
Panama	+0.5	+2.9	+29.2	+32.6	+7.4	-14.6	+27.4	+20.2	+24.8	+22.6	+78.9	+126.3	+32.2	+8.0	+106.3	+146.5
Paraguay	+1.3	-6.6	+9.2	+3.9	+5.8	-5.6	+2.2	+2.4	+11.4	+22.7	+10.4	+44.5	+17.2	+17.1	+12.6	+46.9
Peru	+6.3	-4.3	+23.0	+25.0	+14.7	+18.5	+170.2	+203.4	+29.6	+137.5	+179.2	+346.3	+44.3	+156.0	+349.4	+549.7
Uruguay	+0.3	-50.5	+68.0	+17.8	+1.2	+13.8	+40.0	+55.0	+6.7	+11.5	+20.0	+38.2	+7.9	+25.3	+60.0	+93.2
Subtotal I	+104.7	-1,159.0	+652.5	-401.8	+145.2	+472.5	+1,259.8	+1,877.5	+493.4	+1,604.8	+2,715.6	+4,813.8	+638.6	+2,077.3	+3,975.4	+6,691.3
Venezuela	+0.4	-0.8	+1,026.4	+1,026.0	+0.8	-5.8	+366.7	+361.7	+0.6	+54.0	+1,550.8	+1,605.4	+1.4	+48.2	+1,917.5	+1,967.1
Subtotal II	+105.1	-1,159.8	+1,678.9	+624.2	+146.0	+466.7	+1,626.5	+2,239.2	+494.0	+1,658.8	+4,266.4	+6,419.2	+640.0	+2,125.5	+5,892.9	+8,658.4
Cuba	-4.9	-29.0	+9.4	-24.5	+0.4	+130.6	+89.0	+220.0	+2.1 ^b	+1.5 ^b	+263.0 ^b	+266.6 ^b	+2.5 ^b	+132.1 ^b	+352.0 ^b	+486.6 ^b
TOTAL	+100.2	-1,188.8	+1,688.3	+599.7	+146.4	+597.3	+1,715.5	+2,459.2	+496.1	+1,660.3	+4,529.4	+6,685.8	+642.5	+2,257.6	+6,244.9	+9,145.0

SOURCE: Annex II.

^a For definitions see footnote a, b, c, and d to table 111.

^b Excluding Cuba in 1960, for which data are not available.

Table 113. Latin America (excluding Cuba): net inflow of non-compensatory foreign long-term capital by main type and country,^a 1960-62
(Millions of dollars)

Country	1960				1961				1962 ^b			
	Official donations	Long-term loans	Direct investment	Total	Official donations	Long-term loans	Direct investment	Total	Official donations	Long-term loans	Direct investment	Total
Argentina	+0.6	+214.3	+332.0	+546.9	+1.2	+361.4	-18.2	+344.4	—	+246.1	+71.8	+317.9
Bolivia	+12.6	-3.3	+20.8	+30.1	+22.3	-0.2	+11.4	+33.5	+30.4	+14.4	+10.1	+54.9
Brazil	+8.0	-2.0	+138.0	+144.0	+5.0	+287.0	+147.0	+439.0	+9.0	+153.0	+69.0	+231.0
Chile	+33.3	+9.7	+29.0	+72.0	+29.8	+85.4	+51.1	+166.3	+34.6	+95.7	+83.0	+213.3
Colombia	+5.3	+10.9	+2.5	+18.7	+7.8	+27.8	+1.1	+36.7	-1.0	+75.0	+14.6	+88.6
Costa Rica	+3.3	+0.7	+2.4	+6.4	+5.2	+1.2	+7.7	+14.1	+2.7	+3.0	+12.7	+18.4
Dominican Republic . .	+0.1	+0.6	-3.9	-3.2	—	-24.9	-3.6	-28.5	+0.6	+14.5	—	+15.1
Ecuador	+2.8	+14.9	+5.0	+22.7	+6.6	+11.5	+7.0	+25.1	+12.4	+10.0	+9.0	+31.4
El Salvador	+0.9	+0.2	—	+1.1	+1.6	+1.4	+3.1	+6.1	+2.5	+2.1	+7.2	+11.8
Guatemala	+14.5	+5.1	+15.2	+34.8	+15.0	+2.1	+7.6	+24.7	+8.5	-1.6	+11.9	+18.8
Haiti	+6.4	+1.2	+3.6	+11.2	+11.4	+3.1	+3.7	+18.2	+2.5	+0.9	+1.2	+4.6
Honduras	+3.2	+3.6	-7.6	-0.8	+5.0	+3.8	-7.5	+1.3	+2.9	+7.0	-4.4	+5.5
Mexico	-1.7	+153.3	-7.6	+144.0	+0.7	+165.0	+119.3	+285.0	+1.5	+134.4	+129.6	+265.5
Nicaragua	+2.7	-0.5	+1.7	+3.9	+3.5	-0.8	+6.0	+8.7	+3.6	+6.6	+3.1	+13.3
Panama	+7.9	+5.2	+32.4	+45.5	+11.4	+5.3	+6.2	+22.9	+6.8	+3.5	+8.0	+18.3
Paraguay	+3.0	+4.4	+3.6	+11.0	+2.5	+3.3	+1.3	+7.1	+2.6	+4.2	+2.6	+9.4
Peru	+2.8	-15.1	+7.0	-5.3	+1.5	-11.9	+13.1	+2.7	+1.2	+27.4	...	+28.6
Uruguay	+0.7	+5.0	—	+5.7	—	+8.3	—	+8.3	...	+19.3	...	+19.3
<i>Subtotal</i>	<i>+106.4</i>	<i>+408.2</i>	<i>+574.1</i>	<i>+1,088.7</i>	<i>+130.5</i>	<i>+928.8</i>	<i>+356.3</i>	<i>+1,415.6</i>	<i>+120.8</i>	<i>+815.5</i>	<i>+429.4</i>	<i>+1,365.7</i>
Venezuela	+0.1	-137.3	-162.8	-300.0	+0.2	-43.1	-70.4	-113.3	+0.2	-14.2	-184.4	-198.4
TOTAL	+106.5	+270.9	+411.3	+788.7	+130.7	+885.7	+285.9	+1,302.3	+121.0	+801.3	+245.0	+1,167.3

SOURCE: Annex II.

^a For definitions, see footnotes a, b, c and d to table 111.

^b Preliminary figures.

The geographical origin of these transfers can be determined by comparing the donations received by the Latin American public sector, as recorded in the region's balances of payments, with the donations granted to Latin America by official institutions abroad (see table 114). This comparison has many shortcomings because transfers from foreign public sectors have been partially absorbed by the Latin American private sector, while the Latin American public sector has received donations from private institutions outside the region. It does nevertheless supply some interesting information. For instance, it indicates that, during the decade 1951-60, the bulk of the donations received by the Latin American public sector came from United States Government agencies (61 per cent in 1951-55 and 80 per cent in 1956-60). In latter years (1960, 1961 and 1962), substantial transfers were made by official institutions in the other countries members of the Organization for Economic Co-operation and Development (OECD) and by Japan. During those same years, however, the transfers in question plus the funds furnished by United States official agencies outweighed the donations received by the Latin American public sector. The difference is partly due to the fact that a large proportion of the official donations of foreign origin went to private institutions in Latin America.

It should be noted that the geographical distribution of official donations was very uneven (see tables 112 and 113). During 1951 to 1960 three countries received over 50 per cent of the regional total (Bolivia 22.5 per cent, Chile 16.5 per cent and Guatemala 13.5 per cent), the other half being divided among the remaining seventeen

countries. The situation has changed very little in the last two years, when Bolivia and Chile together absorbed between 40 and 50 per cent of the total (40 per cent in 1961 and 54.1 per cent in 1962).

Table 114. Latin America (excluding Cuba): geographical origin of the donations received by the official sector, 1951-62

(Millions of dollars)

Year or period	Net donations received by Latin American official sectors (1)	Net donations granted to Latin America by United States official agencies (2)	Net donations granted to Latin America by official institutions of OECD countries (other than the United States) and Japan (3)		Net donations received by Latin American official sectors from other sources, and discrepancies (1-2-3) (4)
			Net donations granted to Latin America by official institutions of OECD countries (other than the United States) and Japan (3)	Net donations received by Latin American official sectors from other sources, and discrepancies (1-2-3) (4)	
<i>Average</i>					
1951-55	+29.2	+17.8	...	...	+11.4
1956-60	+99.0	+78.8	...	...	+20.2
1960	+106.5	+78.3	+37.3	...	-9.1
1961	+130.7	+121.4	+40.3	...	-31.0
1962 ^a	+124.4	+124.8	+53.5	...	-53.9

SOURCES: Annex II; United States Department of Commerce, *Foreign Grants and Credits*, various issues; Organization for Economic Co-operation and Development, *The Flow of Financial Resources to Countries in Course of Economic Development in 1962*.

^a Preliminary figures. These figures differ from the corresponding figures in table 111 because of the inclusion of 2 million dollars for donations to Argentina and 1.4 million dollars to Uruguay from United States official agencies and official institutions of OECD countries (other than the United States) and Japan.

It is interesting to calculate the fraction of net autonomous long-term capital inflow represented by official donations (see table 115). In 1946-50 it was 17 per cent because capital inflows under the head of other forms of external financing were inclined to be small. The proportion dwindled to 6.5 per cent in 1951-55 because capital in the form of long-term loans and direct investment flowed in more rapidly than official donations. After 1955 it improved slightly, although always from a modest starting-point (7.7 per cent in 1956-60, 10 per cent in 1961 and 10.4 per cent in 1962). On the whole official donations obviously played a less important part in Latin America than in the other under-developed regions of the world between 1951 and 1960.¹²

Table 115. Latin America: official donations as a percentage of the net inflow of non-compensatory foreign long-term capital,^a 1946-62

Year or period	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
<i>Average</i>			
1946-50	10.0	16.8	<i>b</i>
1951-55	6.0	6.5	7.7
1956-60	7.4	7.7	10.2
1961 . . . . .	...	10.0	9.2
1962 ^c . . . . .	...	10.4	8.8

SOURCE: Table 111.

^a For definitions see footnotes *a* and *b* to table 111.

^b Net outflow of non-compensatory foreign long-term capital.

^c Preliminary figures.

The relative magnitude of the donations admittedly varied greatly from one country to another and in many of them constituted a sizable body of external funds.¹³ In most cases, however, these were small countries that did not have any substantial capital inflow except to the public sector because their markets were too narrow to attract private capital and their repayment capacity was very limited.¹⁴ On the other hand, in the larger countries, such as Argentina, Brazil and Mexico, which received very considerable amounts of capital in the form of direct investment or long-term loans, official donations played a minor role.

¹² See *International Flow of Long-Term Capital and Official Donations, 1951-59*, op. cit., table 8. According to this report, during 1951-59 official donations represented the following percentages of total net long-term capital inflows: South-East Asia 63.3, Middle East 59.3, Africa 37.9, and Latin America only 13.4 per cent. These percentages have, of course, been calculated on the basis of figures that are not fully comparable with those given in the present study, since they relate to all net long-term inflows, including those that result in a change in the assets of the recipient countries and those that represent grants of balance-of-payments loans.

¹³ In 1951-60 official donations represented more than 15 per cent of non-compensatory long-term foreign capital in eleven countries, namely, Bolivia 61.6, Costa Rica 44.1, Guatemala 43.6, Haiti 39.0, Paraguay 36.7, El Salvador 34.4, Nicaragua 32.4, Honduras 27.1, Chile 24.9, Panama 22.0, and Ecuador 15.3 per cent.

¹⁴ The only exception is Chile, but official donations reached a high level in this country at the end of the period for exceptional reasons (the 1960 earthquakes).

Some experts have attempted to justify the low level of the official donations granted to Latin America in comparison with those given to other under-developed areas, and their concentration in a few countries where foreign exchange resources are particularly scarce.¹⁵ It is generally realized that countries with backward economies require the execution of projects capable of effecting an increase in production and exports, or a decrease in imports, by indirect means only and after a fairly long lapse of time. This applies, for example, to projects aimed at developing the production of food for domestic consumption; in this case new foreign exchange resources cannot be diverted to ensure repayment of the loans unless the increase in domestic production is more rapid than population growth, so that imports can be reduced, or unless the local capital that would have been devoted to developing food crops in the absence of external financing is used to finance export industries. Similarly, the implementation of certain social projects (schools, hospitals, etc.) can lead only very gradually to an increase in production and exports, in so far as they make it possible to increase the productivity of the local labour force.

The experts in question acknowledge that in such cases donations are the form of external financing best suited to the needs of developing countries, but they point out that the level of development already attained by those countries must also be taken into account. Unlike those in the early stages of growth, countries that have attained a higher level of development — in particular certain Latin American countries — could be satisfied with loans, because the factors of production would then be relatively mobile. For example, they could use foreign loans in the export or import substitution sectors, in order to devote more of their domestic capital to the financing of projects to increase food production for domestic needs, to improve the social infrastructure, and so forth. Or, conversely, they could without much difficulty repay external loans used for financing such projects by channelling into export or import substitution industries the capital that would have been invested in such projects in the absence of foreign aid.

This point of view is clearly open to argument, not only because it is very difficult to assess the degree of development of the various countries, but also because domestic capital is both scarce and lacking in mobility in Latin America, owing to the poor integration of economic structures. The financing by foreign loans of projects that lead only very indirectly to an expansion of exports or a decrease in imports (for example communications projects) has, in fact, often led in the past to an increase in external debt servicing that has not been offset by an increase in current foreign exchange receipts. The implementation of projects relating to land reform, social investment, and so forth, whose effect on foreign trade will not be immediately felt, is unlikely to be financed except by donations, or at least by loans at low rates of interest repayable on easy terms (long amortization periods, repayment in non-transferable local currency, etc.).

¹⁵ Raymond F. Mikesell, *Foreign Investments in Latin America*, (Organization of American States), Washington, D.C., 1955.

B. LONG-TERM LOANS AND PORTFOLIO INVESTMENT

1. GENERAL FEATURES

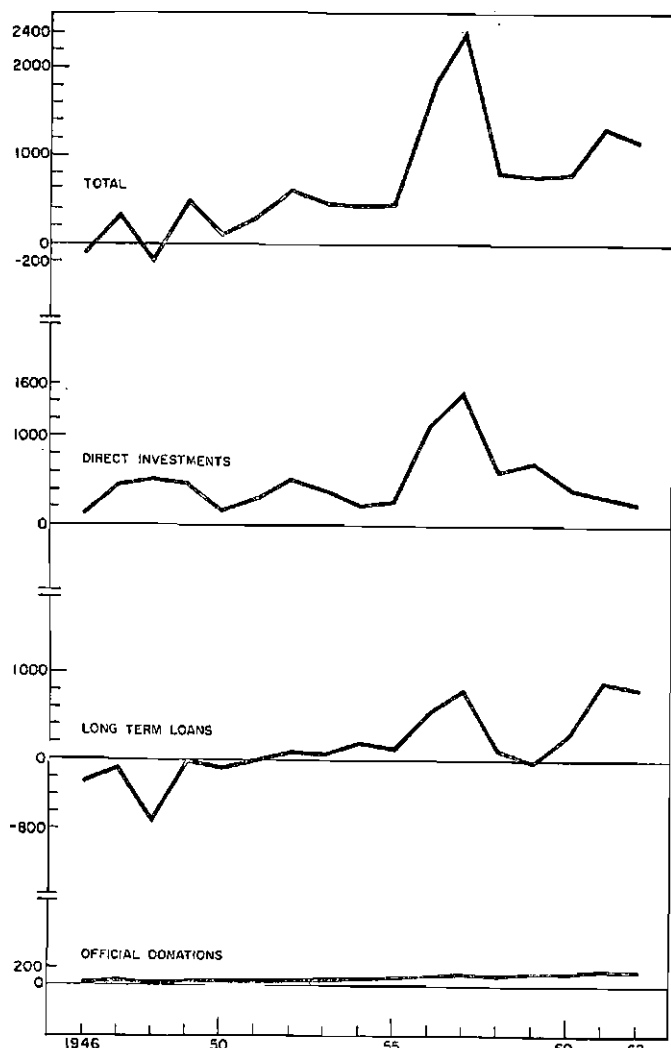
(a) Definition, short-term fluctuations and long-term trends

Long-term loans and portfolio investment, as previously defined, cover all operations, other than direct investments, that result in a change over a term of more than one year in the liabilities of the recipient countries with the exception of extraordinary financing, which has been dealt with earlier. The figures that measure the inflows or outflows resulting from these operations are approximate, since it is very difficult in practice to draw a line between ordinary and extraordinary financing. Even so, they are sufficiently representative to be worth taking into account, as table 111 and figures V and VI show.

According to available data, net disbursements¹⁶ under the head of long-term loans and portfolio investment to

Figure V. Latin America (excluding Cuba): net non-compensatory inflow of foreign long-term capital by main type, 1946-62

(MILLIONS OF DOLLARS)
Natural scale

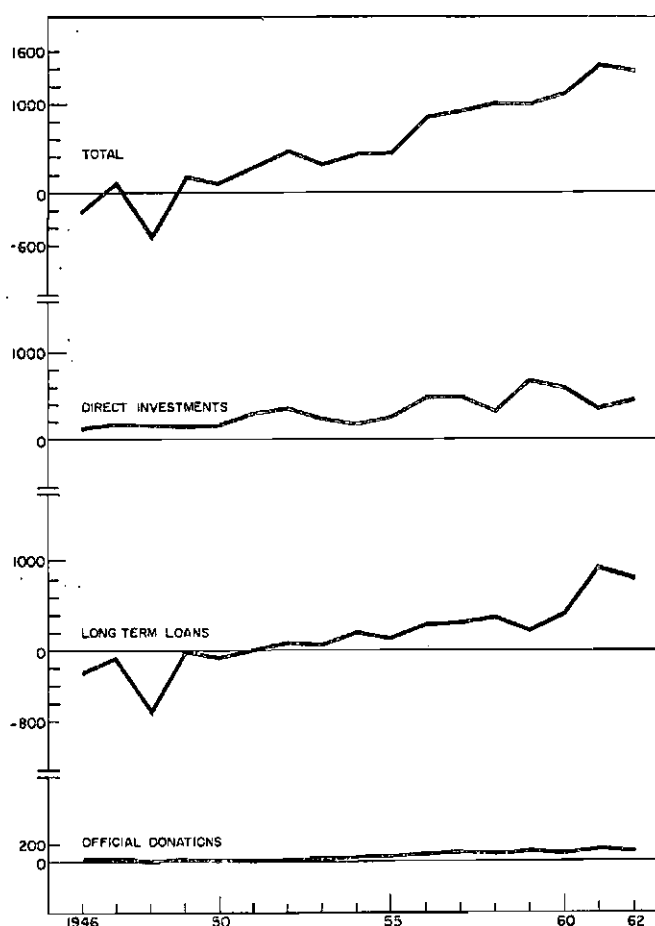


SOURCE: Table 111.

¹⁶ Net annual disbursements are equal to total disbursements less repayments made during the year.

Figure VI. Latin America (excluding Cuba and Venezuela): net non-compensatory inflow of foreign long-term capital by main type, 1946-62

(MILLIONS OF DOLLARS)
Natural scale



SOURCE: Table 111.

the region (excepting Cuba) underwent sharp short-term fluctuations. During the first six years of the post-war period, repayments consistently exceeded disbursements owing to the settlement by various Latin American Governments (Argentina, Brazil, Uruguay, etc.) of the external public debt, on which service payments had been partially or completely suspended since the 1929 Depression, and also because of the purchase of a number of foreign direct investment enterprises by the same Governments. After 1952, net disbursements were recorded for long-term loans¹⁷ to the region, varying in amount from 545.9 million dollars in 1956 to 790.4 million in 1957. These later dwindled and were replaced by net repayments in 1959, but a marked recovery took place during the next three years (the totals being 270.9 million dollars in 1960, 885.7 million in 1961 and 801.3 million in 1962).

It is very difficult to explain these fluctuations, since the category of non-compensatory long-term loans covers capital transfers of a fairly diverse kind effected for

¹⁷ This includes portfolio investment and for the sake of brevity will henceforth be used in that sense.

different reasons. However, it should be noted that the high level in 1956-57 seems to have been due to the first disbursements of European medium-term credits and, more especially, to the sale in the United States of Venezuelan Government securities that were originally issued on the domestic market. The recovery observed in 1960-62 was largely the result of a sharp increase in the net volume of official development credits.

Despite short-term fluctuations, some general trends can be traced over the long term. First, non-compensatory long-term loans showed an average net inflow of 320 million dollars a year during 1951-62 for Latin America as a whole (without Cuba), disbursements being regularly in excess of repayments except in 1951 and 1959.¹⁸

The region's long-term debt to the rest of the world therefore seems to have risen by about 3,800 million dollars during the last twelve years in relation to the relatively low level for 1950, solely because of the autonomous loans recorded in the balances of payments compiled by IMF. This figure must be supplemented by the 1,600 million dollars obtained as extraordinary compensatory financing. The volume of the external long-term debt therefore appears to have increased by about 5,500 million dollars, even though, as will be explained below, this is a conservative estimate and is in all probability lower than the actual figure.

The last twelve years were thus characterized by reconstitution of the external debt to such an extent that its servicing is giving rise to serious problems for a number of Latin American countries.

Net disbursements under the head of long-term loans followed a sharply rising trend after 1955, despite the appreciable drop recorded in 1958 and 1959. Expressed in terms of the annual average for the region as a whole (excluding Cuba), they rose from 93.3 million dollars in 1951-55 to 331.7 million in 1956-60, which meant an average increment of 28 per cent a year between the two quinquennia. The upward movement seems to have sharpened in the last few years, since disbursements more than trebled between 1960 and 1961 and remained at a high level in 1962.

Long-term loans constituted an increasingly large proportion of the long-term autonomous capital entering the region from abroad (see table 116). In fact, disbursements in the form of these loans expanded from 20.8 per cent of autonomous financing in 1951-55 to 25.8 per cent in 1956-60, outstripping the inflow of investment income over the long term (averaging 28 per cent annually between 1951-55 and 1956-60 instead of 21 per cent).¹⁹ In the last two years they represented nearly two-thirds of the long-term autonomous foreign capital owing to the slackening off in the rate at which direct investment funds were flowing into the region.

¹⁸ The net outflow in 1959 was due entirely to Venezuela, and resulted from the repayment of the Venezuelan government securities previously sold in the United States.

¹⁹ If Cuba and Venezuela are excluded, the course of development becomes somewhat clearer, since the proportion of net non-compensatory long-term foreign capital represented by loans rises from 25.2 per cent in 1951-55 to 33.3 per cent in 1956-60.

Table 116. Latin America: net long-term loans as a percentage of the net inflow of non-compensatory foreign long-term capital,^a 1946-62

Year or period	Latin America	Latin America (excluding Cuba)	Latin America (excluding Cuba and Venezuela)
<i>Average</i>			
1946-50	b	b	b
1951-55	24.3	20.8	25.2
1956-60	24.8	25.8	33.3
1961 . . . . .	...	68.0	65.6
1962 ^c . . . . .	...	68.6	59.7

SOURCE: Table 111.

^a For definitions see footnotes *a* and *c* to table 111.

^b Net outflow of non-compensatory foreign long-term capital and/or net reimbursement of long-term loans.

^c Preliminary figures.

(b) Geographical distribution of long-term loans

Long-term loans were very unevenly distributed among the recipients. As table 117 shows, the various countries can be grouped together according to the percentage of the regional total received by each one, namely, over 10 per cent, 4 to 10 per cent, 1 to 4 per cent, or under 1 per cent.

If the decade 1951-60 is considered as a whole, group I alone — comprising Argentina, Brazil and Mexico — absorbed over 63.7 per cent of the total; group II, composed of Colombia, Cuba and Peru, received 21.3 per cent, and the remaining 15 per cent was distributed among the other fourteen countries of the region. The composition of the groups changed between the first and second halves of the decade, but without any apparent tendency towards a more even distribution, since groups I and II, which had obtained 84.2 per cent of the total long-term loans granted to the region in 1951-55, received 81.8 per cent in 1956-60.

This irregular distribution is due to various factors that are difficult to pinpoint. To begin with, the size of the domestic market obviously plays a decisive part. In countries where there is a very large domestic market, at least partly integrated, real demand for loans from abroad is fairly strong, because there is a considerable need for foreign capital to meet internal demand, and the capacity to absorb such capital is usually greater than elsewhere. Other things being equal domestic demand is much weaker in the other countries. Consequently it was only to be expected that the three principal borrowers from abroad would be Brazil, Mexico and Argentina, which are also the three largest domestic markets in the region. Similarly, it is clear why seven of the nine countries that each received less than 1 per cent of the total long-term loans to the region should be among the smallest in Latin America — Bolivia, the Dominican Republic, El Salvador, Honduras, Nicaragua, Panama and Paraguay.

Admittedly, in small countries the export sector can absorb considerable amounts of foreign credit if it offers favourable prospects. This is why Peru, for example, a market which is small and, above all, unintegrated, ranked

Table 117. Latin America: geographical distribution of net non-compensatory long-term loans and portfolio investment,^a 1951-60

Groups of countries according to percentage of all net non-compensatory long-term loans to the region	1951-55			1956-60			1951-60			
	Number of countries	Country	Percentage of the regional total	Number of countries	Country	Percentage of the regional total	Number of countries	Country	Percentage of the regional total	
1. Over 10 per cent	3	Brazil	27.8	3	Argentina	22.14	3	Argentina	16.4	
		Colombia	27.0		Brazil	25.7		Brazil	26.4	
		Cuba	21.9		Mexico	25.7		Mexico	20.9	
			76.7			73.54			63.7	
2. 4-10 per cent	1	Mexico	7.5	1	Peru	8.3	3	Colombia	8.5	
						Peru		7.0	Cuba	5.8
								21.3		
3. 1-4 per cent	9	Bolivia	3.4	7	Colombia	1.8	5	Ecuador	2.5	
		Costa Rica	1.0		Ecuador	2.2		Guatemala	1.9	
		Chile	1.0		Guatemala	2.3		Haiti	1.4	
		Ecuador	3.5		Panama	1.3		Uruguay	1.2	
		El Salvador	1.6		Paraguay	1.3		Venezuela	2.1	
		Haiti	3.58		Dominican Republic	1.4				9.1
		Nicaragua	1.5		Venezuela	3.2				
		Peru	3.1			13.5				
		Uruguay	2.3							
			20.98							
4. Under 1 per cent	7	Argentina	0.7	9	Bolivia	-0.04	9	Bolivia	0.9	
		Guatemala	0.6		Costa Rica	0.7		Costa Rica	0.8	
		Honduras	-0.08		Chile	0.6		Chile	0.8	
		Panama	-2.4		El Salvador	0.4		El Salvador	0.7	
		Paraguay	-1.0		Haiti	0.7		Honduras	0.6	
		Dominican Republic	-2.0		Honduras	0.9		Nicaragua	0.87	
		Venezuela	-1.0		Nicaragua	0.6		Panama	0.03	
			-5.18		Uruguay	0.7		Paraguay	0.7	
					Cuba	0.1		Dominican Republic	0.5	
						4.66				5.9

SOURCE: Table 112.

^a See footnote c to table 111.

fifth on the list of borrowers in 1951-60. As during this period it had the highest annual growth rate for exports in all Latin America, there is probably a correlation between the two phenomena. This is, however, an exceptional case. Venezuela, another country with a small domestic market whose exports increased substantially during the decade, obtained no more than a very small part of the total long-term loans to the region in 1951-60 (2.1 per cent).

The fact is that during the last ten years Latin American export industries have received direct investments rather than foreign loans. The only sales abroad that have made progress have been in very special fields (petroleum, mining, etc.) that require heavy investment, advanced technology, and a world sales policy proper to international companies. When national enterprises existed, they were often hampered by institutional obstacles in seeking foreign funds. This applies, for example, to the petroleum

companies established by certain Governments as part of their policy of nationalizing energy resources. Such companies were unable to obtain the assistance of the International Bank and Eximbank, since the statutes of these two organizations prohibit them from competing with private capital.

Lastly, there are some more specific factors that have to be taken into account. Thus Colombia stands fourth on the list of borrowers, a position which is partly due to the size of its domestic market. But it should be noted that Colombia dropped from second place in 1951-55 to seventh in 1956-60. There seem to be two main reasons for this: first, certain government projects (Paz del Rio) that absorbed large credits were completed in 1951-55, and secondly, long-term loans to the private sector decreased appreciably during the second half of the decade, since the external payments crisis of 1955-56 struck at Colombia's international credit.

(c) *Geographical origin of long-term loans received by Latin America*

The Latin American balances of payments do not usually furnish data on the geographical origin of the long-term loans received by the region. It can be determined by relating net foreign capital inflows under the head of long-term loans, as they appear in the balance of payments of Latin American countries, to net capital outflows into Latin America appearing under the same head in the balance of payments of countries in other parts of the world.

Data from lender and from borrower countries are not really comparable, if only one specific category of long-term loans is considered, since one and the same distribution criterion applied to the same loans results in a different breakdown according to whether the origin or the destination of the funds is taken into account. It has already been pointed out that a loan which is official from the standpoint of the lender is not necessarily so from that of the borrower, and vice-versa. It may now be noted that a so-called balance-of-payments loan entered under the line in the balance of the recipient country is an autonomous credit from the point of view of the country opening it, and must therefore be entered above the line in the latter's balance of payments.

On the other hand, data from lender and borrower countries are comparable if all long-term loans financed by foreign capital are considered as a whole. In this case, the discrepancies resulting from differences in the presentation of long-term loan data in the balances of payments of Latin America and of foreign countries are eliminated. What still remain, however, are discrepancies that may have arisen at the time when the loans in question were registered in the two sets of balances, as a result of differences in the dates on which the records were entered, in the magnitude of the operations covered and in their evaluation. The only way of detecting and ultimately eliminating discrepancies of this type would be by comparing, in respect of one year after another, the data from all foreign countries with those from each of the Latin American countries. In default of such a comparison, which would obviously be beyond the scope of the present study, the results obtained by relating the Latin American to the foreign data can only be roughly accurate.

With these reservations, the data shown in tables 118 and 119 were compiled.

Table 118 covers the decade 1951-60, during which the United States was the only lender country that regularly published data on the aggregate amounts represented by long-term loans to Latin America. On the basis of a comparison of these data (adjusted as indicated in the notes to the table itself) with net disbursements of long-term capital by non-monetary international institutions (the International Bank for Reconstruction and Development, and, since 1957, the International Finance Corporation) and with net loans of all types (compensatory and non-compensatory) received by the Latin American countries according to their balances of payments, the amount of the net disbursements effected by lender countries other than the

United States — essentially, that is, by Canada, Japan and the countries of Western Europe — can be approximately estimated.

Thus, it can be seen that 62.2 per cent of the net long-term loans received by Latin America during 1951-60 were provided by the United States, while 22.4 per cent came from Canada, Japan and Western Europe, and 15.4 per cent from international institutions. It is worth noting that over the long term the relative importance of the United States' contribution decreased (from 66.2 per cent in 1951-55 to 60.3 per cent in 1956-60), and that there was a still sharper drop in the proportion for which the international institutions accounted (from 24.6 per cent in 1951-55 to 10.9 per cent in 1956-60), whereas the share of Canada, Japan and the countries of Western Europe increased (from 9.2 per cent in 1951-55 to 28.8 per cent in 1956-60). The growth of Europe's contribution is attributable to the significant volume of compensatory credits granted by the European countries to some of those of Latin America (Argentina, Brazil and Colombia) from 1955 onwards, as well as to the development of the system of medium-term financing of European exports to Latin America guaranteed by government agencies in the exporter countries.

Table 119 covers the years 1960-62, for which data on European loans compiled by the Organization for Economic Co-operation and Development are available, as well as those relating to loans granted by international institutions and by the United States, and the figures for loans received by the region.

In the breakdown presented in table 119, the net loans of all types (compensatory and non-compensatory) received by Latin America are classified in four groups: (i) net loans granted by non-monetary institutions and recorded in the reports of the institutions concerned; (ii) net loans extended by the private and public sectors in the United States, the data for which correspond (after certain adjustments indicated in the notes to the table itself) to the figures registered in the United States' balance of payments with the region; (iii) net loans from public or private sources with government guarantees (export or suppliers' credits), granted by Canada, Japan and the countries of Western Europe, and computed on the basis of the reports of the Organization for Economic Co-operation and Development; and (iv) a group of loans not broken down by countries of origin, covering loans from other geographical areas, balance-of-payments loans from private sources in Europe, and the inevitable discrepancies between the three foregoing series and the loans-received series in the Latin American balances of payments.

Table 119 clearly shows that the relative importance of the external lender countries altered appreciably from one year to another. The proportion of United States disbursements rose between 1960 and 1961, and in 1962 remained at the same level as in the preceding year; the financing provided by international institutions decreased between 1960 and 1961 but increased in 1962; and Europe's contribution weakened perceptibly between 1960 and 1961 but recovered in 1962. During this latter year, moreover, official European loans for the first time exceeded suppliers' credits, as a result of the growing

Table 118. Latin America: classification of net long-term loans granted by main supplying areas, 1951-60

Year or period	Total ^a (1)	International institutions ^b (2)	Private sector ^c (3)	United States		Other lending countries and discrepancies (1-2-5) (6)
				Government ^d (4)	Total (3+4) (5)	
<i>Millions of dollars</i>						
1951	+102.7	+56.7	-30.0	+93.0	+63.0	-17.0
1952	+99.0	+64.2	-34.0	+65.0	+31.0	+3.8
1953	+375.5	+46.0	-28.0	+344.0	+316.0	+13.5
1954	+242.3	+60.3	+103.0	+31.0	+134.0	+48.0
1955	+361.8	+64.0	+210.0	+28.0	+238.0	+59.8
1956	+764.0	+79.6	+310.0	-9.0	+301.0	+383.4
1957	+915.1	+61.1	+662.0	+145.0	+807.0	+47.0
1958	+310.6	+46.0	-222.0	+444.0	+222.0	+42.6
1959	-37.5	+39.9	-241.0	+223.0	-18.0	-59.4
1960 ^e	+491.6	+40.3	+109.0	+52.0	+161.0	+290.3
<i>Aggregate totals</i>						
1951-55	+1,181.3	+291.2	-221.0	+561.0	+782.0	+108.1
1956-60	+2,443.8	+266.9	+618.0	+855.0	+1,473.0	+703.9
1951-60	+3,625.1	+558.1	+839.0	+1,416.0	+2,255.0	+812.0
<i>Average</i>						
1951-55	+236.3	+58.2	+44.2	+112.2	+156.4	+21.7
1956-60	+488.8	+53.4	+123.6	+171.0	+294.6	+140.8
1951-60	+362.5	+55.8	+83.9	+141.6	+225.5	+81.2
<i>Percentage distribution</i>						
1951-55	100.0	24.6	18.7	47.5	66.2	9.2
1956-60	100.0	10.9	25.3	35.0	60.3	28.8
1951-60	100.0	15.4	23.1	39.1	62.2	22.4

SOURCES: Annex II; United States Department of Commerce, *Balance of Payments, Statistical Supplements to Survey of Current Business, 1958 and 1961*; International Bank for Reconstruction and Development, *Statements of Loans*, 31 December 1950 to 31 December 1960; and International Finance Corporation, *Statement of Operational Investments*, 31 December 1957 to 31 December 1963.

^a Net changes in long-term liabilities of private and public sectors in Latin America, including balance-of-payments loans, as recorded in the Latin American balances of payments compiled by IMF. (A plus sign means a net inflow into Latin America, and a minus sign a net outflow from Latin America.)

^b Net disbursements of loans by the International Bank for Reconstruction and Development and the International Finance Corporation to Latin America as recorded in the annual reports of these institutions. (A plus sign means an excess of disbursements over reimbursements, and a minus sign an excess of reimbursements over disbursements.)

^c This item covers the net flow of long-term private funds from the United States to Latin America, as recorded in the United States balance

of payments with the region. (A plus sign means a net inflow into Latin America, and a minus sign a net outflow from Latin America.) The series has been readjusted in order to include transactions in Venezuelan public securities and bonds originally issued in Venezuela but subsequently sold abroad, mainly in the United States, since these transactions have apparently not been recorded in the United States balance of payments with the region (credit entries of 256.0 million dollars in 1956, 498.0 million dollars in 1957, debit entries of 273.0 million dollars in 1958, 385.0 million dollars in 1959, and 145.0 million dollars in 1960).

^d This item covers the net flow of United States Government long-term funds to Latin America as recorded in the United States balance of payments with the region. The series has been readjusted in order to exclude contributions to the Inter-American Development Bank of 80.0 million dollars in 1960, 110.0 million dollars in 1961 and 60.0 million dollars in 1962. After this readjustment the series differs from series (8) in table 120 only because it includes United States Government net balance-of-payments loans to Latin America.

^e Excluding Cuba, for which data are not available.

interest in the Latin American countries displayed by several of the European Governments.

Despite these annual fluctuations, the data for recent years do not suggest that the trends followed in the preceding decade underwent much modification. A comparison between tables 118 and 119 will show that loan disbursements on the part of the United States, notwithstanding their upward trend in terms of absolute values, continued to decline as percentages of the total

loans received by the region (from 66.2 per cent of the total in 1951-55 to 60.3 per cent in 1956-60 and to 51.7 per cent in 1960-62). The relative contribution of international institutions dwindled between 1951-55 (24.6 per cent) and 1956-60 (10.9 per cent) and in 1960-62 remained at roughly the same level as in the preceding five-year period (10 per cent), despite the substantial increment in disbursements in terms of absolute value. Both the relative value and the percentage of the total

Table 119. Latin America (excluding Cuba): classification of net long-term loans granted by main supplying areas, 1960-62

Year or period	United States				Canada, Western Europe and Japan			Undistributed by lending countries and discrepancies (1-2-5-8)	
	Total ^a (1)	International institutions ^b (2)	Private sector ^c (3)	Government ^d (4)	Total (3+4) (5)	Guaranteed private export credits ^e (6)	Net bilateral lending ^f (7)		Total (6+7) (8)
<i>Millions of dollars</i>									
1960	+491.6	+40.3	+109.0	+52.0	+161.0	+226.1	+20.6	+246.7	+43.6
1961	+1,067.3	+64.8	+84.0	+523.0	+607.0	+236.0	+56.3	+292.3	+103.7
1962	+889.9	+141.0	+120.0	+381.0	+501.0	+126.7	+156.2	+282.9	-35.0
<i>Aggregate total</i>									
1960-62	+2,449.3	+246.1	+313.0	+956.0	+1,269.0	+588.8	+233.1	+821.9	+112.3
<i>Average</i>									
1960-62	+816.4	+82.0	+104.4	+318.6	+423.0	+196.2	+77.7	+273.9	+37.5
<i>Percentage distribution</i>									
1960	100.0	8.2	22.2	10.6	32.8	45.9	4.2	50.1	8.9
1961	100.0	6.1	7.9	49.0	56.9	22.1	5.3	27.4	9.6
1962	100.0	15.8	13.5	42.8	56.3	14.2	17.5	31.7	3.8
1960-62	100.0	10.0	12.7	39.0	51.7	24.0	9.5	33.5	4.8

SOURCES: Annex II; United States Department of Commerce, *Balance of Payments Statistical Supplement to Survey of Current Business, 1961*, and *Survey of Current Business*, various issues 1962 and 1963; International Bank for Reconstruction and Development, *Statements of Loans*, 31 December 1959 to 31 December 1962; International Finance Corporation, *Statements of Operational Investments*, 31 December 1959 to 31 December 1962; International Development Association, *Statement of Development Credits*, 31 December 1961 and 31 December 1962; Inter-American Development Bank, *Statement of Approved Loans*, 31 December 1961 and 31 December 1962; Organization for Economic Co-operation and Development, *The Flow of Financial Resources to Countries in Course of Economic Development in 1962*.

^a Same definition as in footnote *a* to table 118.

^b Net disbursements of loans granted to Latin America by the International Bank for Reconstruction and Development, International Finance Corporation, International Development Association, and Inter-American Development Bank (excluding Social Progress Trust Fund).

^c Same definition as in footnote *a* to table 118. The series proceeding from the United States balance of payments with Latin America has been readjusted in order to include transactions on Venezuelan public securities and bonds

(debit entries of 145.0 million dollars in 1960, 35.0 million dollars in 1961, and 15.0 million dollars in 1962).

^d Same definition as in footnote *d* to table 118. The series deriving from the United States balance of payments with Latin America has been readjusted in order to exclude contributions paid to the Inter-American Development Bank (80.0 million dollars in 1960, 110.0 million dollars in 1961 and 60.0 million dollars in 1962).

^e This item covers changes in the outstanding amount at risk (i.e., progress payments are deducted) of private export credits with maturities of over one year guaranteed by the government agencies of OECD countries (other than the United States and Japan).

^f This item covers the net inflow of loans (repayable in recipient's or lender's currencies) into Latin America from OECD countries (other than the United States) and Japan. This net inflow has been calculated by comparison between (1) the net inflow of loans from OECD countries and Japan as registered in the OECD reports, and (2) the net inflow of loans from United States Government agencies as registered in the annual reports of these agencies. The OECD series covering net loans excludes the loans financed by the sale of United States agricultural surpluses (Public Law 480). In order to obtain a comparable series for United States Government agencies, it was necessary to exclude net loans financed by the sale of agricultural surpluses.

represented by loan disbursements on the part of Canada, Japan and Western Europe continued to increase (from 9.2 per cent in 1951-55 to 28.8 per cent in 1956-60 and to 33.5 per cent in 1960-62.

2. PRINCIPAL TYPES OF AUTONOMOUS LONG-TERM LOANS AND PORTFOLIO INVESTMENT

Most of the difficulties encountered in attempting to analyse non-compensatory long-term loans from an economic standpoint derive from the variety of operations that come under this heading. A number of classification systems can be devised on much the same lines as those already used as a basis of selection for regrouping the non-compensatory movements of capital by categories. In the first place, it might be possible to classify loans

according to the terms on which they are granted. In this case, everything rests on the choice of terms, different categories being obtained depending on which of the following considerations is taken as the basis:

(a) The length of the amortization period. Of the long-term loans as defined above²⁰ a distinction can be drawn between, for example, medium-term loans and long-term loans proper, according to whether the repayment period is less or more than five years;

(b) Terms of repayment. Here a line should be drawn between soft loans and hard loans. The former may be defined as loans that do not have to be reimbursed in the same currency or in a currency readily convertible to

²⁰ Loans for more than a year.

the currency of origin, and do not bear a high interest rate to cover the costs to the lending institution. Hard loans, on the contrary, must be repaid in the original currency and charge sufficient interest to enable the lender to make a profit;²¹

(c) Conditions attaching to the use of the funds. Free loans can be used by the borrower to make purchases in any country whatsoever, while tied loans must be used solely to pay for purchases made in one or more countries, specifically named in the loan contract. Credits opened by IBRD, for instance, come into the first category and those granted by Eximbank generally in the second.²²

These different systems of classification, based on loan conditions, are undoubtedly useful for measuring the effects of long-term credits on the balance of payments of the recipient country. Unhappily they are very difficult to apply in practice, since long-term credits are not distributed in accordance with those criteria in the capital account of the standard balance established by IMF or in the statistics published by the various financing institutions.

Secondly, it is possible to classify loans according to the juridical status of the lenders or borrowers. In the former case, a distinction is made between the loans granted by official bodies (e.g. international organizations and United States Government agencies) and those given by commercial banks and other private investors. In the latter, credits for the public sector of the recipient country are distinguished from those that go to the private sector.

There is no need to dwell on the respective advantages and drawbacks of the two systems of classification applied previously to all long-term non-compensatory movements of capital.

Lastly, an attempt may be made to classify long-term loans according to their main objectives. From this standpoint, three groups of operations can be distinguished: development credits; export credits; and portfolio investment of the traditional kind.

(a) *Development credits*

This concept may seem rather vague at first sight, since any long-term credit, even if devoted to the purchase of consumer goods, can indirectly lead to the import of capital goods and thus help to increase the stock of capital. Some loans are, however, more directly connected with the financing of investment projects or programmes, and it is for these that the term development loans should be reserved. They may be defined as long-term credits opened expressly to finance one or more specific projects or possibly a development programme, the lender exercising a certain amount of control over the use of the funds so as to ensure that they are employed for the purpose agreed upon.

The largest credits extended to Latin America under this head in the last ten years were for financing specific

²¹ See Raymond F. Mikesell, *United States Private and Government Investment Abroad*, University of Oregon, 1962, pp. 275-277, for various possible definitions of hard and soft loans.

²² For a more extensive definition of tied loans, see Mikesell, *op. cit.*, pp. 285-286.

projects. Their concession was generally hedged about by strict rules, the borrowers having first to submit technical plans and a financial programme indicating the need for importing the capital goods in question, and, thereafter, to justify the use of the funds during the execution of the project (IBRD and Eximbank). It was only in relatively rare cases that the lenders contented themselves with a rapid review of the borrower's situation in order to assess the value of the project, and with supervising its execution in a more flexible way (ICA, Development Loan Fund, etc.). It is not possible, from the statistics available, to determine the volume of credit by broad project categories (directly productive projects in the sphere of agriculture and industry, projects relating to the economic infrastructure in the field of energy transport and other public services, social projects, etc.).

Credits to finance general development programmes were given much less often. An example of this kind are the credits opened by IBRD and DLF in favour of Latin American development banks, the former retaining certain powers of control over the projects that the Latin American banks planned to finance with the aid of the funds thus placed at their disposal. It is probable though that larger sums will be mobilized for over-all plans in future, since the Inter-American Development Bank and IDA intend to devote a certain proportion of their resources to such operations.

(b) *Export credits*

These are long-term credits whose purpose is to promote the exports of the country granting them. The following should be classed under this heading: (a) European medium-term credits, which have generally been in the form of bank credits realizable by discount of bills of exchange drawn on foreign importers and callable at longer periods than short-term credits. The bills of exchange discounted by the commercial banks that open the credits are rediscounted first by public or private bodies in which the Government participates (e.g. Banque Française du Commerce Extérieur and Crédit National in France, Ausfuhrkredit A.G. in the Federal Republic of Germany, Istituto per il Credito a Mediotermine in Italy, etc.) and possibly a second time by the central bank. In addition guarantees are given by special insurance companies with access to State financial resources (Export Credit Guarantee Department in the United Kingdom, Compagnie Française d'Assurance du Commerce Extérieur in France, Hermes Kreditversicherungs A.G. and Deutsche Revisions und Treuhand A.G. in the Federal Republic of Germany, etc.); (b) certain United States loans. These certainly include the export credits opened by Eximbank for periods ranging from six months to five years at the request of United States exporters, the funds being placed at the disposal of the latter and repaid by the buyers. Of a similar kind are the commodity credits granted by Eximbank on much the same conditions but for shorter periods (12-15 months) to facilitate foreign sales of agricultural commodities that are difficult to dispose of on the international market (wheat and particularly cotton).

Conversely, the medium-term credits opened by private United States banks for Latin American countries have

seldom been given to finance specific commodity sales. For the most part they have consisted either of shares in the loans accorded by Eximbank and IBRD or of loans that paralleled IMF's stand-by arrangements. Hence, they can usually be placed in the category of development loans for financing specific projects or in that of extraordinary compensatory financing.

It was not until the very end of the period that private banks began to open commercial medium-term credits in favour of United States exporters, Eximbank having been authorized to cover first some of the risks incurred by credits of less than 180 days (May 1960) and then the whole body of risks incurred by credits of less than five years (1961).

(c) *Portfolio investment*

According to the traditional terminology these are defined as foreign securities not involving any control on the part of the investors of the issuing institutions or enterprises. In so far as Latin America is concerned, the move to repatriate these investments which began with the 1929 crash and gathered impetus after the Second World War, continued during most of the last decade and did not reverse itself until the very end of the period. Nevertheless, the sums transferred in one direction or the other seem to have been fairly small, so that it will be enough simply to mention this heading as a reminder.

(d) *Principal differences between development and export credits*

This functional classification has a twofold advantage. Not only is it consistent with the system of classification previously applied to aggregate non-compensatory movements of long-term capital, but it also brings clearly to light the principal differences between development and export credits.

(i) The first of these differences is that development credits are opened by official institutions and export credits by private banks. It must be noted, however, that the same United States Government agency (Eximbank) grants credits pertaining to both categories. Moreover, in Europe export loans are strictly controlled by the Government, which intervenes not only through specialized semi-official institutions and central banks in which the commercial banks can settle their external claims, but also through insurance companies in which the Government participates and which extend guarantees to exporters.

(ii) Secondly, the sources from which development and export credits are financed are not exactly the same. The former come either out of the financial resources of the United States Government when the lender is Eximbank or any other Federal agency, or out of contributions from member States and funds raised on the capital markets when the lender is an international institution. The latter are financed essentially by recourse to the rediscount facilities offered by the European monetary authorities (money market).

The result is that the limiting factors affecting the two kinds of credit are not the same. Any increase in the volume of development credits is conditional upon the

funds available in the United States Treasury and the opportunities for bonds issued by the international institutions on the most important of the world's stock exchanges. The expansion of export credits is restricted by the danger of inflation which an unduly systematic recourse to rediscounting by the central banks may represent for the European economies. There is consequently some possibility that the credit supply may follow different trends according to whether it is intended to finance development projects or simply exports of capital goods.

(iii) Thirdly, development loans are generally granted to borrowers on more favourable terms than export credits. To begin with, the rates of interest charged are relatively lower. In the course of the decade under review, for example, IBRD charged rates of interest varying between 4.25 and 6.0 per cent on its aggregate operations; Eximbank charged rates ranging from 5.75 to 6.0 per cent on credits intended for the financing of specific projects; and the European banks and foreign trade insurance companies charged rates fluctuating between 7 and 9 per cent on export credits. Again, amortization periods are longer for development loans than for export credits; in the former case they are always more than ten years and often approach fifteen or twenty (e.g. IBRD and Eximbank, the other institutions or agencies being even more liberal in this respect); in the latter case, however, they were for a long time less than five years and nowadays are fairly frequently extended to seven or ten years.

(iv) Lastly, development credits are opened at the request of the Government of a debtor country or of a firm in that country, whereas export credits are opened at the request of an exporter in the creditor country. This fact, which is of capital importance, has several implications.

The banker granting the loan can claim against the importer in the case of a development credit, and in the same way against the exporter in that of an export credit, in accordance with the generally accepted principle of the joint liability of the drawer and acceptor of a negotiable instrument. This legal difference is actually more theoretical than real. In the first place, the banker sometimes waives his right to a claim against the exporter (Eximbank export credits, commercial credits granted by English banks which have obtained a direct guarantee from the Export Credit Guarantee Department, etc.) Secondly, if a claim is actually made, the exporter is himself covered by a foreign trade insurance agency's guarantee.

Export credits usually enable trade transactions which are already virtually concluded to be put into effect (induced movements of capital), whereas development credits make it possible to arrange transactions which would not even have been contemplated if the credits had not previously been opened (autonomous movements in the true sense of the term).

In the case of a development credit, the applicant, who is directly interested in the execution of the project which he is seeking to finance, supports his application with a careful study indicating the returns to be expected from the investment contemplated, its importance from the

stand-point of economic development, etc.; furthermore, he has to accept some degree of supervision by the lender, which carries with it a certain amount of managerial and technical assistance. In the case of an export credit, on the other hand, the chief concern of the applicant is to effect an external sale, so that he stresses his client's credit standing and possibly his own, without paying much attention to the use that is to be made of the goods imported and sometimes without giving the purchaser proper technical assistance.

The foregoing shows clearly that it is more to the interest of lender countries to open export credits than to grant development loans since the former carry higher rates of interest, are repaid within shorter periods, exert a more direct influence on sales and involve little or no supplementary expenditure under the guise of technical assistance. Borrower countries, on the other hand, prefer to obtain development loans, which are amortized over a longer period and which usually serve to finance more productive investment.

3. ATTEMPTED FUNCTIONAL CLASSIFICATION OF AUTONOMOUS LONG-TERM LOANS TO LATIN AMERICA

It is not always easy in practice to classify all loans in one or other of the three "functional" categories just defined, since the basic data are often unobtainable. However, there is enough information available to enable the line of demarcation between the three categories to be drawn roughly from 1951 onwards. This had to be done by different methods, depending upon the year in question, since radical changes were made in the presentation of the basic data.²³

The figures resulting from these readjustments can be found in table 120.

²³ From this standpoint, a distinction must be drawn between the periods 1951-59 and 1960-62. For 1951-59, the procedure adopted was as follows:

(a) First, the annual sum total of net inflows of non-compensatory long-term capital in the shape of loans and portfolio investment was ascertained for the various Latin American countries on the basis of the balance of payments data compiled by IMF.

(b) Secondly, with the help of the statistics published by international institutions and United States Government agencies, the net amount disbursed in the form of development loans by these agencies to Latin America was determined.

(c) The difference between these two series gives the sum total of net inflows of non-compensatory capital under the head of other long-term loans, corresponding essentially to export credits and portfolio investment.

(d) In addition, the principal operations that took place under the head of portfolio investment in 1956, 1957, 1958 and 1959 could be determined. Hence, by excluding these operations from the residual series for the years in question, a second residual series was obtained which was approximately equivalent to the sum of the export credits.

This method has many drawbacks, in particular the following: (i) the series deriving from the balances of payments compiled by IMF affords better coverage for development credits than for other long-term loans and portfolio investment; consequently the method of calculation selected leads to systematic underestimation of the capital inflows to which the latter operations give rise; (ii) it is relatively difficult to classify the various credits granted by United States Government agencies on the basis of functional criteria. As a result, the export credits granted by Eximbank had to be included, although the sums involved were small during the period

(a) Development credits

Three main observations can be made concerning the information on long-term development credits, which is fairly reliable, namely:

(i) Net disbursements under this head amounted to some 1,550 million dollars in 1951-60, to which about 840 million dollars should be added for 1961 and 1962, giving a total of some 2,400 million dollars in twelve years. They thus represented 60.6 per cent of all net long-term autonomous loans received by the region during that period and 23.9 per cent of its total net receipts of long-term foreign autonomous capital.

(ii) The net volume of development loans tended to increase over the long term during the decade 1951-60, since their annual average rose from 96 million dollars in 1951-55 to 215.2 million dollars in 1956-60. This tendency has become more marked in the last three years (1961-63), when the average attained by net development loan disbursements (459.3 million dollars) was higher than in the previous five-year period. This trend was not always attributable to the same reasons, and should therefore be divided into two periods.

From 1951 to 1961, the marked progress made over the long term was essentially due to the fact that towards the middle of the decade the United States began to grant more substantial bilateral assistance in the form of loans to the developing countries in general and to Latin America in particular, as indicated by the launching of the agricultural assistance programme in 1954 (Public Law 480), the creation of the Development Loan Fund in 1957 and the increase in the net volume of Eximbank's development credits to the region (from an annual average of 37.3 million dollars in 1951-55 to 126 million dollars in 1956-61). The international institutions, on the other hand, contributed little to this movement; IBRD's net loan disbursements declined slightly from 58.2 million dollars in 1951-55 to 49.6 million dollars in 1956-61), while those of the International Finance Corporation (as from 1957) represented relatively small sums only, and the new international credit agencies (International Development Association and Inter-American Development Bank) did not begin to operate until 1961, and even then on a modest scale only. Consequently, the United States share in the financing of development loans

under consideration (70.5 million dollars in net disbursements from 1 July 1950 to 30 June 1960, i.e. 6.2 per cent of Eximbank's total credits to the region during that time); (iii) the figures for portfolio investment in 1951-55 and export credits in 1956-59 may include loans which ought to be grouped under the head of development loans (loans from United States private banks to supplement the development credits granted by IBRD and Eximbank, participation by private institutions in the development credits given by Eximbank without the latter's guarantee, etc.). For 1960-62, there are, in addition to the data deriving from Latin America's balances of payments (series a) and the statistics provided by international institutions and United States agencies (series b), data on European and Japanese export credits extended to Latin America compiled by the Organization for Economic Co-operation and Development (series c). Portfolio investment can be estimated by deducting series b and c from series a. The data on export credits given in 1960-62 can therefore be regarded as more reliable than those available for 1950-59, whereas the estimates of portfolio investment continue to be rough approximations only.

Table 120. Latin America: net non-compensatory long-term loans received by main types, 1951-63

(Millions of dollars)

Year or period	Net development loans								Guaranteed private export credits ^g	Portfolio investment, other long-term loans and discrepancies (1-9-10) ^b	
	International institutions				United States official agencies						
	Total ^a	IBRD ^b	IDB ^c	Other ^d	Total (2+3+4)	Eximbank ^e	Other ^f	Total (6+7)			Total (5+8)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
1951	-2.1	+56.7	—	—	+56.7	-4.9	-4.1	-9.0	+47.7	—	-49.8
1952	+90.6	+64.2	—	—	+64.2	+60.4	+1.5	+61.9	+126.1	—	-35.5
1953	+53.2	+46.0	—	—	+46.0	+55.0	-9.6	+45.4	+91.4	—	-38.2
1954	+228.5	+60.3	—	—	+60.3	+58.6	-1.1	+57.5	+117.8	—	+110.7
1955	+227.1	+64.0	—	—	+64.0	+17.6	+16.0	+33.6	+97.6	—	+129.5
1956	+560.9	+79.6	—	—	+79.6	+10.1	+32.5	+42.6	+122.2	(+182.7)	+256.0
1957	+790.7	+60.5	—	+0.6	+61.1	+65.1	+68.0	+133.1	+194.2	(+98.5)	+498.0
1958	+140.4	+41.1	—	+4.9	+46.0	+283.1	+62.9	+346.0	+392.0	(+21.4)	-273.0
1959	-102.6	+33.3	—	+6.6	+39.9	+146.0	+50.9	+196.9	+236.8	(+45.6)	-385.0
1960 ⁱ	+270.9	+28.1	—	+12.2	+40.3	+44.4	+46.5	+90.9	+131.2	+226.1	-86.4
<i>Average</i>											
1951-55	+119.3	+58.2	—	—	+58.2	+37.3	+0.5	+37.8	+96.0	—	+23.3
1956-60	+332.0	+48.5	—	+4.8	+53.3	+109.7	+52.2	+161.9	+215.2	+114.9	+1.9
1951-60	+225.7	+53.4	—	+2.4	+55.8	+73.5	+26.3	+99.8	+155.6	+57.4	+12.7
1961 ⁱ	+901.2	+54.6	+5.1	+5.1	+64.8	+208.4	+143.3	+351.7	+416.5	+236.0	+248.7
1962 ⁱⁱ	+801.3	+94.2	+35.9	+10.9	+141.0	+72.2	+213.0	+285.2	+426.2	+126.7	+248.4
1963 ^{ij}	...	+201.2	+73.7	+17.4	+292.3	-9.0	+253.9	+244.9	+537.2	...	...

SOURCES: Annex II; International Bank for Reconstruction and Development, *Statements of Loans*, 31 December 1950 to 31 December 1963; Inter-American Development Bank, *Statement of Approved Loans*, 31 December 1961, 1962 and 1963; International Finance Corporation, *Statement of Operational Investments*, 31 December 1957 to 31 December 1963; International Development Association, *Statement of Development Credits*, 31 December 1961, 1962 and 1963; Export-Import Bank of Washington, *Statement of Loans and Authorized Credits*, 31 December 1950 to 31 December 1963; Social Progress Trust Fund, *Annual Reports*, 1961, 1962, and 1963; United States Department of Commerce, *Balance of Payments Statistical Supplements to Survey of Current Business*, 1958 and 1961, *Foreign Aid, 1940-1951* a supplement to *Survey of Current Business, Foreign Grants and Credits*, various issues up to 31 December 1962; Agency for International Development, *Status of Loans Agreements*, 31 December 1963; Organization for Economic Co-operation and Development, *The Flow of Financial Resources to Countries in Course of Economic Development* in 1962.

^a Net changes in long-term liabilities of private and public sectors in Latin America, excluding direct investment and balance-of-payments loans.

^b Net disbursements of loans by the International Bank for Reconstruction and Development, including loans sold or agreed to be sold to private participants with or without the guarantee of the Bank.

^c Net disbursements of loans by the Inter-American Development Bank (since 1961).

^d Net disbursements of loans by the International Finance Corporation (since 1957) and International Development Association (since 1961).

^e This item covers net disbursements of loans by the Export-Import Bank of Washington, excluding balance-of-payments loans and including a relatively small amount of export credits. Loans disbursed through agent banks under Eximbank guarantees are included, but loans disbursed through private participants without Eximbank guarantees are excluded.

^f This item covers loans granted by the United States Government under denominations which have changed on several occasions (Agency for International Development Program Loans, Development Loan Fund Credits, International Cooperation Administration loans, Mutual Security Act credits, etc.); credits granted by the Social Progress Trust Fund; credits to governments and private firms under the Agricultural Trade Development and Assistance Act of 1955 (Public Law 480); and other credits for civilian use (sales of domestic surpluses, loans by the Institute of Inter-American Affairs, loans by the Reconstruction Finance

Corporation, and prior grants converted into credits). Balance-of-payments loans are excluded.

^g This item covers an estimate of medium-term export credits granted by European countries and Japan to Latin America for 1956-59, and the figures compiled by OECD in order to cover the same credits for 1960-62. The figures for 1956-59 have been estimated by the following method. First, a residual series covering net long-term loans other than development loans was estimated from the difference between the figures for the total long-term loans received by Latin America, according to the Latin American balances of payments, and the figures for the development loans as given in the annual reports of the international institutions and United States agencies. Secondly, the figures covering net portfolio investment in Venezuelan public securities and bonds were excluded from the residual series. The figures so obtained after these two successive readjustments can be considered as covering mainly net disbursements of European and Japanese export credits, but they can also include relatively small amounts representing portfolio transactions other than those in Venezuelan securities, participation by United States private banks in Eximbank loans without Eximbank guarantee, and credits extended by United States private banks concurrently with the International Bank for Reconstruction and Development, and Eximbank development loans. They exclude Eximbank export credits. The figures for 1960-62 cover changes in the outstanding amount at risk (i.e., progress payments are deducted) of private export credits with maturities of over one year guaranteed by government agencies of OECD countries (other than the United States) and Japan.

^h This item covers a series which is net homogeneous. For 1951-55 the figures have been calculated from the difference between the total net long-term loans received by the region as entered in the Latin American balances of payments and the net development loans granted to the region as shown in the annual reports of the international institutions and United States agencies. For 1956-59 the credit entries cover the inflow of foreign capital resulting from the financing of domestic and foreign purchases by Venezuelan Government agencies through securities and notes which were originally issued in Venezuela but subsequently sold abroad. The debit entries cover repayments on these obligations. For 1960-62 the figures have been calculated from the difference between the total long-term loans as registered in the Latin American balances of payments, on the one hand, and the development loans granted to the region by the international institutions and United States agencies plus the export credits granted with a guarantee from European and Japanese government agencies, on the other hand.

ⁱ Excluding Cuba, for which data are not available.

^j Preliminary figures.

increased appreciably (from 39.4 per cent in 1951-55 to 75.2 per cent in 1956-60 and 84.4 per cent in 1961), while that of the international institutions dwindled proportionately.

The situation seems to have changed in the last two years (1962 and 1963). On the one hand, net disbursements by United States agencies decreased from 1961 onwards, dropping from 351.7 million dollars in that year to 285.2 million in 1962 and 244.9 million in 1963. On the other, net disbursements by international institutions rose sharply from 64.8 million dollars in 1961 to 141 million in 1962 and 292.3 million in 1963. This increase is partly attributable to IBRD and partly to the Inter-American Development Bank, whose operations expanded rapidly. These institutions thus accounted for an increasingly large share of development loan financing, whereas the part falling to United States agencies declined from 84.4 per cent in 1961 to 66.9 per cent in 1962 and 45.6 per cent in 1963.

At the same time the relative importance of the various United States agencies as sources of funds for the region underwent a drastic change. Far less emphasis came to be placed on Eximbank, while the other United States aid programmes were strengthened.²⁴ This development was the outcome of the new United States Government policy, which now attaches greater importance to aid programmes that are more directly connected with the execution of development projects and programmes in the recipient countries than on the credits given by Eximbank. Although the latter served a useful purpose in the past as sources of financing for development projects and programmes, their first aim is to promote United States exports.

Since the launching of the Alliance for Progress, the United States Government has apparently been less interested in increasing the over-all sum of long-term loans granted by its agencies than in altering their distribution with an eye to speeding up the economic development of the recipient countries.

(iii) The total volume of development loans disbursed fluctuated violently over the short term. It rose, in fact, from 47.7 million dollars in 1951 to 126.1 million in 1952, thereafter remaining at around 100 million a year up to 1956. It tripled between 1956 and 1958, rising from 122.2 million dollars in 1956 to 194.2 million in 1957 and to 392 million in the following year. During the next two years it contracted sharply, amounting to only 131.2 million dollars in 1960, but in 1961, 1962 and 1963 expanded at a steady pace.

These violent fluctuations can be ascribed to a variety of causes. In the first place, the total amount disbursed by international institutions and United States agencies depends upon a number of factors, such as the volume of aid to foreign countries voted each year by the United States Congress, the number and scope of the specific projects submitted by prospective borrowers, the time taken up by administrative formalities, etc. Secondly,

repayments reflect the quantitative significance of loans granted at an earlier date, if amortization periods are taken into account. In these circumstances, it is difficult for net disbursements of development credits to provide a steady flow of funds.

The recipients have often deplored this state of affairs, which is liable to create difficulties from the standpoint of the balance of external payments, besides jeopardizing the continuity of the financing of projects and, *a fortiori*, of development programmes.

(b) *Export credits or suppliers' credits*

Export credits, especially those of European origin, have recently been playing an important part in Latin America's external financing. These operations began to develop on a large scale when trade between Western Europe and Latin America evolved in the direction of increasingly broad multilateralism, as a result of the establishment of The Hague and Paris Clubs (in 1955 and 1956 respectively) and later, of the restoration of the convertibility of European currencies in favour of non-residents (1959). Formerly, the financing of Europe's fixed-term sales to Latin America had been based on an extension of the swing credits contemplated in bilateral payments agreements and the periodical refunding of debts falling due, in other words, by operations which either signified a reduction of the net reserves of the Latin American monetary authorities or were tantamount to balance-of-payments loans, so that they were entered under the line as extraordinary compensatory financing. With the new turn of events recourse was had to export credits which were registered above the line as non-compensatory long-term loans in the region's balances of payments.

The data on net disbursements of suppliers' credits do not form a homogeneous series, and are therefore very difficult to interpret. For 1956-59 they were estimated by deducting, from the net inflow of autonomous long-term loans recorded on the Latin American balances of payments, the figures for net disbursements of development loans as they appear in the annual reports of international institutions and United States agencies together with the principal portfolio investments made in the region during the period in question. For 1960-62 the data were compiled by OECD on the basis of variations in the current volume of export credits granted to Latin America and guaranteed by the official foreign trade insurance companies of Western Europe, Canada and Japan.

These data point to violent fluctuations over the short term in net disbursements of suppliers' credits. These disbursements, which amounted to nearly 200 million dollars in 1956, fell steeply in 1957, and particularly in 1958 and 1959; they then rose considerably in 1960 (226.1 million dollars) and 1961 (236 million) only to suffer a new and substantial reduction in 1962 (126.7 million dollars). It is virtually impossible to explain these fluctuations from the information available. All that can be said is that they are ruled by a number of factors such as the evolution of aggregate import demand in the Latin American countries, the distribution of such demand among the region's principal suppliers and the credit worthiness of the Latin American countries with

²⁴ Eximbank, which used to provide 67.7 per cent of the net long-term autonomous loans disbursed by United States agencies to Latin America, financed only 59.2 per cent in 1961 and 25.3 per cent in 1962.

the foreign trade insurance companies of Europe and Japan.

In spite of their irregularity, suppliers' credits constituted a substantial source of external financing for the region. During the five-year period 1956-60 they formed a third of the net inflow of foreign capital in the shape of autonomous long-term loans. This proportion shrank in 1961 (to 26.1 per cent) owing to the notable increase in development credits, and again in 1962 (to 15.8 per cent), when net disbursements of suppliers' credits fell well below their level in the preceding year.

(c) *Other long-term loans and portfolio investment*

Apart from public loans for development purposes and suppliers' credits, the latter usually from private sources but backed by an official guarantee, the Latin American countries received a certain amount of private autonomous long-term capital in the form of loans from private foreign banks, or, less frequently, of portfolio investment of the traditional type. Unfortunately, the balance-of-payments records of transactions in the last two categories are very deficient in both the Latin American and lender countries. The shortcomings are not due merely to the fact that such operations were exceptional during most of the post-war period but to the very nature of the operations which makes it impossible for many of them to be accurately estimated in the absence of an efficient system of exchange control (e.g., public or private securities originally issued in Latin America and subsequently sold outside the region). The figures in table 120 for these operations should therefore be regarded as approximate only. Moreover, the series is not homogeneous because the data were not always worked out in the same way.

(i) From 1951 to 1955, autonomous long-term loans (excluding development loans) and portfolio investments were estimated by deducting development loans granted by international institutions and United States agencies from the long-term loans received by Latin America. The results show that repayments exceeded disbursements in 1951, 1952 and 1953, probably because repatriation of portfolio investment, which was particularly intensive shortly after the war, continued during the early part of the fifties. There is reason to believe that the decline in the European portfolio of Latin American securities, which had begun in the First World War, and gathered momentum after the 1929 Depression and particularly the Second World War, was still in evidence in the first half of the fifties, although its pace had slowed down.²⁵ The trend followed by the United States portfolio of Latin American securities was fairly similar. According to the data assembled by the United States Department of Commerce, the market value of the United States

portfolio was substantially reduced after the 1929 Depression and continued to decrease at the beginning of the fifties, falling from 367 million dollars in 1946 to 198 million in 1949 and 166 million in 1959.²⁶

On the other hand, disbursements to the region seem to have outweighed repayments in 1954 and 1955. This reversal of the trend observed in former years seems to be due less to the renewal of portfolio investment than to the fact that several Latin American countries were able to secure long-term loans from United States private banks and began to receive credits from European suppliers.²⁷

(ii) From 1956 up to 1959, the series relates exclusively to transactions in Venezuela government securities. At the beginning of the five-year period 1956-60, government agencies issued securities and bills for financing purchases at home and abroad. These securities, originally floated on the domestic market, were nearly all bought abroad, particularly in the United States (256 million dollars' worth in 1956 and 498 million in 1957). They were later redeemed, thus giving rise to an outflow of funds from Venezuela (273 million dollars in 1958, 385 million in 1959, 145 million in 1960, 35 million in 1961 and 15 million in 1962). From 1956 to 1959 these were the most important transactions involving Latin American securities effected in the region, but there was undoubtedly a small volume of other portfolio investment and long-term loans which was included in the estimate of suppliers' credits.

(iii) The data on autonomous long-term loans (exclusive of suppliers' credits and development loans) and portfolio investment are more reliable for 1960 than for previous years. They were obtained by subtracting the long-term loans received by Latin America from the development loans disbursed by international institutions and the United States, plus suppliers' credits financed by Western Europe and Japan.

The data therefore cover transactions as diverse as :

1. Autonomous long-term loans from official sources other than those granted by United States agencies and international institutions, i.e., loans extended to the region by the Governments of Western Europe, Canada and Japan (excluding balance-of-payments loans);
2. Autonomous long-term loans from private sources in the United States, Europe, Canada and Japan (except in this case loans falling into the category of suppliers' credits);
3. Traditional portfolio investment; and
4. A number of errors and omissions resulting from the probable discrepancies between the statistics of the Latin American borrowing countries and those of the lender institutions, agencies and countries.

²⁵ According to the data in the Bank of England publication, *United Kingdom Overseas Investments*, the net nominal value of Latin American government bonds and of securities issued by private companies operating in Latin America (without differentiation between direct investment and portfolio) and held by persons resident in the United Kingdom would seem to have dropped from 53.1 million pounds sterling in 1938 to 41.9 million pounds in 1948 and 23.5 million pounds in 1957.

²⁶ Data taken from unpublished notes by Manuel Pizer, United States Department of Commerce, Office of Business Economics, and quoted by Paul Meek, "United States Investment in Foreign Securities (excluding Canadian and IBRD)", in Raymond F. Mikesell, *op. cit.*, pp. 244-245.

²⁷ Up to 1956 these credits could not be treated separately from other long-term loans and portfolio investment.

In these circumstances it is difficult to analyse the trend of the series. It may be noted, however, that the above transactions constitute an increasing source of financing for the region. In fact, in 1960 they closed with a net outflow of 86.4 million dollars, but produced a net inflow of 248.7 million in 1961 and of 248.4 million in 1962. Not counting Venezuela which, as noted above, had to redeem securities sold abroad, a net inflow of funds was consistently recorded, rising from 67.4 million dollars in 1960 to 283.7 million in 1961 and 263.4 million in 1962.

From the data available, the increase in the inflow of autonomous long-term capital (exclusive of suppliers' credit and development loans) and of portfolio investment cannot be attributed to specific categories of operations. There is, however, reason to suppose that the increase was less a result of the very limited renewal of portfolio investment²⁸ than of the increase in autonomous

loans from European Governments²⁹ and above all of private loans which cannot be regarded as secured export loans.

(d) *Geographical distribution of the different types of autonomous long-term loans*

It is interesting to see whether the various types of long-term loans were distributed among the Latin American countries on the basis of the same pattern or a number of different ones. Table 121 was compiled with this in mind to show the geographical distribution of two categories of long-term autonomous loans in 1951-60: (i) development loans granted by international institutions and United States Government agencies; and (ii) other long-term loans of all kinds (suppliers' credits, other long-term loans and portfolio investment). The data relating to the latter were worked out from the

²⁸ During the last four years only two Latin American countries have been able to float securities on the foreign stock markets: the Argentine Government, which obtained 160 million dollars (20 million in 1960 and 140 million in 1961) from a private sale of securities abroad, and the Mexican Government, which successfully placed an issue worth 40 million dollars on the New York Stock Exchange in July 1963.

²⁹ According to an estimate given in table 129, net loans granted to Latin America by the Governments of the member countries of OECD (apart from the United States), i.e., the Western European countries, Canada and Japan, rose from 20.6 million dollars in 1960 to 56.3 million in 1961 and 156.2 million in 1962. However, an unknown but undoubtedly substantial proportion consisted of balance-of-payments loans.

Table 121. Latin America: main types of non-compensatory long-term loans by country, 1951-60^a

Country	Aggregate totals (Millions of dollars)					Geographical distribution (Percentage)			
	Development loans					Total (6)	Development loans (7)	Other long-term loans and portfolio investment (8)	
	Total ^b (1)	International institutions ^c (2)	United States official agencies ^d (3)	Total (4)	Other long-term loans and portfolio investment (5)				
Argentina	+370.3	—	+172.6	+172.6	+197.7	+16.4	+11.3	+26.8	
Bolivia	+19.9	—	+14.3	+14.3	+5.6	+0.9	+1.0	+0.8	
Brazil	+593.0	+127.9	+304.7	+432.6	+160.4	+27.4	+28.4	+21.8	
Chile	+16.7	+45.1	+22.8	+67.9	-51.2	+0.8	+4.5	-7.0	
Colombia	+191.5	+74.3	+15.5	+89.8	+101.7	+8.5	+5.9	+13.8	
Costa Rica	+17.8	+5.1	+9.7	+14.8	+3.0	+0.8	+1.0	+0.4	
Dominican Republic	+10.6	—	-0.1	-0.1	+10.7	+0.5	-0.1	1.5	
Ecuador	+57.5	+25.8	+20.1	+45.9	+11.6	+2.5	+3.0	1.6	
El Salvador	+15.7	+21.3	-0.6	+20.7	-5.0	+0.7	+1.4	-0.7	
Guatemala	+41.8	+16.0	+3.7	+19.7	+22.1	+1.9	+1.3	3.0	
Haiti	+32.1	+1.9	+24.0	+25.9	+6.2	+1.4	+1.7	0.8	
Honduras	+13.8	+6.2	+6.7	+12.9	+0.9	+0.6	+0.8	0.1	
Mexico	+471.6	+128.9	+134.6	+263.5	+208.1	+20.9	+17.3	28.3	
Nicaragua	+18.6	+13.7	+1.5	+15.2	+3.4	-0.87	+1.0	0.5	
Panama	+8.0	-0.1	+8.8	+8.7	-0.7	+0.03	+0.6	-0.1	
Paraguay	+17.1	+2.1	+14.1	+16.2	+0.9	+0.7	+1.1	0.1	
Peru	+156.0	+36.3	+154.6	+190.9	-34.9	+7.0	+12.5	-4.7	
Uruguay	+25.3	+50.8	+11.4	+62.2	-36.9	+1.2	+4.1	-5.0	
Subtotal I	+2,077.3	+555.3	+918.4	+1,473.7	+603.6	+92.1	+96.9	82.0	
Venezuela	+48.2	+3.0	+8.3	+11.3	+36.9	+2.1	+0.7	5.0	
Subtotal II	+2,125.5	+558.3	+926.7	+1,485.0	+640.5	+94.2	+97.6	87.0	
Cuba	+132.1 ^e	— ^e	+36.2 ^e	+36.2 ^e	+95.9 ^e	+5.8	+2.4	13.0	
TOTAL	+2,257.6 ^e	+558.3 ^e	+962.9 ^e	+1,521.2 ^e	+736.4 ^e	100.0	100.0	100.0	

SOURCE: Table 120.

^a For definitions see footnote to table 120.

^b These figures correspond to those in column (1) of table 120.

^c These figures correspond to those in column (5) of table 120.

^d These figures are not identical with those in column (8) of table 120 because it was not possible to break down by country some loans granted by United States official agencies other than Eximbank.

^e Not fully comparable with the figures for other countries or groups of countries because of the lack of data on Cuba in 1960.

difference between the entries in the Latin American balances of payments and the figures in the reports of international institutions and United States agencies, and should therefore be considered as approximations only. It is hardly to be supposed, for instance, that long-term loans (excluding development loans) and portfolio investment should have shown a cumulative net outflow for Chile, Peru and Uruguay in 1951-60, since these countries actually received a considerable volume of medium-term loans from Europe. In fact, it would seem that these transactions were most inadequately recorded in the balances of payments of the countries concerned.

Such as they are, however, the data available provide some interesting indications of the geographical distribution of development and other long-term loans. The former were allocated, in order of importance, to Brazil (which absorbed 28.4 per cent of the total in 1951-60), Mexico (17.3 per cent), Peru (12.5 per cent), Argentina (11.3 per cent), Colombia (5.9 per cent), Chile (4.5 per cent) and Uruguay (4.1 per cent), followed by the remaining countries, most of which received less than 2 per cent of the total. The other long-term loans went to Mexico (28.3 per cent of the total in 1951-60), Argentina (26.8 per cent), Brazil (21.8 per cent), Colombia (13.8 per cent), Cuba (13.0 per cent), Venezuela (5.0 per cent) and Guatemala (3.0 per cent), while all the other countries obtained less than one per cent of the total or even repaid sums larger than those they received in the course of the decade.

It must be noted that development loans were more evenly distributed than other long-term loans. In the first case, the five leading recipients (Argentina, Brazil, Mexico, Peru and Colombia) received 74.2 per cent of the aggregate net disbursements in favour of the region. In the second case, the five heaviest borrowers (Mexico, Argentina, Brazil, Colombia and Cuba) absorbed over one hundred per cent of net disbursements to the region, while the balance of the other countries' operations showed cumulative net outflows.

An explanation can be found for this phenomenon. Capital flows in the form of credits largely depend — as has already been shown — on real demand for external loans, which is in itself a function of foreign capital requirements and of the capacity to absorb such capital. There is clearly a relationship between these two factors and the size of the internal market, so that the two credit flows distinguished here have a clear tendency to concentrate in the countries constituting the largest markets in the region. Nevertheless, the capacity to absorb foreign capital also depends on the conditions governing the transfer of funds, which means that it is usually higher for development loans than for other long-term loans, the quota of technical and managerial assistance accorded to the borrower being generally more substantial in the former than in the latter case. Accordingly it is understandable that certain small countries should have been able to absorb quite large amounts of development loans while virtually eschewing other forms of long-term credit.

C. DIRECT INVESTMENT

1. GENERAL FEATURES

(a) *Definition of direct investment*

Direct investment was previously defined as a transfer of capital in favour of private firms established abroad; thus, those remitting the capital control the enterprises concerned.

In practice, the application of this definition raises some awkward problems:

(i) Among enterprises partly based on foreign capital, how are those controlled from abroad to be distinguished from the others? No problem arises when a branch of a foreign company is concerned since it has no juridical personality other than that of its head office. The same does not apply to a subsidiary, which is a legal entity in its own right, the head office exercising control through its right to vote on the Board of Directors of the subsidiary by virtue of its part ownership of the capital of the enterprise concerned.

Hence this is a question of fact which must be dealt with case by case. It seemed useful, however, to adopt as points of reference the criteria suggested by IMF in the latest edition of the *Balance of Payments Manual*.³⁰ This institution recommends that the following types of

enterprises should be deemed to be controlled from abroad:

Those in which a closely organized group of non-residents holds certain executive posts on the Board of Directors, or owns more than 25 per cent of the voting stock;

Those in which residents of the same foreign country own over 50 per cent of the voting stock;

Those in which all persons residing in foreign countries own over 75 per cent of the voting stock.

Even so, it is difficult to classify associated enterprises in which the capital is on the border line between direct and portfolio investment. A case in point is that of a corporation in a given country which acquires a minority but not a controlling interest in a corporation in another country or grants it a loan, in order to establish or reinforce a working relationship between the two corporations in the technical field, in sales policies, etc. According to the IMF definition, the term "associated enterprises" is applicable to those in which one and the same group of non-residents owns less than 25 per cent but more than 10 per cent of the voting stock. To avoid multiplication of categories, these enterprises and those actually controlled by non-residents have been placed in the same group.

(ii) Should only the capital invested by the controlling group of non-residents be regarded as direct investment,

³⁰ See IMF, *Balance of Payments Manual*, 3rd ed. 1961, pp. 366-377.

or should new capital invested by other non-residents be included? In the latest edition of its manual, IMF recommends that the two flows should be differentiated, the latter being classified as portfolio or direct investment according to the specific case in question. Where Latin America is concerned, the second course seems to have been most widely adopted.

(iii) Should direct investment include not only capital contributions from abroad but also profits reinvested on the spot? IMF chooses the second alternative, registering reinvested profits twice — first as an outflow of financial services in the balance on current account, and again as an inflow of long-term non-compensatory capital in the form of direct investment in the balance on capital account. This choice is justifiable from the standpoint of external payments accounting, but it would nevertheless be interesting to determine the relative importance of transfers and reinvestment. It will be seen later that in this connexion only very rough estimates can be made on the basis of data compiled by the United States Department of Commerce and relating to direct United States investment in the region.

(iv) What exactly is to be understood by capital contributions from abroad? IMF uses the term in its widest sense, covering both the participation of non-residents in the capital of direct investment enterprises and loans granted by head offices to their subsidiaries and branches abroad. But should short-term credits be included among these loans? IMF rejected this possibility in the first two editions of its *Balance of Payments Manual*, but finally accepted it in the third edition, since the concept of deferred repayment loses some of its significance when it is applied to transfers of funds between a head office and its branch or subsidiary. This change in the definition has introduced an element of heterogeneity into the series compiled by IMF since 1960, although its importance should not be exaggerated, as the short-term transfers involved relatively small sums only.

In short, according to the IMF definitions, which by and large have been adopted here, new direct investment comprises capital contributions of all kinds, as well as reinvestment of profits in enterprises controlled from abroad and in associated enterprises, whether these operations are undertaken by the controlling groups of non-residents or by other non-residents who are shareholders in the enterprises concerned.

(b) *The flow of direct investment*

(i) *Short-term fluctuations.* The data entered in the balances of payments compiled by IMF show that the flow of direct investment into the region registered sharp short-term fluctuations (see again table 111 and figures V and VI).

The net inflow of foreign capital under the head of direct investment into Latin America as a whole (except Cuba) recorded four highs and three lows during the post-war period (the former in 1948, 1952, 1957 and 1959 and the latter in 1950, 1954 and 1958). From 1959 onwards the inflow slackened off appreciably, and in 1962 was only slightly greater than in 1955.

These fluctuations largely reflect the variations in capital inflow represented by direct investment in the Venezuelan petroleum sector. If, however, the figures for Venezuela are excluded, new direct investment will be seen to have provided a relatively stable yearly inflow of funds only during the first five years of the post-war period (1946-50). After 1951 the inflow varied less markedly from one year to the next than it did with Venezuela included, though the changes were still perceptible, registering three highs (1952, 1957 and 1959) and three lows (1954, 1958 and 1961).

It would be interesting to determine how far these fluctuations were dictated over the short term by variations in the annual earnings of foreign companies operating in Latin America. To this end, an estimate was made in table 122 of the year-by-year percentage increase (or decrease) in the earnings of these companies,³¹ as well as of the annual percentage increase (or decrease) in capital flows in the form of direct investment between 1951 and 1962.

Table 122. Latin America: short-term fluctuations in direct investment inflow and income, 1951-62

	Latin America (excluding Cuba)		Latin America (excluding Cuba and Venezuela)	
	Direct investment inflow: percentage increase (+) or decrease (-) over previous year's level	Direct investment income: percentage increase (+) or decrease (-) over previous year's level	Direct investment inflow: percentage increase (+) or decrease (-) over previous year's level	Direct investment income: percentage increase (+) or decrease (-) over previous year's level
1951	—	—	—	—
1952	+67.7	-8.0	+15.2	-21.6
1953	-22.4	-3.4	-35.0	-5.8
1954	-45.1	-0.1	-21.8	-14.2
1955	+14.2	+18.8	+33.1	+16.4
1956	+341.6	+25.8	+104.8	+17.6
1957	+39.1	+14.9	+5.6	-10.8
1958	-59.2	-26.6	+3.5	+4.2
1959	+17.4	-10.3	+27.4	-2.0
1960	-42.0	+8.2	-12.6	+22.0
1961	-30.5	+13.0	-37.9	+17.5
1962 ^a	-14.3	-6.4	+20.5	-20.6

SOURCE: Annexes I and II.

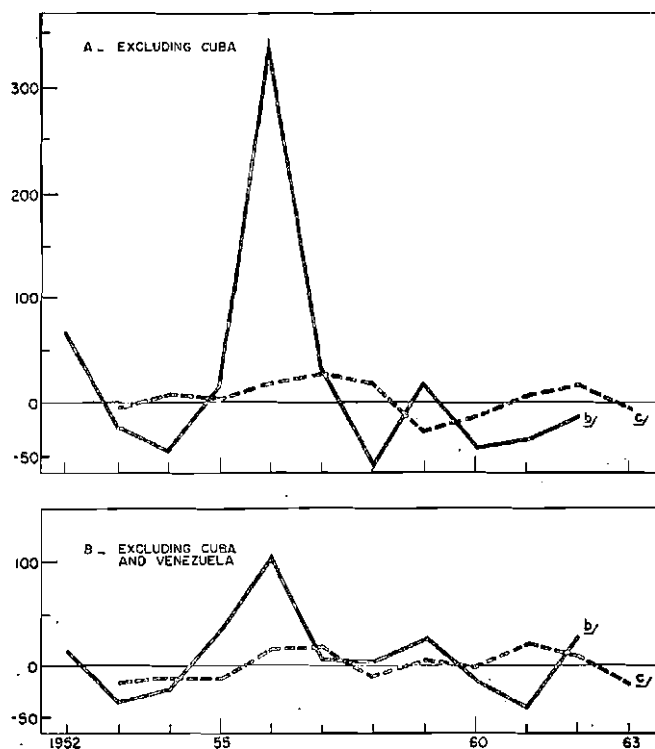
^a Preliminary figures.

Figure VII reproduces these two series of percentages for the region as a whole (excluding Cuba). The earnings curve has been shifted one year to the right in view of the interval which necessarily elapses between the time when a change takes place in the volume of earnings and the point when the effect of this change begins to make itself felt on capital inflows.

There is no specific correlation between the two curves. An increase in profits may be followed by an acceleration, a slackening or even a reduction of the flow of direct

³¹ Entries under the head of foreign investment income may be regarded as largely representing the net earnings of direct investment enterprises after payment of local taxes, since they cover both repatriated profits and earnings reinvested on the spot.

Figure VII. Latin America : earnings^a and new investment of foreign firms, 1952-63
(PERCENTAGE)
Natural scale



SOURCE : Table 122.

a Earnings are for one year earlier than that indicated.

b Direct investment per cent of increase or decrease over previous year.

c Earnings per cent of increase or decrease over previous year.

investment. Thus, for example, an increment of 18.8 per cent in the earnings of foreign companies in 1955 was followed by an increase of 341.6 per cent in inflows of direct investment capital in 1956, but a further 25.8 per cent rise in profits in that year did not prevent a net slackening of the flow of direct investment in 1957 (an increment of only 39.1 per cent in relation to that of the preceding year). Conversely, a decrease in earnings does not necessarily reduce the volume of new direct investment in the following year. The 26.6 per cent drop in the earnings of foreign companies registered in 1958 was succeeded by a 17.4 per cent increase in the flow of direct investment in 1959.

An attempt may be made to account for this apparently paradoxical phenomenon. The new direct investment went almost entirely to import substitution industries (manufacturing) or export industries (mines and smelters, petroleum, tropical agriculture).

The first group is dependent not so much on short-term fluctuations in rates of profits as on long-term prospects in the domestic market, import restrictions which lead foreign firms to set up establishments on the spot in order to retain their outlet, specific measures adopted by Governments to attract private capital to certain sectors (for example, to the motor-vehicle industries in Brazil and Argentina during the last ten years), conditions governing repatriation of profits, etc.

Investments in export industries are more sensitive to short-term fluctuations in profits,³² but they are also affected by many other factors. They are generally effected by large international firms which frame their investment policy in a specific country in relation to all the conditions existing in that country and governing the world market for the commodity in which they are interested. Thus, for example, the very substantial inflow of direct investment capital registered in 1956-57, most of which was absorbed by Venezuela's petroleum sector,³³ was mainly attributable to the Suez crisis, which jeopardized the West's petroleum supplies, and to the permission given by the authorities in Caracas for new oilfields to be worked. The decrease in the volume of capital received in succeeding years reflects in its turn the reduction of direct investment in Venezuelan petroleum as a result of the reappearance of Middle East oil on the market, the prospects held out by the development of oilfields in the Sahara, the establishment of a quota system for imports of hydrocarbons into the United States, etc.

The results of the analysis are much the same if the percentage increase (or decrease) in the profits of foreign corporations and in net inflows of direct investment capital are calculated for the region as a whole (with Cuba and Venezuela excepted). Figure VII, which reproduces these new percentage series, with the profits curve always shifted one year to the right, indicates that the two curves do not follow parallel courses. The fluctuations in the inflow of direct investment seem in some cases to match the fluctuations recorded the previous in the earnings of foreign firms (in 1953, 1954, 1956, 1959, 1960 and 1962, for example), but are independent of them in other years (1955, 1957, 1958 and 1961).

(ii) *Long-term trend.* Despite its erratic behaviour over the short term, the inflow of capital from new direct investment is a substantial source of foreign funds for Latin America. Net receipts under this head in the post-war period (1946-62) reached a cumulative total of some 8,500 million dollars for the region as a whole. If Venezuela, which received a third, is excluded, the inflow was nearly 5,800 million dollars.

Despite fairly wide fluctuations over the short term, until 1955 this inflow of capital did not change very much over the long term. Its annual average for the region as a whole (except Cuba) was 335.8 million dollars in 1946-50 and 325.3 million dollars in 1951-55. But after 1955 it followed a sharply rising trend, averaging 853.3 million dollars a year between 1956 and 1960, which implies an increment of more than 100 per cent between the first and second half of the fifties. The progression is strongly marked even if Venezuela is

³² See University of Chicago Research Center in Economic Development and Cultural Change, "United States Business and Labor in Latin America", in *United States-Latin American Relations, Compilations of Studies under the Direction of the Committee on Foreign Relations*, United States Senate, 86th Congress, No. 125, Washington, 1960, pp. 305-310.

³³ New direct investment amounted to 2,542.3 million dollars in 1956 and 1957 for the region as a whole (except Cuba), of which 1,187.6 million dollars, or 46.7 per cent of the total, were invested in the Venezuelan petroleum sector.

excluded from the total, since direct investment capital rose in this case from an average of 251.9 million dollars in 1951-55 to 543.1 million dollars in 1956-60. The upward movement did not last for long. The capital inflow in the form of new direct investment began to dwindle rapidly from 1957 onwards if the whole region is considered, and from 1959 onwards if Venezuela is excluded.

During the last two years the inflow was far less in both cases than the average recorded in 1956-1960.³⁴

This shift in trend brought about a reduction in the relative importance of new direct investment as a source of autonomous long-term financing for Latin America. During the decade 1951-60, the net capital receipts from this type of investment, despite the sharp increase in their absolute value, accounted for a smaller share of the total inflow of external long-term capital (from 72.6 per cent in 1951-55 to 66.4 per cent in 1956-60) because of the extremely rapid expansion of net disbursements of long-term public and private loans. The tendency has been accentuated in the last few years since new direct investment in 1961 and 1962 represented less than a third of the total inflow of foreign long-term funds into the region as a whole (21.9 per cent in 1961 and 21 per cent in 1962).³⁵

As a result of this evolution, the region's long-term external financing became more independent of new direct investment.

(c) Sources of financing of new direct investment

New direct investment was financed either by capital contributions from abroad, or by reinvestment of the earnings of foreign firms operating in Latin America. Unfortunately, the IMF method of registering reinvestment of profits precludes evaluation of the relative importance of these two sources of financing in relation to the total direct investment flow channelled into Latin America from different parts of the world during the decade under consideration. On the other hand, it is possible to determine, on the basis of the data published annually by the United States Department of Commerce,³⁶ the proportion of the flow of direct investment from the United States that was financed by reinvestment. The

³⁴ For the region as a whole, the inflow was not more than 285.9 million dollars in 1961 and 245 million in 1962 against an annual average of 853.3 million in 1956-60. With Venezuela excluded, the respective figures were 356.3 million dollars in 1961 and 429.4 million in 1962 in comparison with 543.1 million as a yearly average in 1956-60.

³⁵ The trend is almost the same if Venezuela is excluded from the regional total. In this case the percentage of the total inflow of foreign autonomous long-term capital financed by new direct investment dropped from 67.1 per cent in 1951-55, to 56.4 per cent in 1956-60, 25.2 per cent in 1961 and 31.4 per cent in 1962.

³⁶ Independently of the balance of payments of the United States, the United States Department of Commerce publishes annual statistics on the capital transferred by firms in that country to their branches and subsidiaries, as well as data on the subsidiaries' distributed and undistributed earnings. Consequently, the flow of direct investment (net transfers of capital plus reinvested subsidiary earnings) can be estimated, and the proportion of this flow that was financed by reinvested subsidiary earnings can then be determined. The percentages calculated by this method are probably somewhat too low to be realistic, since reinvested subsidiary earnings on which no information is available are omitted.

representative value of the percentages thus obtained is very high, since nearly 80 per cent of the new direct investment in Latin America since 1950 has been effected by United States corporations.

Table 123 shows that the proportion of the flow of direct investment from the United States³⁷ financed by reinvestment varied greatly over the short-term. At first it underwent a slight contraction from 53.8 per cent in 1951 to 45.8 per cent in 1952, followed by a sharp upswing to a peak of 73.2 per cent in 1954. It then decreased considerably, falling to a minimum of 16.3 per cent in 1957, but from that year onwards it climbed rapidly again, and in 1960 and 1961 was once more close to the 1954 peak (69.5 and 61 per cent respectively).

Table 123. Latin America: undisbursed earnings of United States subsidiaries as a percentage of net United States private direct investment inflow,^a 1951-60

Year	Latin America (excluding Cuba and Venezuela)		Latin America (excluding Cuba)
	Latin America	Latin America	
1951.	53.8	53.8	48.5
1952.	46.4	45.8	49.3
1953.	48.3	46.8	66.2
1954.	62.7	73.2	86.0
1955.	51.3	52.8	53.1
1956.	24.9	23.6	35.9
1957.	17.0	16.3	33.0
1958.	32.4	32.3	36.5
1959.	48.4	55.3	43.7
1960.	69.5 ^b	69.5	38.8
<i>Average</i>			
1951-55	51.0	51.7	54.6
1956-60	29.5	29.7	37.5
1951-60	36.9	37.4	44.7
1961. . . . .	...	59.7	55.9
1962 ^c . . . . .	...	112.5	61.4

SOURCES: United States Department of Commerce, *Balance of Payments Statistical Supplement to Survey of Current Business*, 1958 and 1961, and various issues of the *Survey of Current Business*, 1961-62.

^a Covers "net flow" and "reinvested subsidiary earnings"

^b Excluding Cuba, for which data are not available.

^c Preliminary figures.

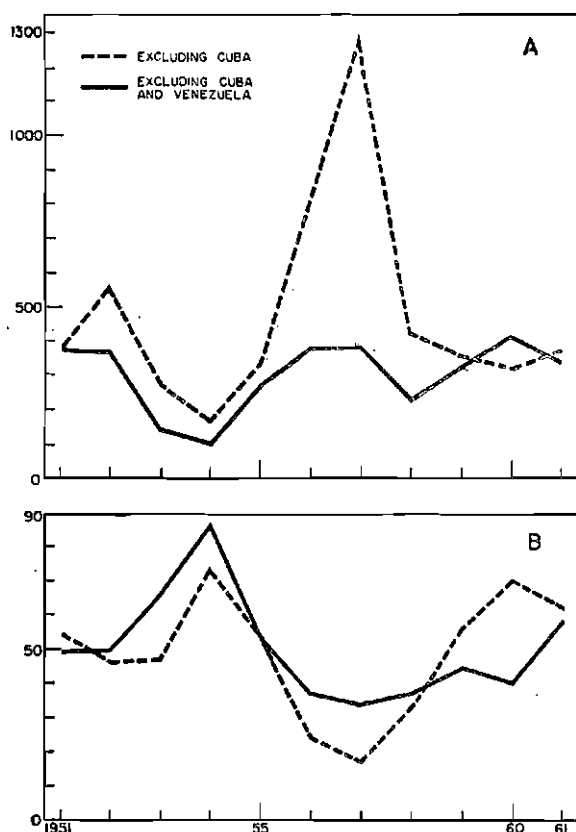
It is clear that these fluctuations are closely associated with the variations in the flow of direct investment (see figure VIII). The percentage represented by reinvestment increases when the flow slackens and decreases when the reverse takes place. This is not difficult to account for. When capital contributions from abroad increase substantially, the growth rate of reinvestment may not be equally rapid, since it depends upon many factors, especially the magnitude of the profits obtained and the volume of capital previously invested. If, however, at a later stage, capital contributions fall off, it is highly likely that reinvestment will continue to increase, or will at least decrease less sharply, since it is to some extent a function of the volume of capital accumulated in the enterprises concerned, and this volume will have been expanded shortly before. Hence, the violent short-term fluctuations in new direct investment were due to varia-

³⁷ For all Latin America, except Cuba.

Figure VIII. Latin America: net United States private direct investment capital inflow (A), and undisbursed earnings of United States subsidiaries as a percentage of net United States private direct investment inflow (B), 1951-61

(MILLIONS OF DOLLARS)

Natural scale



SOURCE: Table 123.

tions in capital contributions rather than to changes in the volume of reinvestment.

The proportion of reinvestment was 37.5 per cent for the decade 1951-60 as a whole. In other words, nearly 60 per cent of the new investment by branches and subsidiaries of United States firms in the region was financed by capital contributions from the United States and 40 per cent by the reinvestment of earnings obtained in Latin America itself. The proportion shrank appreciably between the first and second halves of the decade, from 51.7 per cent in 1951-55 to 29.7 per cent in 1956-60. However, the downward trend seems to have been reversed in the last few years as a result of the sharp reduction in capital contributions from the United States.

The proportion of earnings reinvested varied considerably from one country to another during the fifties (see table 124). It exceeded the regional average in Panama (73.2 per cent), Argentina (51.2 per cent), Brazil (49 per cent) and Mexico (42.7 per cent) but failed to reach it in Cuba (30.4 per cent), Peru (26.6 per cent), Venezuela (26 per cent) and Chile (28.8 per cent). These differences are explained by the fact that self-financing by United States firms varied from sector to sector. Reinvestment was at its highest in trade (61.2 per cent) and the manufacturing industry (52.8 per cent), lower in petroleum (21.7 per cent) and lowest of all in mining and smelting (12 per cent). New direct investment from the United

States was mainly channelled towards the first two branches of activity in Panama, Argentina, Brazil and Mexico, to the third in Venezuela and to the fourth in Peru and Chile (see table 125).

Table 124. Latin America: undisbursed earnings of United States subsidiaries as a percentage of net United States private direct investment inflow,^a by country, 1951-60

Country	1951-55	1956-60	1951-60
Argentina	103.7	31.5	51.2
Brazil	57.9	39.2	49.0
Chile	22.1	21.5	21.8
Colombia	11.5	12.5	12.2
Dominican Republic. . .	108.3	^b	187.5
Guatemala	66.7	17.0	22.6
Honduras	17.0	^b	41.9
Mexico	52.9	33.9	42.7
Panama	128.6	63.0	73.2
Peru.	32.6	23.2	26.6
Uruguay	106.2	106.7	115.8
Others	47.0	21.7	29.1
<i>Subtotal I</i>	<i>54.6</i>	<i>37.5</i>	<i>44.7</i>
Venezuela	43.5	20.7	26.0
<i>Subtotal II</i>	<i>51.7</i>	<i>29.7</i>	<i>37.4</i>
Cuba	39.1	27.6	30.4
TOTAL	51.0	29.5	36.9

SOURCES: As for table 123.

^a Covers "net flow" and "reinvested subsidiary earnings".

^b Private direct investment outflow.

Table 125. Latin America: undisbursed earnings of United States subsidiaries as a percentage of net United States private direct investment inflow,^b by sector, 1951-60

	1951-55	1956-60	1951-60
Mining and smelting. . .	11.8	12.0	12.0
Petroleum	67.5	11.6	21.7
Manufacturing	63.6	44.4	52.8
Trade	47.3	69.4	61.2
Other	53.9	83.3	71.7
TOTAL	29.5	36.9	51.0

SOURCES: As for table 123.

^a Including Cuba.

^b Covers "net flow" and "reinvested subsidiary earnings".

2. GEOGRAPHICAL DISTRIBUTION OF NEW DIRECT INVESTMENT

(a) Groups of countries

The geographical distribution of new direct investment among the various recipients was, as might be expected, very uneven. By applying the method previously adopted to determine the geographical distribution of long-term loans, the Latin American countries can be regrouped according to the percentage they received as follows: over 10 per cent, between 4 per cent and 10 per cent, between one per cent and 4 per cent, or under one per cent of the regional total (see table 126).

Table 126. Latin America: geographical distribution of new direct investment, 1951-60

Group of countries according to percentage of new direct investment in the region	1951-55		1956-60		1951-60				
	Number of countries	Country	Number of countries	Country	Number of countries	Country			
1. Over 10 per cent	3	Brazil	20.4	3	Argentina	18.3	4	Argentina	13.5
		Mexico	25.7		Brazil	16.4		Brazil	17.5
		Venezuela	21.4		Venezuela	34.2		Mexico	13.8
				Venezuela	30.7				
			67.5			68.9			75.5
2. 4-10 per cent.	3	Cuba	5.2	4	Cuba	5.8 ^a	3	Cuba	5.6 ^b
		Chile	5.5		Chile	4.6		Chile	4.8
		Peru	9.9		Peru	4.0		Peru	5.6
					Mexico	9.4			16.0
			20.6			23.8			
3. 1-4 per cent	6	Argentina	1.0	3	Bolivia	1.5	4	Bolivia	1.1
		Ecuador	1.1		Guatemala	1.6		Guatemala	1.1
		Haiti	1.2		Panama	1.7		Panama	1.7
		Honduras	2.4			Uruguay		1.0	
		Panama	1.6					4.9	
		Uruguay	2.3						
			9.6			4.8			
4. Under 1 per cent	8	Bolivia	0.2	10	Colombia	0.4	9	Colombia	0.5
		Colombia	0.7		Costa Rica	0.4		Costa Rica	0.4
		Costa Rica	0.4		Ecuador	0.7		Ecuador	0.8
		El Salvador	^c		El Salvador	^c		El Salvador	^c
		Guatemala	-0.1 ^d		Haiti	^c		Haiti	0.4
		Nicaragua	0.5		Honduras	-0.3 ^d		Honduras	0.5
		Paraguay	0.1		Nicaragua	0.2		Nicaragua	0.3
		Dominican Republic	0.5		Paraguay	0.2		Paraguay	0.2
					Dominican Republic	0.5		Dominican Republic	0.5
					Uruguay	0.4				3.6
			2.3			2.5			

SOURCE: Table 112.

^a 1956-59 only.^b 1951-59 only.^c Less than 0.1 per cent.^d Net outflow of direct investment capital.

If the period 1951-60 is considered as a whole, the following points emerge: group I, comprising Argentina, Brazil, Mexico and Venezuela, received 75.5 per cent of all new direct investment in the region; group II, composed of Cuba, Chile and Peru, absorbed 16 per cent of the total; and group III, comprising the other thirteen countries, obtained the remaining 8.5 per cent. Nine of them received less than one per cent of the total (Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Nicaragua and Paraguay).

The geographical concentration of new direct investment, far from easing, was intensified over the long term. In fact, groups I and II obtained 92.7 per cent of the total in 1956-60 as against 88.1 per cent in 1951-55. This trend is largely attributable to the fact that Argentina, which was in group III in 1951-55, moved up to group I in 1956-60, owing to extensive new foreign investment in enterprises established in Argentina but controlled from abroad in 1958, 1959 and 1960. In these circum-

stances, the evolution of new direct investment in the seven countries belonging to groups I and II is worthy of more detailed study (see table 127 and figure IX).

The countries in question can be classified as indicated below:

(i) *Venezuela* is in a class by itself, since it alone obtained 30.7 per cent of the new direct investment received by the region in 1951-60, a proportion which increased over the long term from 21.4 per cent in 1951-55 to 34.2 per cent in 1956-60. New investment in enterprises controlled from abroad more than quadrupled between the first and second halves of the decade in Venezuela (322.3 per cent between 1951-55 and 1956-60), whereas it barely trebled in the region as a whole.

Nevertheless, the capital flow was very uneven, as figure IX shows. After climbing to a first peak of 163.2 million dollars in 1953, it dropped to 10.6 million in 1955. It then soared rapidly to a second peak of

Table 127. Latin America: new direct investment ^a in main recipient countries, 1951-62

(Millions of dollars)

Year	Venezuela	Brazil	Mexico	Argentina	Peru	Chile	Cuba
1951	-0.1	+63.0	+123.8	+2.4	+30.2	+36.0	+28.0
1952	+155.0	+94.0	+63.3	+4.0	+50.3	+53.8	+14.0
1953	+163.2	+60.0	+40.9	+4.2	+37.4	+56.5	-3.0
1954	+38.0	+51.0	+104.6	+1.4	+28.1	-54.0	+27.0
1955	+10.6	+82.0	+106.8	+3.8	+24.2	+1.6	+23.0
1956	+592.0	+140.0	+118.0	+62.8	+39.9	+32.9	+39.0
1957	+981.1	+179.0	+131.6	+69.6	+48.3	+45.6	+118.0
1958	+88.6	+128.0	+100.3	+120.1	+49.4	+46.5	+30.0
1959	+51.9	+158.0	+81.2	+244.3	+34.6	+54.3	+76.0
1960	-162.8	+138.0	-7.6	+332.0	+7.0	+29.0	...
<i>Average</i>							
1951-55	+73.4	+70.0	+87.9	+3.1	+34.0	+18.8	+17.8
1956-60	+310.0	+148.7	+84.7	+165.6	+35.8	+41.7	+52.6 ^b
1951-60	+192.0	+109.3	+86.3	+84.5	+35.0	+30.2	+35.2 ^b
1961	-70.4	+147.0	+119.3	-18.2	+13.1	+51.1	...
1962 ^c	-184.4	+69.0	+129.6	+71.8	...	+83.0	...

SOURCE: Annex II.
^a Including reinvestment.

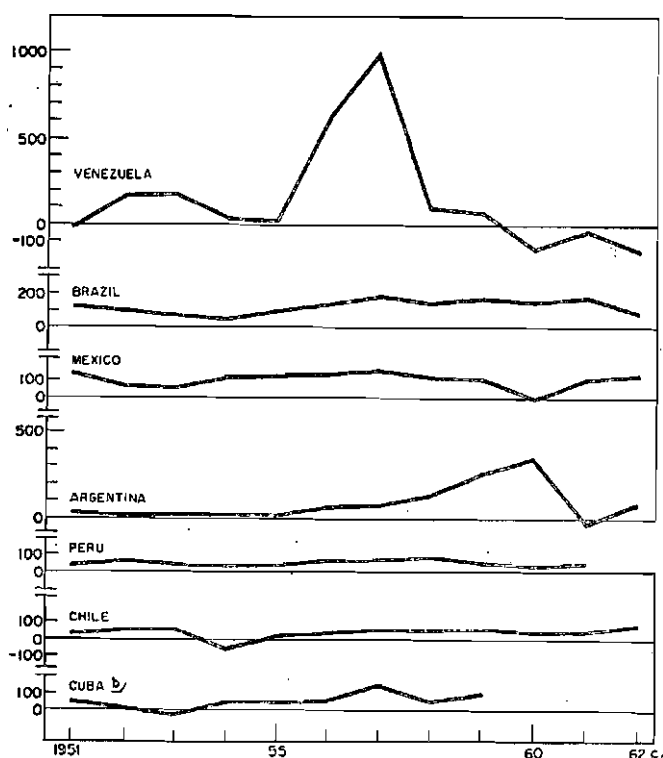
^b Not fully comparable with corresponding figures for previous years.

^c Preliminary figures.

Figure IX. Latin America: new direct investment ^a in main recipient countries, 1951-62

(MILLIONS OF DOLLARS)

Natural scale



SOURCE: Table 127.

^a Including reinvestments.

^b Data not available for 1960 and 1961.

^c Preliminary data.

981.1 million dollars in 1957, but the trend was subsequently reversed, inflows decreasing very considerably in 1958 and 1959, and finally giving way to net outflows in 1960, 1961 and 1962.

These fluctuations reflect the variations in direct investment in the region, which absorbed 71.3 per cent of the new foreign capital invested in private undertakings during the decade.

(ii) Brazil, Mexico and Argentina, with similar shares of total new direct investment in the region in 1951-60 (17.5 per cent, 13.8 per cent and 13.5 per cent, respectively), rank second. The evolution of new investment in enterprises controlled from abroad actually differed a good deal in these three countries in the course of the decade.

In Brazil, the flow of direct investment increased from 63 million dollars in 1951 to 94 million in 1952, after which it steadily declined to 51 million in 1954. A sharp upswing then took place, bringing it to a peak of 179 million dollars in 1957. From that date onward, it fluctuated at a relatively high level, decreasing in 1958 (to 128 million dollars), recovering in 1959 (to 158 million) falling off again in 1960 (to 138 million dollars), climbing a little in 1961 (to 147 million) but sinking once more in 1962 (to 69 million).

Despite these short-term fluctuations an unmistakably upward trend was registered over the long-term since the average annual inflow of capital under the head of new direct investment rose from 70 million dollars in 1951-55 to 148.7 million in 1956-60.

But as investment in foreign firms made even more rapid progress for the region as a whole than for Brazil, the latter's share in the regional total was reduced from 51.7 per cent in 1951-55 to 29.7 per cent in 1956-60.

In *Mexico*, new direct investment began by decreasing quite substantially in the early part of the decade, from 123.4 million dollars in 1951 to 40.9 million in 1953. But in 1954 the figure was more than doubled (104.6 million dollars) and a high level was maintained up to 1957. Thereafter, it followed a marked downward trend, finally registering a net outflow in 1960 (7.6 million dollars). However, there was a recovery in 1961 (to 119.3 million dollars) and 1962 (129.6 million). The over-all trend was slightly downward, the average annual inflows of direct investment capital falling from 87.9 to 84.7 million dollars between 1951-55 and 1956-60. Consequently, Mexico's share in the vigorously expanding regional total decreased substantially (from 25.7 per cent in 1951-55 to 9.4 per cent in 1956-60).

In *Argentina*, new direct investment evolved along very special lines. From 1950 to 1955, it represented relatively small sums, but from then on it increased rapidly, reaching a peak of 332 million dollars in 1962. This movement was interrupted in 1961, when outflows exceeded new inflows, but seems to have resumed in 1962.

From the foregoing data it can be concluded that the flow of direct investment increased more rapidly in *Argentina* over the long term (from an annual average of 3.1 million dollars in 1951-55 to 165.6 million in 1956-60) than in any other Latin American country. Consequently *Argentina's* share in the regional total rose from one per cent in 1951-55 to 18.3 per cent in 1956-60. This increment was concentrated in the three years—1958, 1959 and 1960—in which *Argentina* received 80 per cent of all new foreign investment entering Latin America during the decade.

In these three countries, the distribution of the flow of direct investment among the various sectors of economic activity cannot be exactly determined, since the balances of payments compiled by IMF give no information on the subject. According to United States Department of Commerce statistics, however, most of the new investment made by the branches and subsidiaries of United States firms in the three countries under review went to the manufacturing industries,³⁸ whose production was intended, save in exceptional cases, for the domestic market (66.9 per cent in *Brazil*, 66.7 per cent in *Mexico* and 51.6 per cent in *Argentina*). This investment constituted 80.8 per cent, 51.6 per cent and 35 per cent of the total flow of direct investment to *Brazil*, *Mexico* and *Argentina* respectively. Its sectoral distribution may be considered as reasonably representative of that of new foreign investment in the aggregate.

This view is confirmed by a rapid glance at the data available from local sources. According to the Bank of *Mexico*, for instance, more than 50 per cent of the new direct investment effected in *Mexico* in 1958, 1959 and 1960 has gone to manufacturing and only a little

³⁸ According to the definitions given by the United States Department of Commerce, the manufacturing sector covers the metallurgical industries (with the exception of smelting) producing primary products and finished goods, the chemical and allied industries and the other transforming industries (items 19-28 and 30-39, excepting item 33, in the International Standard Industrial Classification).

over 15 per cent to mining.³⁹ In *Brazil*, during the same period, more than 80 per cent of the investment authorized by the Bank of *Brazil* (through CACEX) was earmarked for the "basic industries", particularly the metallurgical, motor vehicle and chemical industries.⁴⁰ In *Argentina*, out of the direct investment of 312 million dollars authorized at the end of 1958 and partly effected in 1959 and 1960, 53.2 per cent of the funds was invested in the petrochemical, chemical and pharmaceutical industries, 9.2 per cent in motor-vehicle manufacture, 8.4 per cent in shipping and 7.5 per cent in the food-processing industries.⁴¹ Furthermore, a considerable flow of private capital was channelled into *Argentina's* petroleum sector as a result of agreements concluded between Yacimientos Petroliferos Fiscales and various foreign companies in 1958.⁴²

(iii) *Peru* and *Chile*, whose respective shares of the new direct investment effected in the region between 1951 and 1960 were 5.6 per cent and 4.8 per cent, rank third.

In these two countries the flow of direct investment pursued a similar course. It increased slightly at the beginning of the fifties, and then decreased, reaching its lowest point towards the middle of the decade. Thereafter it recovered sufficiently to attain a peak which in *Peru's* case was registered in 1958 and in *Chile's* in 1959. Since then it has followed a downward trend, except for a minor recovery in 1961 and 1962. These fluctuations seem to have been determined, with a certain time lag, by the variations in copper, zinc and lead prices, which, during the decade under review, reached two peaks—in 1951-52 and 1956-57—and started a transient upward movement in 1959-60.⁴³ A very substantial proportion of the new direct investment in *Peru* and *Chile* went into mining, particularly of non-ferrous ores. The data compiled by IMF indicate that the large mining companies received 40.5 per cent of the aggregate new foreign investment effected in *Chile* in 1951-60. In *Peru*, 74.7 per cent of the new funds brought in by United States firms during the same period was invested in mining and smelting, according to the United States Department of Commerce.

Over the long term, capital inflows under the head of new direct investment increased much more rapidly in *Chile* (where the annual average rose from 18.8 million dollars in 1951-55 to 41.7 million in 1956-60, i.e., by 121.8 per cent) than in *Peru* (where the annual average of 34 million dollars corresponding to 1951-55 increased to 35.8 million in 1956-60, i.e., by 52 per cent).

³⁹ Bank of *Mexico*, *Informes anuales*, 1958, 1959 and 1960.

⁴⁰ The so-called basic industries (chemical and fertilizer industries, mining, metallurgy, building, manufacture of motor vehicles, etc.) received 89.3 per cent, 92.4 per cent and 83.8 per cent of authorized direct investment in 1958, 1959 and 1960, respectively. The corresponding sectoral percentages were 49.2, 38.6 and 39.1 per cent for metallurgy; 21.2, 34 and 29.7 per cent for motor-vehicle manufacture; and 18.8, 18.9, and 3.8 per cent for the chemical industry (see SUMOC, *Relatorios dos exercicios 1959 e 1960*).

⁴¹ Central Bank of *Argentina*, *Memoria Anual*, 1960, pp. 32-33.

⁴² Central Bank of *Argentina*, *Memoria Anual*, 1958, pp. 59-67.

⁴³ See University of Chicago, Research Center in Economic Development and Cultural Change, op. cit., pp. 315-319.

These rates of growth were in any case lower than those registered for the region as a whole, so that the shares of Chile and Peru in the regional total decreased (in Chile's case from 5.5 per cent in 1951-55 to 4.6 per cent in 1956-60, and in Peru's from 9.9 per cent to 4.0 per cent during the same periods).

(iv) *Cuba* is in a special position, since it is the only country in Latin America which has completely ceased to receive private foreign capital since 1959, although it received a relatively large share of the new direct investment effected in the region since 1950 (5.6 per cent of the total for 1951-60).

Admittedly, the level reached by the flow of direct investment in the first half of the decade was relatively modest, but in 1956 it began to rise, reaching a maximum of 118 million dollars in 1957, after which it declined in 1958 and recovered in 1959. Thus it climbed from an annual average of 17.8 million dollars in 1951-55 to 52.6 million dollars in 1956-59; i.e., by 195.5 per cent between the first and second halves of the decade. Cuba's share in the regional total followed an upward trend over the long term (from 5.2 per cent in 1951-55 to 5.8 per cent in 1956-60).

The sectoral distribution of this new investment, almost all of it from the United States, seems to have displayed rather special features. According to the United States Department of Commerce, new investment by United States firms in Cuba was apparently distributed as follows in 1951-59: 5.6 per cent in trade, 13.2 per cent in the manufacturing industries, 26.6 per cent in petroleum (refining and distribution) and 54.7 per cent in other activities, owing to the volume of capital flowing into agriculture, public utilities and the financial sector.

(b) *Main factors in the geographical distribution of new direct investment*

From this sweeping glance at the regional situation it can be seen that the distribution of new direct investment among the various Latin American countries depended essentially upon two factors:

(i) *The size of the domestic market.* In countries constituting large and relatively integrated markets, domestic demand warrants the development of manufacturing industries financed by foreign investment. In other countries, the prospects held out to foreign private capital in this sector are obviously far more limited.

It is of interest to note that foreign investors themselves, when questioned, stress the fact that their investment decisions largely depend upon domestic market prospects, at least in so far as non-export industries are concerned. A recent survey by the Stanford Research Institute⁴⁴ carried out among 205 corporations,⁴⁵ which represented 27 different activities and effected 158 new investments

⁴⁴ Stanford Research Institute, *The Motivation and Flow of Private Foreign Investment*, Menlo Park, 1961.

⁴⁵ Of these, 178 were of United States origin; 8 Japanese; 6 from the United Kingdom; 5 French; 5 from the Federal Republic of Germany; and 3 Swedish.

in Latin America between 1956 and 1961, provided some particularly significant information on the subject. Replies to the questionnaire cited the following factors as determinants of decisions to invest: 52 times out of 100, the expectation of higher profits than in their own country; 39 times out of 100, the desire to secure a foothold in a new market; and 34 times out of 100, the wish to bolster sales that were jeopardized by the strengthening of customs protection or by exchange controls, given a favourable potential market and a reasonable certainty of economic expansion. Since expectations of profit depend, *inter alia*, on sales prospects, it is obvious that the placing of new investment must be largely a function of the estimated growth potential of the market.

It is therefore natural that the three countries constituting the biggest markets in the region (Brazil, Mexico and Argentina) should alone have absorbed 44.8 per cent of all new direct investment effected in 1951-60.

(ii) *Export prospects for primary commodities.* These prospects also play an important role, as was pointed out in connexion with Venezuela, Peru and Chile. Nevertheless, new direct investment in the export sector was directed solely to petroleum, and, in a lesser degree, to mineral ores, for which external sales prospects were relatively satisfactory, at least at certain times during the decade under consideration. On the other hand, the flow of investment into the Central American republics was slow to expand.⁴⁶ In temperate-zone agriculture it was virtually non-existent, new investment in enterprises controlled from abroad being channelled into other sectors in Argentina, and declining in Uruguay (from an annual average of 8 million dollars in 1951-55 to 4 million in 1956-60).

The size of the domestic market and the prospects for commodity trade were not the only two factors that influenced the distribution of new direct investment among the different Latin American countries. Others of an economic nature should be taken into account (capital productivity, production costs, etc.), as well as those of a political character (political stability or instability, specific measures adopted by Governments to encourage or restrict private foreign investment, etc.).

It is interesting to note that the domestic market and external sales prospects, which largely determined the geographical distribution of new investment by foreign corporations, likewise influenced the distribution of long-term loans, except that export prospects played a less important part in the latter case. Hence these two capital flows tended to seek out the same countries. A country-by-country estimate of the proportion of the

⁴⁶ The annual average for net inflows of direct investment capital into the five Central American countries (excluding Panama) rose from 11.1 million dollars in 1951-55 to 17.3 million dollars in 1956-60, i.e., it increased by only 55.5 per cent between the first and second halves of the decade; consequently, the share of these five countries in the regional total contracted from 3.2 per cent in 1951-55 to 1.9 per cent in 1956-60. Furthermore, the flow of direct investment showed a marked increase only in Guatemala and, to a lesser extent, in Costa Rica. Elsewhere its progress was insignificant (El Salvador, Nicaragua) or it gave way to a cumulative net outflow (Honduras).

net inflow of long-term non-compensatory capital⁴⁷ constituted by new direct investment in 1951-60 shows that the percentage in question was close to the regional average (68.3 per cent) in nine countries (Argentina, Brazil, Chile, Cuba, Dominican Republic, Mexico, Panama, Peru and Uruguay), which include three out of the four principal recipients of long-term autonomous capital (Argentina, Brazil and Mexico). It was very much higher in Venezuela (97.4 per cent), where the petroleum industry attracted long-term loans. Conversely, it was lower in the other ten countries, which received a relatively larger share of the total development credits granted to the region and especially of official donations, than of aggregate new direct investment.

3. GEOGRAPHICAL ORIGIN OF THE NEW DIRECT INVESTMENT

The balances of payments compiled by IMF shed no more light on the geographical origin of new direct investment than they do on the source of official donations or long-term loans. However, the amount of new investment effected by United States firms in Latin America can be determined from the United States Department of Commerce statistics mentioned earlier, by obtaining the difference between the two series. An estimate must then be made of the flow of direct investment from other parts of the world, mainly Western Europe and, to a lesser extent, Japan.

This method leaves much to be desired, because there are glaring discrepancies between the IMF series compiled

from data supplied by the region's monetary authorities, and the Department of Commerce series, which is compiled from data furnished by United States firms established in Latin America.

It should be pointed out, first and foremost, that the definition of the flow of direct investment is not exactly the same in the two cases,⁴⁸ although the difficulties to which this gives rise are not insuperable. The main discrepancy consists in the treatment of reinvested undistributed earnings of branches, which are included in the flow of direct investment by IMF but not by the Department of Commerce. However, as the latter publishes separate statistics on the undistributed earnings of branches of United States firms, the United States series can be adjusted to cover the flow of direct investment and thus offer a basis of comparison with the IMF series.

There are other and much more serious discrepancies between the IMF and Department of Commerce series as regards date of registration, the coverage of the figures and the methods of estimation. For instance, the data provided by the monetary authorities of certain Latin American countries cover only a relatively small number of foreign firms, whereas those of the Department of Commerce include nearly all United States undertakings. Hence, when the series are compared, the flow of direct investment from the United States will naturally be underestimated. In other Latin American countries, again, the monetary authorities' estimates of the flow of new

⁴⁷ The definition of this concept as given before covers official donations and net variations in the long-term net liabilities of the public and private sectors, but not extraordinary compensatory financing.

⁴⁸ For the respective definitions see *Balance of Payments Manual*, op. cit., paragraphs 366-395, United States Department of Commerce, *Foreign Investments of the United States*, Washington, 1953, and *U.S. Business Investments in Foreign Countries*, Washington, 1960.

Table 128. Latin America: comparison between net inflow of direct investment into the region as recorded in the Latin American balances of payments and the net outflow of direct investment from the United States to Latin America as estimated by the United States Department of Commerce,^a 1951-62

(Millions of dollars)

	Latin America (excluding Cuba)					Latin America (excluding Cuba and Venezuela)				
	Net inflow of direct investment into the region (1)	Net outflow of direct investment from the United States to Latin America			Difference between two series (1-4) (5)	Net inflow of direct investment into the region (1)	Net outflow of direct investment from the United States to Latin America			Difference between two series (1-4) (5)
		Net capital outflow (2)	Undistributed earnings of subsidiaries (3)	Total (2+3) (4)			Net capital outflow (2)	Undistributed earnings of subsidiaries (3)	Total (2+3) (4)	
<i>Aggregate total</i>										
1951-55	+1,626.5	+802.0	+858.0	+1,660.0	-33.5	+1,259.8	+558.0	+670.0	+1,228.0	+31.8
1956-60	+4,266.4	+2,190.0	+927.0	+3,117.0	+1,149.4	+2,715.6	+1,045.0	+627.0	+1,672.0	+1,043.6
1951-60	+5,892.9	+2,992.0	+1,785.0	+4,777.0	+1,115.9	+3,975.4	+1,603.0	+1,297.0	+2,900.0	+1,075.4
<i>Average</i>										
1951-55	+325.3	+160.4	+171.6	+332.0	-6.7	+251.9	+111.6	+134.0	-245.6	+6.3
1956-60	+853.3	+438.0	+185.4	+623.4	+229.9	+543.1	+209.0	+125.4	-334.4	+208.7
1951-60	+589.3	+299.2	+178.5	+477.7	+111.6	+397.5	+160.3	+129.7	+290.0	+107.5
1961	+285.9	+172.0	+255.0	+427.0	-141.1	+356.3	+172.0	+218.0	+390.0	-33.7
1962 ^b	+264.0 ^c	-32.0	+287.0	+255.0	+9.0	+448.4 ^c	+162.0	+258.0	+420.0	+28.4

SOURCES: Annex II; United States Department of Commerce, *Balance of Payments Statistical Supplements to Survey of Current Business*, 1958 and 1961, and *Survey of Current Business*, various issues 1962 and 1963.

^a A plus sign means a net inflow of capital into Latin America; a minus sign indicates a net outflow of capital from Latin America.

^b Preliminary figures.

^c This total differs from the corresponding total entered in table 111 because it includes 15 million dollars invested by the United States in Peru and 4 million dollars invested in Uruguay, as recorded in the *Survey of Current Business*.

direct investment of United States origin may be higher than those of the Department of Commerce because of the different methods of estimation used. In this case, the inflow of direct investment from countries other than the United States will be understated if based from a comparison between the balance-of-payments series and the Department of Commerce series.

In order to discover and eventually eliminate this type of discrepancy it would be necessary to make a year-by-year investigation for each Latin American country of the way in which the basic data subsequently compiled by IMF and the Department of Commerce were processed. In the absence of a statistical analysis of this kind, a mere comparison of the series issued by the two

institutions yields figures that are very hard to interpret, since each Latin American country is considered separately and the region is also reviewed as a whole (see table 128). From the figures given in table 128, it can only be assumed that the flow of direct investment from countries other than the United States in 1951-55 was negligible, but that it increased appreciably after 1956 and came to represent a fairly substantial part of the total inflow of foreign capital under the same head (between 25 and 33 per cent). The piecemeal information obtainable from sources other than IMF and the Department of Commerce and partially covering new direct investment from Europe and Japan in Latin America, seems to bear out this assumption.

D. CONCLUSIONS

The foregoing observations can be summed up in the conclusions given below:

First: The net inflow of autonomous long-term foreign capital, which consistently represented 90 per cent of the total inflow of this type of capital, continued to increase over the long term during the post-war period. For the region as a whole, this trend seems to have altered in the last few years of the decade 1951-60, its peak level being recorded in 1957. This change was entirely due to the recent evolution of foreign investment in Venezuelan petroleum. If the figures for this country are excluded from the total, the inflow of foreign long-term capital will be seen to have expanded in the last few years, reaching its maximum in 1961 and remaining at much the same level in 1962.

Secondly: The Latin American public sector absorbed an increasingly large share of this growing inflow of foreign long-term capital (50 per cent in 1961 and 1962 against 20 per cent in 1956-60 and 17 per cent in 1951-55), a proportionately smaller share going to the private sector. This evolution reflects the increasingly important part played by the public sector in the economic development of most of the Latin American countries.

Thirdly: New direct investment accounted for a steadily decreasing proportion of the foreign long-term capital inflow, while the share of long-term loans of all kinds and of portfolio investment expanded. During the decade 1951-60, this trend can be ascribed to a much swifter

increase in net disbursements of long-term loans than in the net inflow of direct investment capital, but in 1961 and 1962 it was due to a marked slackening in the inflow of such capital.

Fourthly: Among non-compensatory long-term loans and portfolio investment Government development loans predominated, since net disbursements under that head represented 60 per cent of the total long-term loans granted to the region in 1951-62. However, despite their sharp increase in absolute value, development loans have been declining in relation to the total influx of long-term loans from 1951 onwards (from 80.5 per cent in 1951-55 to 64.8 per cent in 1956-60 and 49.4 per cent in 1961-62), as a result of the increasing volume of suppliers' credits available and of other long-term operations based on private funds.

Fifthly: the United States furnished the majority of the net long-term loans to Latin America in 1951-62 (60 per cent). But its relative share tended to shrink over the long term, particularly during the last few years (from 66.2 per cent in 1951-55 to 60.3 per cent in 1956-60 and 51.7 per cent in 1961-62). The share of international institutions diminished between 1951-55 (24.6 per cent) and 1956-60 (10 per cent), remaining at approximately the same level in 1961-62. Loans from Western Europe, Canada and Japan, on the other hand, climbed steeply in both absolute and relative terms, from 9.2 per cent of the total in 1951-55 to 28.8 per cent in 1956-60 and 33.5 per cent in 1961-62.

Part Three

**INFLUENCE OF AUTONOMOUS CAPITAL MOVEMENTS
ON EXTERNAL PAYMENTS IN LATIN AMERICA**

Chapter VII

SHORT-TERM EFFECTS OF AUTONOMOUS CAPITAL MOVEMENTS ON LATIN AMERICA'S EXTERNAL PAYMENTS

Autonomous capital movements, over the short term, may make for equilibrium or disequilibrium in Latin America's balance of payments, according to whether they show a final balance whose fluctuations offset or aggravate those occurring in the balance of current operations. The degree of perfection with which final balances on current account and on the autonomous capital account compensate one another depends upon the rapidity and efficiency with which variations in capital flows produce changes in flows of goods and services, and vice versa.

Short-term relations between the two types of flow are of many different kinds. In the first place, autonomous capital movements affect current operations over the fairly short term in several ways, and particularly as follows:

(a) They increase or reduce annual supplies of foreign exchange, inasmuch as the balance they show is added to or subtracted from foreign exchange earnings on exports of goods and services. In the Latin American countries, where foreign exchange reserves are scanty, a clearly-defined relationship exists between the amount of the supplies referred to and the import quantum;

(b) They tend to influence the level of investment and of the domestic product, through the volume of imports;

(c) They ultimately affect the level of internal prices and, consequently, the terms of trade.

Secondly, changes in the flow of goods and services and in the balance on current account may give rise to fluctuations in autonomous capital flows, especially those of "hot money".

An account of the mechanism operating for or against equilibrium in the region's balance of payments over the short term would involve a detailed analysis of these different effects which would be outside the scope of the present study. Consequently, all that can be formulated here are a few general observations based on balance-of-payments data.

These remarks may be centred upon two focal points:

A. Do annual fluctuations in the net balance of autonomous capital movements weaken or strengthen the short-term movements of foreign exchange receipts on current account?

B. Do these fluctuations offset or intensify short-term changes in the balance of current operations?

A. ANNUAL FLUCTUATIONS IN AUTONOMOUS CAPITAL MOVEMENTS IN RELATION TO THE INSTABILITY OF FOREIGN EXCHANGE RECEIPTS ON CURRENT ACCOUNT

It is common knowledge that during the post-war period export earnings, and therefore, total foreign exchange receipts on current account, underwent marked fluctuations from one year to the next, both in the Latin American countries and in others in process of development.¹ As has already been noted, autonomous capital

movements showed balances — generally on the credit but sometimes on the debit side — which also varied considerably from year to year during the same period.

In these circumstances, the question to be asked is whether the fluctuations in the inflows or outflows of autonomous capital tended to increase or to reduce the variations in current foreign exchange receipts over the short term.

¹ With reference to this problem, see particularly *Instability of Export Markets in Under-Developed Countries*, *World Economic Survey 1958* (chapter I), and *International Compensation for Fluctuations in Commodity Trade*, United Nations publications, Sales Nos.: 52.II.A.1, 59.II.C.1, and 61.II.D.3; *Consideration of compensatory financial measures to offset fluctuations in the export income of primary producing countries. Stabilization of export proceeds through a development insurance fund* (E/CN.13/43); *International compensatory financing in relation to fluctuations in the prices of primary commodities: application to individual commodities. A development insurance fund for single commodities* (E/CN.13/45); "Short-term economic fluctuations in Latin America during 1948 to 1959", *Economic Bulletin for Latin America*, vol. VII, 1962, pp. 167-180. See also Organization of American States, *Latin American export*

products: Market problems (OEA/Ser.H/X.1, doc. 5); *ibid.*, *Final report of the Group of Experts on the Stabilization of Export Receipts* (OEA/Ser.H/X.3, doc. 7); "Fund Policies and Procedures in relation to the Compensatory Financing of Commodity Fluctuations", *Staff Papers*, International Monetary Fund, vol. VIII, No. 1, November 1960, pp. 1-76; M. Fleming, R. Rhombert and L. Boissonneault, "Export Norms and their Role in Compensatory Financing", *ibid.*, vol. X, No. 1, March 1963, pp. 97-149; and International Monetary Fund, *Compensatory Financing of Export Fluctuations*, Washington, 1963.

1. COMPARISON BETWEEN ANNUAL FLUCTUATIONS IN THE BALANCE OF AUTONOMOUS CAPITAL MOVEMENTS AND IN FOREIGN EXCHANGE RECEIPTS ON CURRENT ACCOUNT

In order to establish this relationship, a comparison must be drawn between the annual fluctuations registered respectively in the balance of autonomous capital movements, and in foreign exchange receipts on current account.

For two major reasons, however, it is advisable to introduce a supplementary distinction between externally financed capital movements and those financed with domestic funds. In the first place, the former usually result in net inflows in favour of Latin America, and the latter in net outflows, so that the total balance of capital movements is that shown by these inflows and outflows. Secondly, the data relating to domestic capital transactions are much rougher figures than those on transactions involving external funds.

This means that fluctuations in inflows of foreign capital, in outflows of domestic funds and in the total balance of autonomous capital operations must be com-

pared each in turn with the variations recorded in foreign exchange receipts on current account. This comparison may be made for the region as a whole or for each individual country.

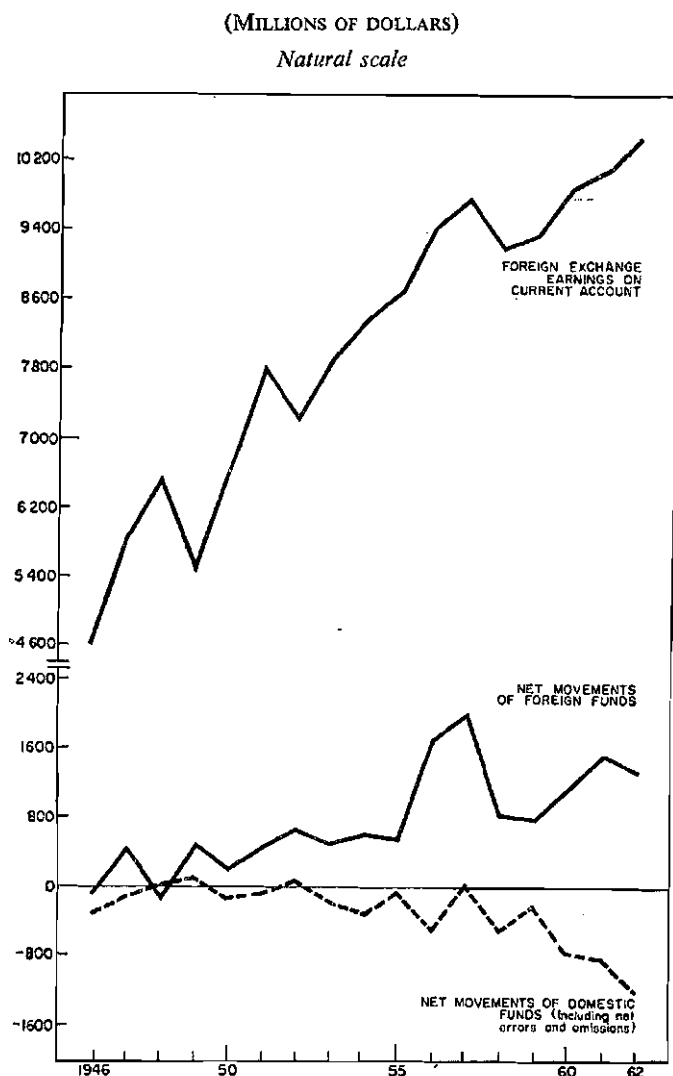
(a) If the region as a whole is considered (excluding Cuba, for which no data are available from 1959 onwards), the period that has elapsed since the end of the Second World War may be divided into four major phases (see figure X).

1946-49. Thanks to the recovery of Latin American exports during the early years of the post-war period, foreign exchange receipts on current account increased substantially from 1946 to 1948, but in 1949 an appreciable decline was registered, in consequence of the fall in export prices. Since movements of external funds during this period resulted in net outflows in 1946 and 1948 and net inflows in 1947 and 1949, their fluctuation intensified the variations in current foreign exchange receipts in 1947 but mitigated them in 1948 and 1949. Movements of domestic funds, in their turn, showed very small balances, favourable on some occasions and negative on others, so that the evolution of the total balance of autonomous capital movements was almost exactly the same as that of the balance of transactions financed with external funds.

1949-52. A sharp upswing in current foreign exchange receipts also took place in 1950 and 1951, owing to the considerable increase in the volume and prices of Latin American exports generated by enormous purchases of tropical and mining products on the part of the industrialized countries, especially the United States, on the outbreak of hostilities in Korea. But in 1952 the receipts in question underwent a notable reduction as the result of the fall in export prices brought about the contraction in the industrialized countries' purchases when fears that the fighting might spread were allayed. The balance of external capital transactions during this period invariably represented a net inflow in favour of the region which, however, fluctuated considerably from one year to another, decreasing in 1950 and increasing in the next two years. Thus, its fluctuations attenuated those of current foreign exchange receipts in 1950 and 1952, but intensified them in 1951. The balances shown by domestic capital operations were very small.

1952-58. From 1952 to 1957, foreign exchange receipts on current account followed an upward trend, owing to the increase in the export quantum, which attained very high levels in 1956 (when coffee prices rose on account of the frosts in Brazil) and above all in 1957 (with the expansion of petroleum sales as a result of the Suez crisis). They dropped abruptly in 1958, when export prices took a marked turn for the worse. During this phase, net inflows of foreign capital remained at an almost constant level up to 1955, but from then until 1958 their fluctuations kept parallel with those of export proceeds, mainly because of the boom in direct investment in Venezuela's petroleum sector in 1956 and 1957 and the ensuing reduction in 1958. Domestic capital transactions showed net outflows which, although sizable, varied a great deal from one year to the next, reducing the fluctuations of current foreign exchange receipts in 1953, 1954 and 1957, and increasing them in 1958.

Figure X. Latin America (excluding Cuba): foreign exchange earnings on current account and net movements of autonomous foreign and domestic funds, 1946-62



SOURCE: Table 138.

The changes in the total balance of autonomous capital movements helped to intensify the fluctuations referred to, in four out of the six years under consideration.

1958-62. Current foreign exchange receipts increased steadily, but comparatively slowly owing to the net weakening of the growth of exports. Foreign capital inflows continued to rise, at least until 1961, but their progress was partly offset by the expansion of outflows of domestic capital, which reached high figures in 1961 and 1962.

The foregoing remarks may be summed up as follows:

(i) Foreign capital movements weakened the fluctuations of foreign exchange receipts on current account in eight of the sixteen years under consideration, and strengthened them in the other eight (see table 129). It would be a mistake, however, to overlook the special character of these movements in the early years of the post-war period, when they frequently resulted in net outflows from the region, imputable to the amortization of external debts — the servicing of which had been partly or wholly suspended since the 1929 depression — and to the purchase of foreign enterprises by certain Latin American Governments. If the period 1951-62 is considered separately, it can be deduced that the variations in the balance of transactions financed with foreign capital intensified the fluctuations in current foreign exchange income during the remaining five years.

Table 129. Latin America: effects of the yearly fluctuations in the net movements of autonomous capital — the short-term fluctuations in foreign exchange earnings, 1947-62

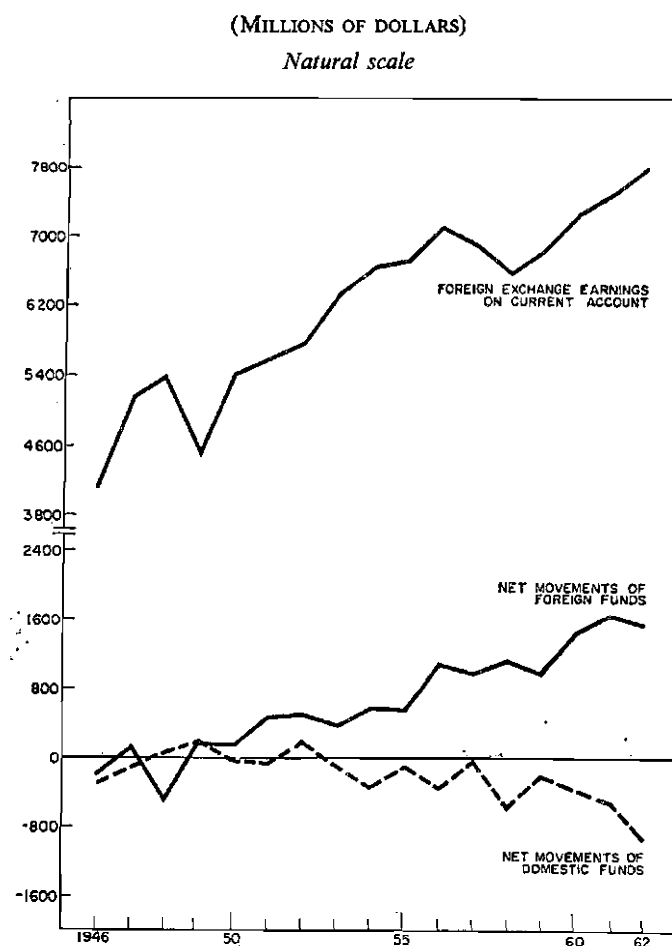
	Latin America (excluding Cuba)		Latin America (excluding Cuba and Venezuela)	
	1947-62	1951-62	1947-62	1951-62
1. Effects of the yearly fluctuations in the net inflow of foreign funds:				
(a) Number of years when these fluctuations intensified the short-term movements of foreign exchange earnings on current account				
	8	7	8	7
(b) Number of years when these fluctuations diminished the short-term movements of foreign exchange earnings on current account				
	8	5	8	5
2. Effects of the yearly fluctuations in the net outflow of autonomous domestic funds:				
(a) Number of years when these fluctuations intensified the short-term movements of foreign exchange earnings on current account				
	7	5	6	4
(b) Number of years when these fluctuations diminished the short-term movements of foreign exchange earnings on current account				
	9	7	10	8

SOURCES: Tables 138 and 139.

(ii) Generally speaking, the fluctuations in the balances of domestic capital movements reduced more often than they increased those of current foreign exchange resources.

It is of interest to note that if Venezuela, whose relative influence on Latin America's balance of payments is very strong, is excluded from the region as a whole, little difference is made to the preceding remarks. In this case it will be seen that during the period 1951-62, fluctuations in the balance of foreign capital movements aggravated the instability of current foreign exchange resources in seven of the twelve years considered and lessened it in the other five, while fluctuations in the balance of domestic capital movements had stabilizing effects on those resources, and the reverse, in eight and four of the twelve years, respectively (see figure XI, and again table 129).

Figure XI. Latin America (excluding Cuba and Venezuela): foreign exchange earnings on current account and net movements of autonomous foreign and domestic funds, 1946-62



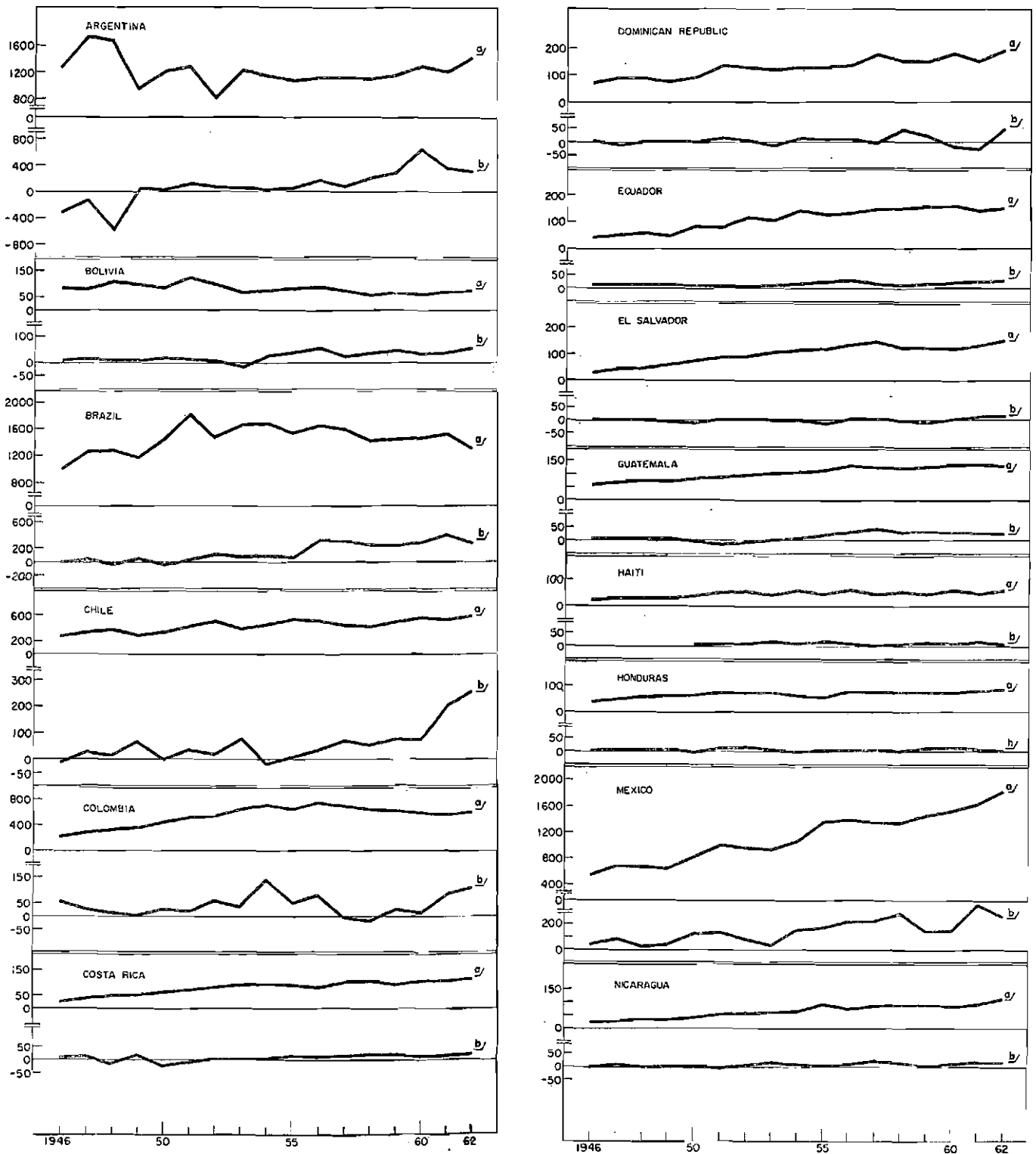
SOURCE: Table 139.

The foregoing observations, although valid for the region as a whole with the inclusion or exclusion of Venezuela, are not necessarily applicable to all the Latin American countries. A country-by-country analysis is therefore advisable.

(b) If each separate Latin American country is considered all that can be done is to compare the fluctuations in current foreign exchange receipts with the variations

Figure XII. Latin America (excluding Cuba): foreign exchange earnings on current account and net movements of autonomous foreign funds by country, 1946-62

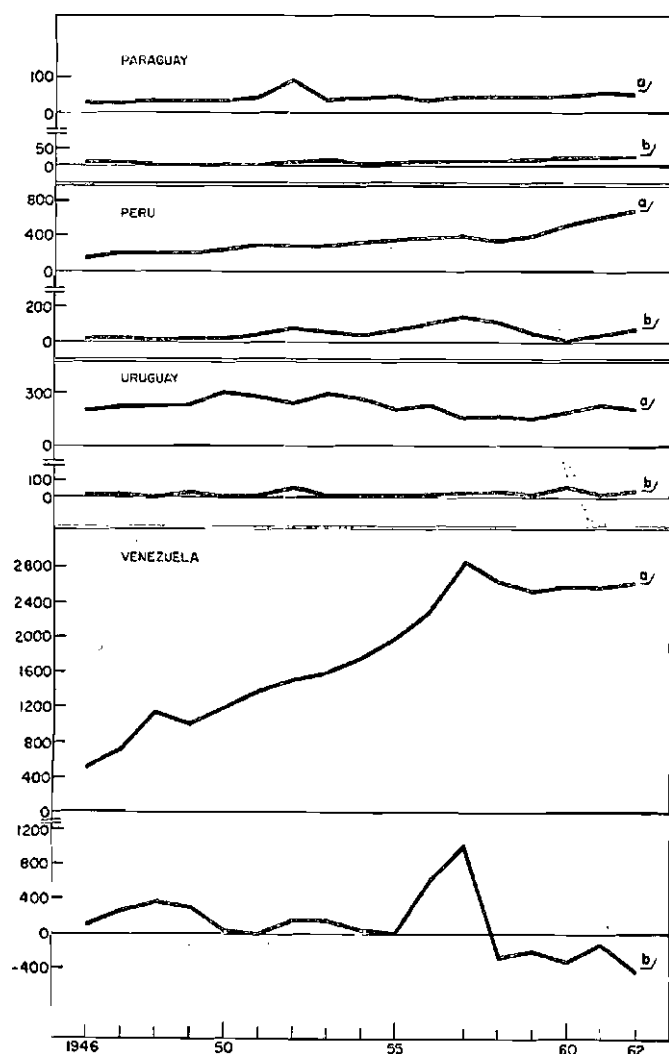
(MILLIONS OF DOLLARS)
Natural scale



Source: Table 140.

- a Foreign exchange earnings on current account.
- b Net movements of autonomous foreign funds.

Figure XII (continued)



in the balance of transactions financed by foreign capital since in many countries the figures for domestic capital transactions are only approximate. Such an analysis clearly shows that in the main the tendency of the variations in net inflows of foreign funds was to intensify the movements of current foreign exchange receipts in most of the countries of the region during the post-war period (see figure XII and table 130). Indeed, in fourteen out of the seventeen Latin American countries considered (Argentina, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru and Venezuela)² the variations in question increased more often than they reduced the fluctuations of current foreign exchange income in 1947-62. The reverse was the case in Chile and Nicaragua, and no definite influence was exerted one way or the other in Uruguay.

² Neither Cuba nor Panama could be taken into account. As regards Cuba, no data are available from 1959 onwards. The method of distinguishing between autonomous and compensatory capital movements used in the present report is not applicable in the case of Panama.

Table 130. Latin America: effects of the yearly fluctuations in the net inflow of autonomous foreign capital on the short-term movements of foreign exchange earnings, 1947-62

Country	1947-62		1951-62	
	A	B	A	B
Argentina	10	6	8	4
Bolivia	11	5	10	2
Brazil	10	6	9	3
Chile	6	10	5	7
Colombia	9	7	8	4
Costa Rica	9	7	7	5
Dominican Republic	11	5	9	3
Ecuador	11	5	8	4
El Salvador	14	2	10	2
Guatemala	10	6	8	4
Haiti . . . . .	...	...	3	9
Honduras	9	7	6	6
Mexico	10	6	7	5
Nicaragua	7	9	6	6
Paraguay	10	6	9	3
Peru	12	4	9	3
Uruguay	8	8	6	6
Venezuela	9	7	6	6

SOURCE: Table 140.

A: Number of years in which the fluctuations of the net inflow of foreign capital intensified the short-term movements of foreign exchange earnings on current account.

B: Number of years in which the fluctuations of the net inflow of foreign capital reduced the short-term movements of foreign exchange earnings on current account.

To sum up, the observations formulated in respect of Latin America as a whole or country by country lead to the following two main conclusions:

- (i) As a general rule, movements of external funds resulted in net inflows in favour of the region, which tended to expand when there was an increase in foreign exchange receipts on current account and to contract when the latter decreased;
- (ii) Generally speaking, movements of domestic funds resulted in net outflows from the region, which likewise increased when current foreign exchange resources did so and vice versa.

2. WHAT IS THE EXPLANATION OF THE POSITIVE RELATIONSHIP THAT THE FLUCTUATIONS OF FOREIGN EXCHANGE RECEIPTS ON CURRENT ACCOUNT SEEM TO HAVE WITH NET INFLOWS OF EXTERNAL CAPITAL AND NET OUTFLOWS OF DOMESTIC FUNDS ?

It is no easy matter to reply to this question, because capital operations, whether financed with external or internal funds, are of different types and are not determined by the same factors.

(a) Several hypotheses can be formulated, however, as possible explanations of how an increase in foreign exchange receipts on current account may cause an expansion of foreign capital inflows.

In the first place, as has already been pointed out, a considerable proportion of the inflow of foreign capital, especially new direct investment, is channelled into the export sector. Unquestionably, in this case a correlation

exists between exports — and, therefore, current foreign exchange income — and capital flows. First, any increase in exports raises the profits of foreign enterprises operating in the sector and leads them to increase their investment, particularly their reinvestment. Secondly, any new foreign investment augments the sector's production capacity and promotes an expansion of sales abroad. This second relationship probably exerted more real influence than the first, since new direct investments in several branches of industrial production for export (petroleum) were induced not so much by the profits obtained in the immediate past, as by those which could be expected to accrue over the long term, or by other factors.

In the second place, another substantial proportion of the inflow of foreign capital, still mainly in the form of new direct investment, has been channelled into substitution activities. In the Latin American countries, in whose economies the external sector continues to play a highly important role, any expansion of exports brings about an increase in the national product and consequently in demand for imports. If external purchases are restricted by the regulations in force, as is usually the case, this demand is diverted to domestically-produced substitutes for the goods concerned. Thus, foreign enterprises manufacturing such goods are induced to increase their reinvestment or to make new investments.

Thirdly, it is common knowledge that the placing of new external investment in the region largely depends upon the opinion of the creditworthiness of the Latin American countries formed by foreign investors, who, in making their evaluation, take into account not only long-term factors but also (sometimes more particularly) such short-term factors as, for example, the evolution of export proceeds in the immediate past. There can be little doubt that this natural tendency on the part of foreign investors to adopt their investment decisions in the light of such considerations has played an important part not only in short-term but in long-term movements of private capital, whether in the shape of direct investment, portfolio investment or suppliers' credit.

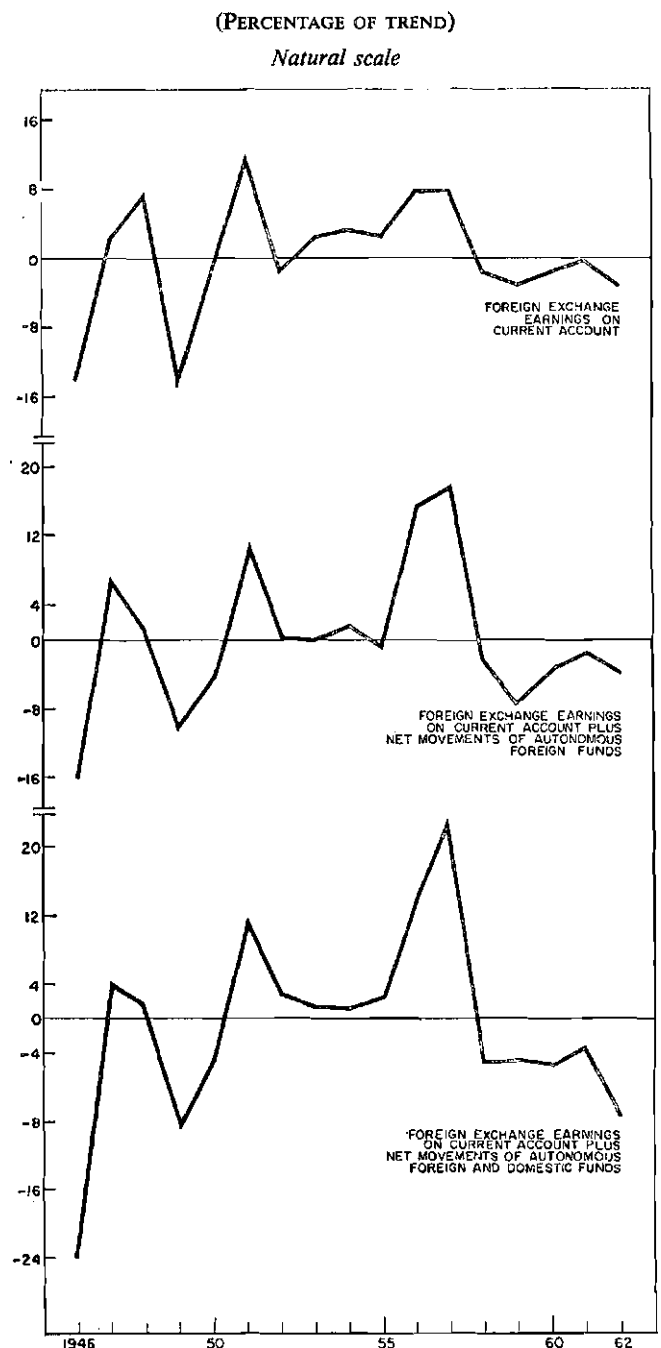
There are grounds for the belief that of the three hypotheses put forward, some weight must be attached to the third. The effective operation of the mechanisms relating to the first two presupposes a certain time interval, whereas a positive relationship manifests itself almost immediately between the variations in foreign exchange receipts on current account and the fluctuations in the inflow of foreign capital.

(b) It is harder to explain why outflows of domestic funds increase with the growth of foreign exchange receipts on current account, and vice versa. The very opposite would seem more likely, since such outflows usually correspond to the flight of private capital, which should normally accelerate the operation of all the factors making for disequilibrium in the balance of payments. This anomaly is more apparent than real, since, as will later be shown, the largest deficits in the Latin American countries' balance on current account were registered when export earnings increased.

3. INFLUENCE OF AUTONOMOUS CAPITAL MOVEMENTS ON THE SHORT-TERM FLUCTUATIONS OF THE LATIN AMERICAN COUNTRIES' CURRENT FOREIGN EXCHANGE INCOME

If there is a positive relationship between the fluctuations of foreign exchange receipts on current account, on the one hand, and, the variations in inflows of foreign capital and outflows of domestic funds, on the other, foreign capital transactions must have intensified the short-term movements of the foreign exchange supplies annually available to the Latin American countries. Domestic capital transactions, on the other hand, must have tended to smooth out these fluctuations.

Figure XIII. Latin America (excluding Cuba): foreign exchange earnings. Annual deviation in relation to trend, 1946-62



SOURCE: Table 131.

One way of checking this hypothesis is to attempt to measure, in turn, the annual fluctuations of foreign exchange receipts on current account, those of foreign exchange income net of external capital operations (i.e. variations in the sum of receipts on current account plus inflows of domestic capital) and those of total foreign exchange income (i.e. variations in the sum of receipts on current account plus inflows of external capital minus outflows of domestic funds). To this end, any of the methods of calculation suggested for determining annual fluctuations in balance-of-payments components can be used, on the one condition that the same method is applied to all three series.

(a) For the region as a whole (not counting Cuba) the annual fluctuations in the three series were calculated by a method already used in other United Nations studies,³ excluding the linear trend. From an analysis of the results of this calculation (see figure XIII and table 131), three main inferences can be drawn.

(i) The average annual variation in foreign exchange receipts on current account followed a diminishing trend during the post-war period, falling from 13 per cent in 1947-51 to 4.2 per cent in 1952-56 and 2.8 per cent in 1957-62. This evolution is perhaps more apparent than real, since the statistical data for the early post-war years are only approximate figures;

(ii) The fluctuations of foreign exchange income net of external capital operations were as a rule more marked than the variations in receipts on current account (the respective annual averages in 1947-62 having been 7.2 and 6.4 per cent). The only exceptions occurred in the early post-war years, when the variations in the balance of transactions financed with foreign capital tended to offset the fluctuations in current income, as was previously pointed out;

(iii) The fluctuations of total foreign exchange income differed little from those of income net of external capital operations (7.1 per cent as against 7.2 per cent) if the post-war period is considered as a whole, since the balances shown by operations financed with domestic

³ See table 131, footnote a.

Table 131. Latin America (excluding Cuba): yearly fluctuations in foreign exchange earnings, excluding effects of trend,^a 1946-62

(Percentages)

Year	Foreign exchange earnings on current account			Foreign exchange earnings on current account plus net movements of autonomous foreign funds			Foreign exchange earnings on current account plus net movements of autonomous foreign and domestic funds		
	Percentage of trend	Deviation in relation to trend	Yearly fluctuation (excluding effects of trend)	Percentage of trend	Deviation in relation to trend	Yearly fluctuation (excluding effects of trend)	Percentage of trend	Deviation in relation to trend	Yearly fluctuation (excluding effects of trend)
1946	85.8	-14.2	—	83.8	-16.2	—	75.9	-24.1	—
1947	102.1	+2.1	+16.0	107.2	+7.2	+21.8	104.0	+4.0	+27.1
1948	107.4	+7.4	+5.0	101.2	+1.2	-5.6	101.3	+1.3	-2.6
1949	85.9	-14.1	-20.0	89.3	-10.7	-11.8	91.5	-8.5	-9.7
1950	98.2	-1.8	+12.5	95.5	-4.5	+6.5	95.2	-4.8	+3.9
1951	111.0	+11.0	+11.5	110.1	+10.1	+13.3	111.2	+11.2	+14.4
1952	98.2	-1.9	-11.5	100.9	+0.9	-8.4	102.5	+2.5	-7.2
1953	102.0	+2.0	+3.7	100.2	+0.2	-0.7	101.1	+1.1	-1.4
1954	103.4	+3.4	+1.4	101.4	+1.4	+1.2	101.1	+1.1	—
1955	103.1	+3.1	+0.3	99.6	-0.4	-1.8	102.6	+2.6	+1.5
1956	107.6	+7.6	+4.2	114.8	+14.8	+13.3	114.5	+14.5	+10.4
1957	107.8	+7.8	+0.2	116.5	+16.5	+1.5	122.2	+22.2	+6.3
1958	97.7	-2.3	-9.4	97.6	-2.4	-16.3	94.8	-5.2	-22.4
1959	96.4	-3.6	-1.3	92.3	-7.7	-5.5	95.1	-4.9	+0.4
1960	97.7	-2.3	+1.3	96.3	-3.7	+4.2	94.6	-5.4	-0.5
1961	99.8	-0.2	+2.1	98.0	-2.0	+1.7	96.1	-3.9	+1.6
1962	97.2	-2.8	-2.6	96.2	-3.8	-1.8	91.6	-8.4	-4.7
1947-51			13.0			11.8			11.5
1952-56			4.2			5.1			4.1
1957-62			2.8			5.2			6.0
1947-62			6.4			7.2			7.1

SOURCES: Table 138.

^b The linear trend in the period 1946-62 has been determined according to the least squares method. It has therefore been possible to calculate (i) the foreign exchange earnings as a percentage of the trend; (ii) the deviation of these earnings in relation to the trend; and (iii) their yearly fluctuations excluding the effects of the trend, i.e., the annual percentage changes in series (i). In calculating these annual percentage changes, the higher of each pair of years was taken as the denominator in order to eliminate the bias inherent in the more conventional procedure for calculating such percentage changes (see *Instability in Export Markets of Under-developed Countries*, United Nations publication, Sales No.: 52.II.A.1, appendix B).

Table 132. Latin America (excluding Cuba and Venezuela): yearly fluctuations in foreign exchange earnings, excluding effects of trend,^a 1946-62

(Percentages)

Year	Foreign exchange earnings on current account			Foreign exchange earnings on current account plus net movements of autonomous foreign funds			Foreign exchange earnings on current account plus net movements of autonomous foreign and domestic funds		
	Percentage of trend	Deviation in relation to trend	Yearly fluctuation (excluding effects of trend)	Percentage of trend	Deviation in relation to trend	Yearly fluctuation (excluding effects of trend)	Percentage of trend	Deviation in relation to trend	Yearly fluctuation (excluding effects of trend)
1946	86.2	-13.8	—	87.7	-12.3	—	78.7	-21.3	—
1947	104.2	+4.2	+17.3	110.6	+10.6	+20.7	106.7	+6.7	+26.3
1948	104.8	+4.8	+0.5	96.9	-3.1	-12.4	97.2	-2.8	-8.9
1949	84.5	-15.5	-19.4	87.6	-12.4	-9.8	90.6	-9.4	-6.8
1950	98.5	-1.5	+14.2	98.6	-1.4	+11.2	99.3	-0.7	+8.8
1951	112.9	+12.9	+12.8	115.7	+15.7	+14.8	116.5	+16.5	+14.8
1952	97.9	-2.1	-13.3	99.4	-0.6	-14.1	104.7	+4.7	-10.1
1953	104.0	+4.0	+5.9	101.8	+1.8	+2.4	102.2	+2.2	-2.4
1954	105.9	+5.9	+1.8	104.5	+4.5	+2.6	102.7	+2.7	+0.4
1955	103.8	+3.8	-2.9	100.5	+0.5	-3.8	102.5	+2.5	-0.2
1956	106.7	+6.7	+2.7	108.8	+8.8	+7.6	108.4	+8.4	+5.5
1957	101.2	+1.2	-5.2	100.5	+0.5	-7.6	105.3	+5.3	-2.9
1958	93.6	-6.4	-7.5	94.7	-5.3	-5.8	92.1	-7.9	-12.5
1959	94.8	-5.2	+1.3	92.5	-7.5	-2.3	94.6	-5.4	+2.7
1960	98.3	-1.7	+3.6	100.0	—	+7.5	100.9	+0.9	+6.3
1961	98.4	-1.6	+0.1	100.8	+0.8	+0.8	100.4	+0.4	-0.5
1962	100.5	+0.5	+2.1	100.4	+0.4	-0.4	95.1	-4.9	-5.3
1947-51			12.8			13.8			13.1
1952-56			5.3			6.1			3.7
1957-62			3.3			4.1			5.0
1947-62			6.9			7.7			7.2

SOURCE: Table 139.

^a Same as footnote ^a to table 131.

Table 133. Latin America: coefficient of variation ^a in foreign exchange earnings, by country, 1946-62

(Percentages)

Country	1946-50			1951-55			1956-62		
	Foreign exchange earnings on current account	Foreign exchange earnings on current account plus net movements of autonomous foreign funds	Foreign exchange earnings on current account plus net movements of autonomous foreign and domestic funds	Foreign exchange earnings on current account	Foreign exchange earnings on current account plus net movements of autonomous foreign funds	Foreign exchange earnings on current account plus net movements of autonomous foreign and domestic funds	Foreign exchange earnings on current account	Foreign exchange earnings on current account plus net movements of autonomous foreign funds	Foreign exchange earnings on current account plus net movements of autonomous foreign and domestic funds
Argentina	21.3	19.7	16.0	14.5	15.0	6.6	8.6	16.6	13.8
Bolivia	11.2	8.6	16.2	22.9	26.6	20.1	14.7	15.7	12.1
Brazil	11.4	11.1	19.7	7.2	6.1	7.4	7.1	7.7	8.3
Chile	11.2	13.8	14.7	12.5	9.7	9.8	10.1	18.2	14.1
Colombia	21.1	17.0	15.7	12.8	16.5	15.7	8.2	8.3	12.3
Costa Rica	7.2	22.8	19.1	10.2	16.5	10.1	10.4	8.9	11.4
Dominican Republic	8.0	8.4	15.6	3.8	8.9	7.9	11.3	17.9	19.2
Ecuador	27.2	21.2	20.0	18.8	20.7	26.2	5.6	9.7	7.2
El Salvador	30.4	30.5	29.0	9.8	11.9	10.3	8.3	12.1	11.6
Guatemala	13.7	12.1	14.9	8.4	15.7	17.2	3.3	4.4	5.8
Haiti . . . . .	...	...	...	13.0	7.2	7.3	12.5	13.0	14.0
Honduras	19.2	16.2	16.9	10.1	14.7	14.2	5.0	6.1	7.5
Mexico	12.2	15.3	17.4	13.6	15.1	12.7	10.4	10.9	5.6
Nicaragua	2.1	16.8	15.8	22.5	21.8	21.1	9.2	11.9	13.3
Paraguay	8.8	6.4	7.1	45.0	44.8	66.2	9.0	13.7	10.5
Peru	10.8	9.0	9.4	6.1	7.6	4.9	24.1	17.6	16.9
Uruguay	15.2	13.6	13.4	13.5	14.0	18.0	16.6	15.3	17.4
Venezuela	27.7	25.9	26.2	12.4	11.4	13.7	6.0	20.4	25.0

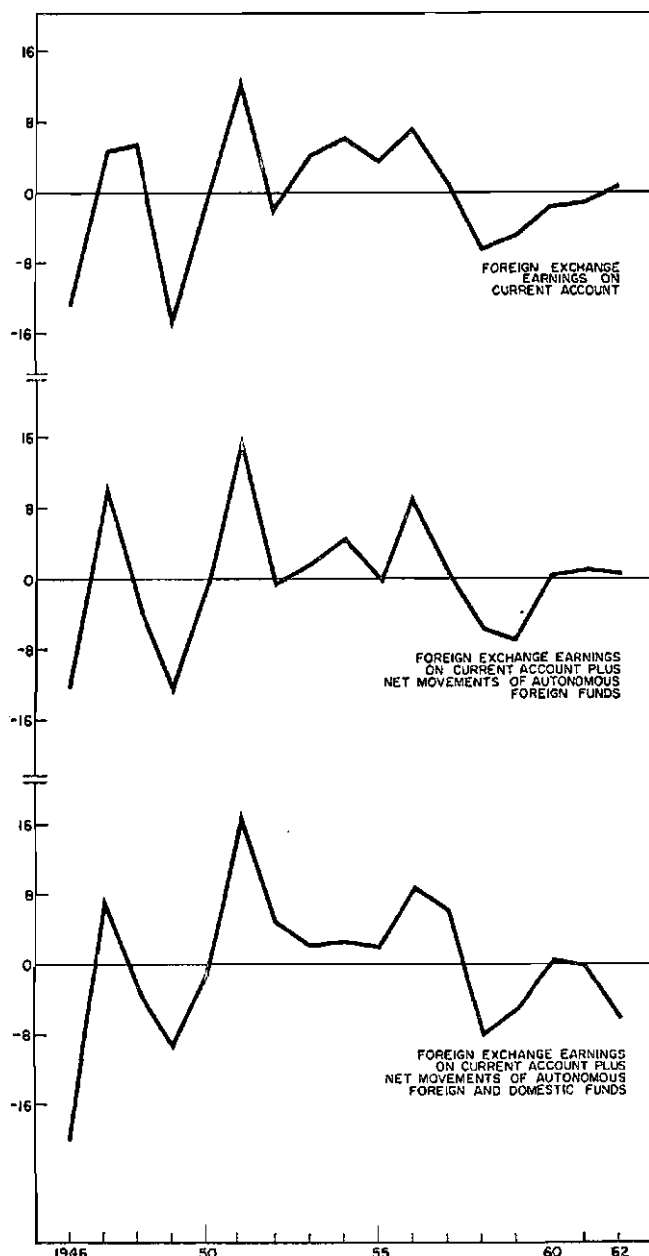
SOURCE: Table 140.

^a The coefficient of variation is the quotient of the standard deviation divided by the arithmetical mean.

Figure XIV. Latin America (excluding Cuba and Venezuela): foreign exchange earnings, annual deviation in relation to trend, 1946-62

(PERCENTAGE OF TREND)

Natural scale



SOURCE: Table 132.

funds were relatively small throughout most of the period in question.

It is of interest to note that the exclusion of Venezuela from the regional total makes little difference to the foregoing observations (see figure XIV and Table 132).

(b) For each individual country the coefficient of variation in 1946-50, 1951-55 and 1956-62 was calculated in respect of all three series (see table 133). The percentages obtained do not measure the fluctuations in foreign exchange income from one year to the next, but represent its annual variations in relation to the arithmetic mean for each of the periods under consideration.

These percentages show that the situation differed a good deal from one country to another. Nevertheless, three generally applicable inferences can be deduced, as follows:

(i) The deviations from the average for each five-year period were sharper in the case of foreign exchange income net of external capital operations than in that of foreign exchange receipts on current account in an increasing number of countries — six in 1946-50, twelve in 1951-55, and fourteen in 1956-62, out of a total of eighteen⁴ for the whole post-war period;

(ii) The coefficient of variation of total foreign exchange income was lower than that of foreign exchange income net of external capital operations in some countries (six in 1946-50, ten in 1951-55 and nine in 1956-62), but higher in others, no clearly-marked trend being apparent;

(iii) Total foreign exchange income fluctuated more sharply than receipts on current account in an increasing number of Latin American countries (seven in 1946-50, nine in 1951-55 and fourteen in 1956-62).

To sum up, it seems an established fact that transactions financed with external capital intensified the short-term fluctuations of Latin America's foreign exchange resources. Operations financed with domestic funds, on the other hand, frequently tended to mitigate these fluctuations. It does not seem possible, however, to reach categorical conclusions on this point, in view of the manifest inadequacy of the basic data to hand.

⁴ Excluding Cuba and Panama, for the reasons given earlier.

B. ANNUAL FLUCTUATIONS IN AUTONOMOUS CAPITAL MOVEMENTS IN RELATION TO SHORT-TERM DISEQUILIBRIA IN THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT

A comparison must now be drawn between the variations in the balance of autonomous capital movements and the fluctuations in the balance of current operations.

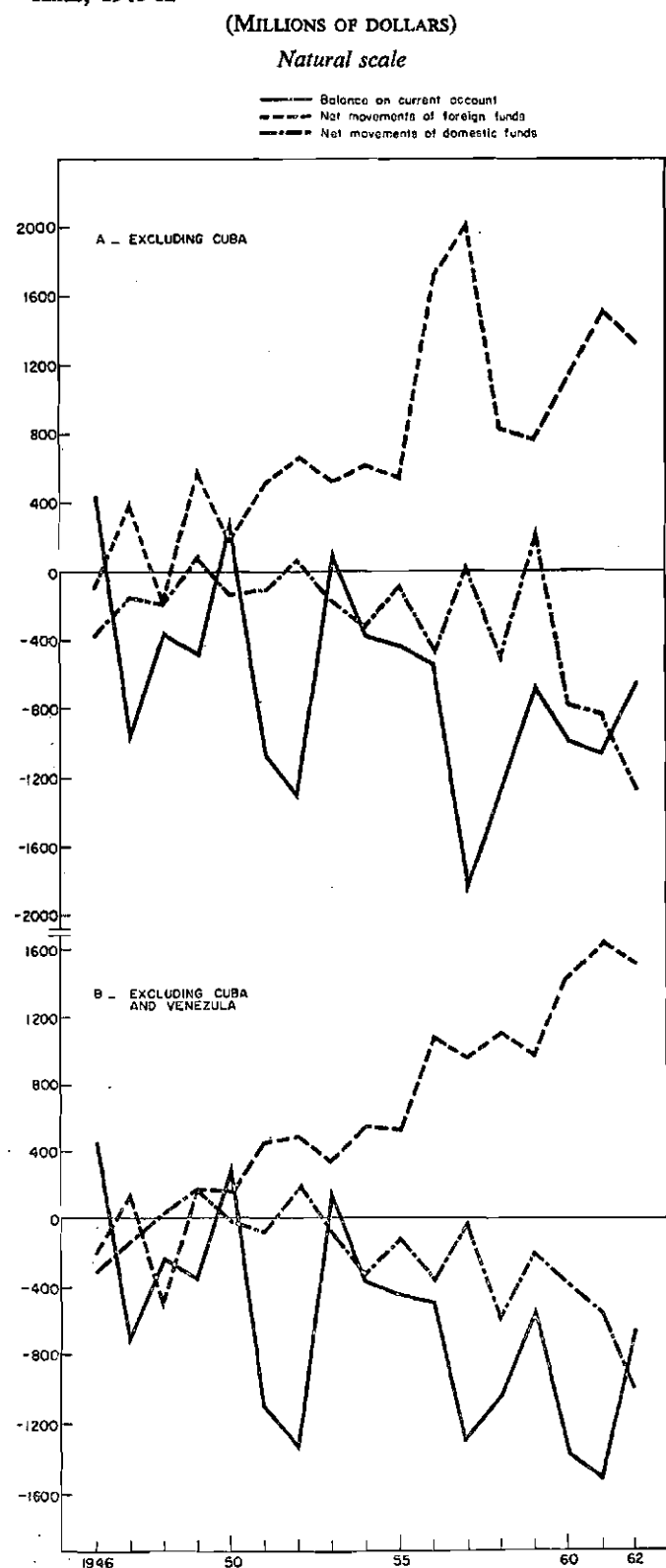
(a) If the region as a whole (excluding Cuba) is considered, the period under review may be divided into four major phases (see figure XV and table 134).

1946-49. The balance on current account was favourable to the region in 1946, and unfavourable in the other

years, showing two peak deficits in 1947 and 1949. As was seen at an earlier stage, autonomous foreign capital transactions resulted in net inflows in 1947 and 1949 and net outflows in 1946 and 1948, so that their variations partly offset the fluctuations in the balance on current account. Furthermore, domestic capital transactions resulted in net outflows which either decreased or were superseded by net inflows (repatriation) when the deficit on current account increased.

1949-52. The balance on current account was favourable in 1950, but markedly unfavourable in 1951, and still more so in 1952. Net external capital inflows, which had fallen off in 1950 in relation to 1949, increased in 1951 and 1952 and had a compensatory effect. A similar

Figure XV. Latin America (excluding Cuba): balance on current account and net movements of autonomous foreign and domestic funds, 1946-62



SOURCES: Table 138 and 139.

Table 134. Latin America: effects of the yearly fluctuations in the net movements of autonomous capital on the short-term equilibrium of the balance of payments, 1947-62

	Latin America (excluding Cuba)		Latin America (excluding Cuba and Venezuela)	
	1947-62	1951-62	1947-62	1951-62
1. Effects of the yearly fluctuations in the net inflow of foreign funds:				
(a) Number of years in which these fluctuations helped to offset the changes in the balance on current account. . .	15	11	12	9
(b) Number of years in which these fluctuations helped to intensify the changes in the balance on current account. . .	1	1	4	3
2. Effects of the yearly fluctuations in the net outflow of domestic funds:				
(a) Number of years in which these fluctuations helped to offset the changes in the balance on current account. . .	11	7	9	6
(b) Number of years in which these fluctuations helped to intensify the changes in the balance on current account. . .	5	5	7	6

SOURCES: Tables 138 and 139.

Table 135. Latin America: effects of the year-to-year fluctuations of the net inflow of autonomous foreign capital on balance-of-payments equilibrium, by country, 1947-62

Country	1947-62		1951-62	
	A	B	A	B
Argentina	9	7	5	7
Bolivia	7	9	5	7
Brazil	11	5	7	5
Chile	12	4	8	4
Colombia	8	8	5	7
Costa Rica	14	2	10	2
Dominican Republic.	9	7	8	4
Ecuador	8	8	7	5
El Salvador	4	12	3	9
Guatemala	8	8	5	7
Haiti . . . . .	...	...	7	5
Honduras	12	4	11	1
Mexico	9	7	7	5
Nicaragua	10	6	8	4
Paraguay	7	9	5	7
Peru	13	3	10	2
Uruguay	7	9	5	7
Venezuela	10	6	8	4

SOURCE: Table 140.

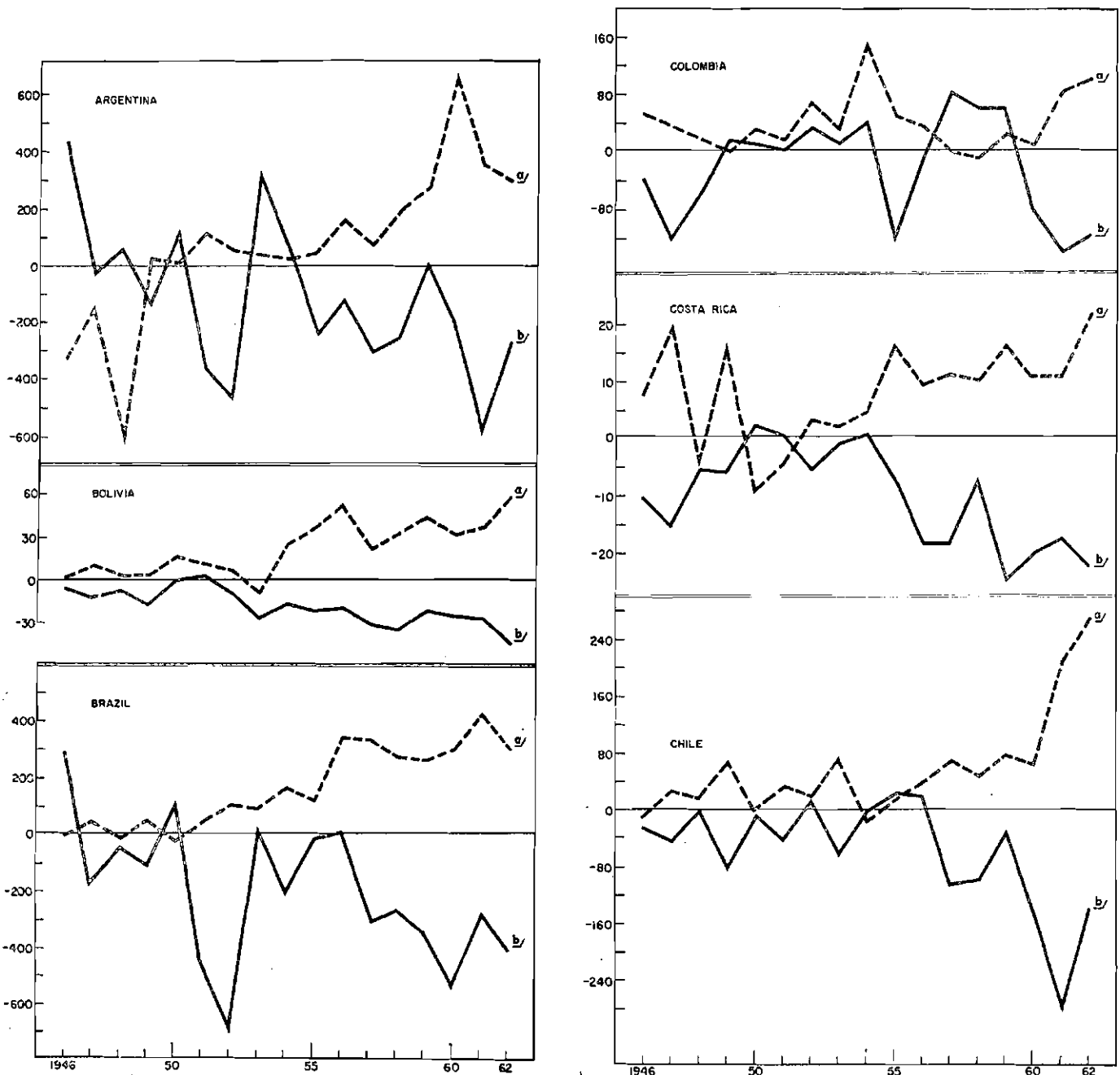
A: Number of years in which the fluctuations of the net inflow of foreign capital helped to offset the changes in the balance on current account.

B: Number of years in which the fluctuations of the net inflow of foreign capital helped to intensify the changes in the balance on current account.

Figure XVI. Latin America (excluding Cuba): balance on current account and net movements of autonomous foreign funds by country, 1946-62

(MILLIONS OF DOLLARS)

Natural scale



SOURCE: Table 140.

a Net movement of autonomous foreign funds.

b Balance on current account.

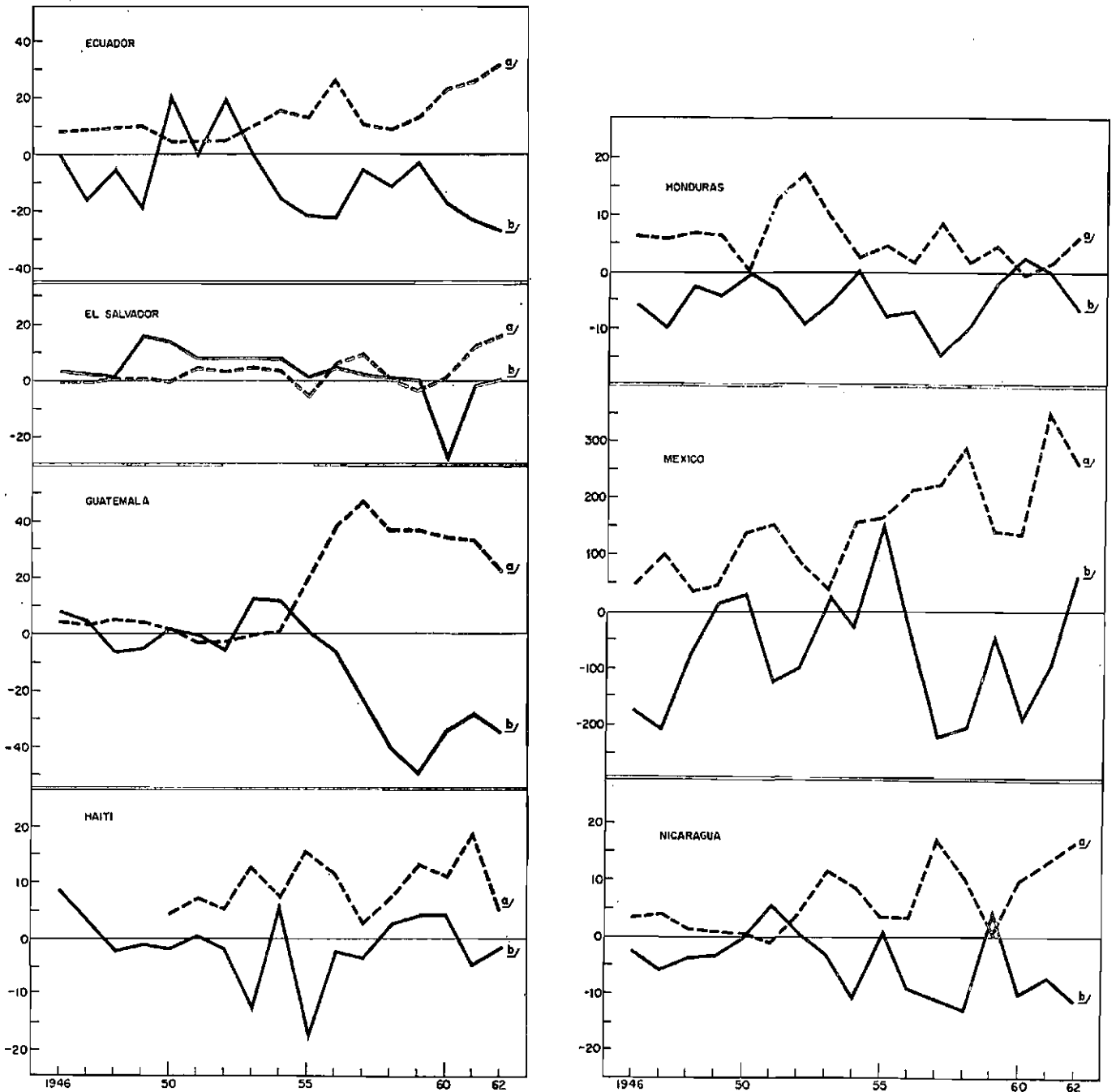
influence was exerted by the fluctuations in the balance of transactions financed with domestic funds.

1952-57. Current operations showed a modest surplus in 1952, but deficits reappeared in the subsequent years, reaching a maximum in 1957. Net inflows of foreign capital, which had contracted a little in 1953 in relation to 1952, expanded somewhat in 1954, decreased slightly in 1955 and increased sharply in 1956 and 1957, so that their effect was almost invariably compensatory. The balance of domestic capital transactions, on the other

hand, fluctuated substantially, but in no clearly manifest relation to the balance on current account.

1957-62. The deficit on current account decreased in 1958 and 1959, increased in 1960 and 1961 and seems to have been reduced again in 1962. Foreign capital inflows, fluctuated in the same direction, falling in 1958 and 1959, rising in 1960 and 1961 and declining a little in 1962, so that once again their variations tended to compensate those of the balance on current account. The fluctuations in the balance of domestic capital operations intensified

Figure XVI (continued)



those of the balance on current account in three years of the period under consideration.

Thus, during the post-war period the fluctuations in the balance of external capital transactions almost invariably (i.e., in fifteen of the sixteen years considered) tended to compensate the variations in the balance of current operations. Conversely, variations in the balance of transactions financed with domestic funds on some occasions offset and on others intensified the fluctuations of the balance on current account.

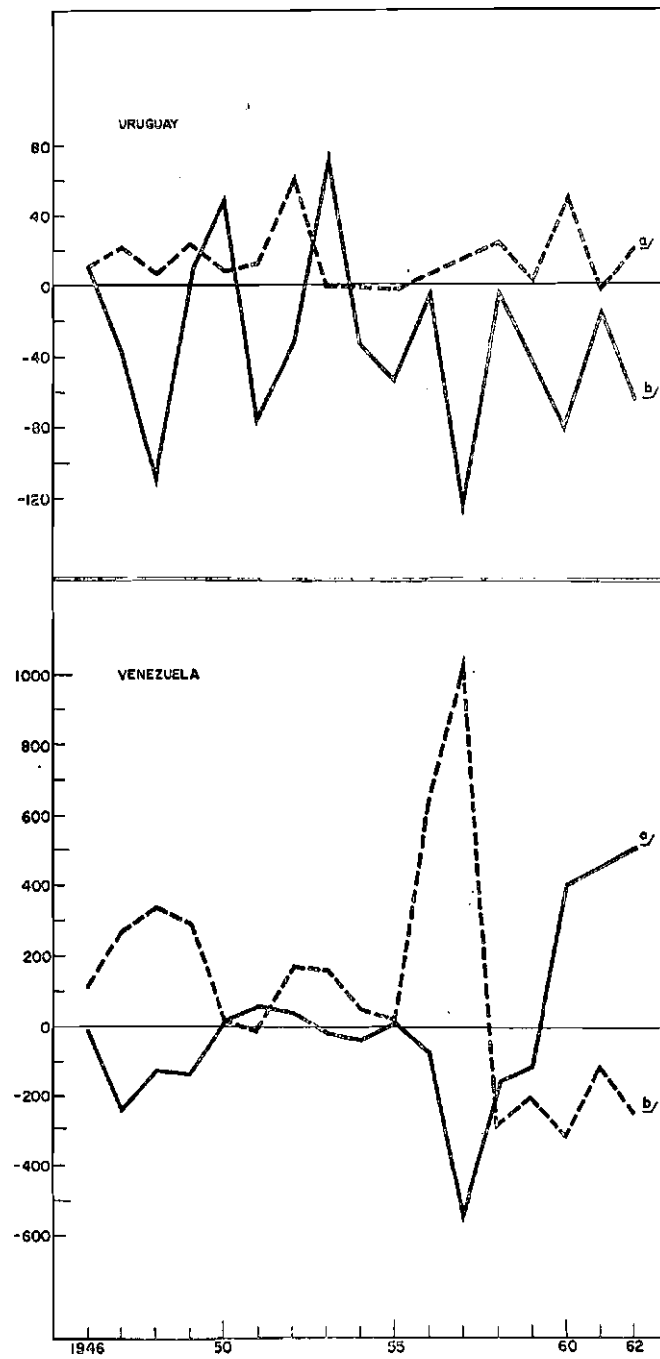
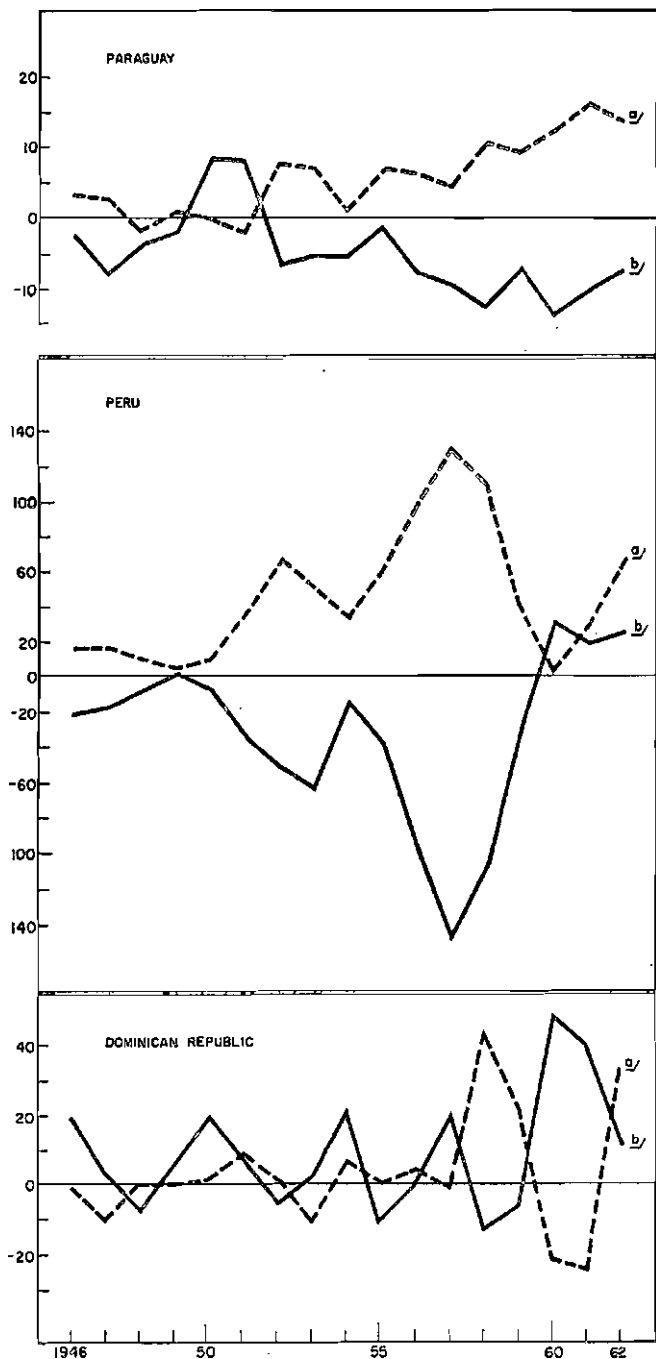
It is worth noting that the exclusion of Venezuela as well as of Cuba from the region as a whole makes little or no difference to the foregoing observations (see again figure XV and table 134).

(b) If each separate Latin American country is considered, all that can be done is to compare the fluctuations noted in the balance of external capital movements with those of the balance on current account, since the data for movements of domestic funds are only approximate figures (see figure XVI and table 135).

This comparison shows that on the whole the variations in net inflows of foreign capital compensated more often than they intensified the fluctuations in the balance of current operations, in ten out of the eighteen countries considered⁵ (Argentina, Brazil, Chile, Costa Rica,

⁵ Cuba and Panama are not taken into account, for the reasons given earlier.

Figure XVI (continued)



Dominican Republic, Honduras, Mexico, Nicaragua, Peru and Venezuela). In contrast, the variations in question aggravated more often than they reduced the deficit on current account in Bolivia, El Salvador, Paraguay and Uruguay. As regards the four remaining countries, in Colombia, Ecuador and Guatemala the influence of foreign capital movements made now for equilibrium and now for disequilibrium, according to the

year concerned, while in relation to Haiti no data at all are available for the post-war period.

Thus, despite the great differences observable from one country to another, as a general rule the fluctuations in net foreign capital inflows partly compensated those of the balance on current account, thus contributing to the stabilization of the balance of payments over the short term.

C. THE PROBLEM OF SHORT-TERM EQUILIBRIUM IN THE EXTERNAL PAYMENTS OF THE LATIN AMERICAN COUNTRIES

On the basis of only those of the foregoing observations which are least open to question, the following facts may be noted as holding good for the region at large:

1. Autonomous foreign capital movements generally resulted in net inflows in favour of the region. These inflows expanded when foreign exchange receipts on current account increased and contracted when the reverse was the case, intensifying short-term movements in the foreign exchange supplies at the disposal of the Latin American countries.

2. Net foreign capital inflows generally increased when the deficit on current operations was aggravated and vice versa, thus helping to stabilize the balance of payments over the short term.

The contradiction between these two observations is more apparent than real. In Latin America the deficit on current account does in fact show a certain tendency to increase when foreign exchange receipts on current account do so, and to decrease when they are reduced. Thus for example, in the region as a whole five of the seven peak deficits on current account since the end of the Second World War were registered in years when export earnings increased substantially in relation to the preceding years' figure (1947, 1951, 1957, 1960 and 1961). Similar observations would undoubtedly be applicable to many of the individual Latin American countries.

The reason for this is that imports are severely restricted by the Latin American Governments, and consequently there is a very considerable volume of pent-up import demand. When a rise in export earnings induces the authorities to reduce import restrictions, the tendency is for these repressed needs to seek satisfaction. Furthermore, an expansion of exports generates an increase in the national product. The Latin American import coefficient progressively decreased during recent decades, not only as a result of the import substitution process, but also because of the regulations restricting purchases abroad. When such regulations are relaxed, this coefficient usually recovers, which means that an increment in the product induces a more than proportional increase in external purchases. Thus, because import requirements have piled up, because new requirements emerge as a result of the growth of the product, or for both these reasons, the increase in purchases abroad generally exceeds the initial expansion of external sales.

In periods when exports, and, therefore, foreign exchange receipts on current account, are following an upward trend, it often happens that inflows of external capital likewise increase. This development induces the authorities to reduce import restrictions, with the result that purchases abroad expand in very substantial proportions, for the reasons set forth above. The deficit on current account is thus highly likely to become a good deal more serious. It is true that this growing deficit is partly financed by the increase in inflows of foreign capital, but equally so that its rising trend is sometimes speeded up by outflows of domestic funds. Lastly,

it is often in the years when exports expand that the balance of payments shows the worst deficits prior to compensation.

In periods when exports, and, therefore, foreign exchange receipts on current account, are contracting, there is usually a falling-off in external capital inflows as well. In this case the authorities feel compelled to take drastic steps to curtail expenditure on current account by restricting purchases abroad. It is thus very probable that there will be an appreciable reduction of the current deficit. Hence balance-of-payments equilibrium prior to compensation may be improved in spite of the decrease in inflows of foreign capital, especially if the rate of domestic capital outflows slackens.

Consequently, the extent to which the balance of payments can be stabilized prior to compensation — that is, without recourse either to extraordinary compensatory financing of the reduction of monetary reserves, or to both expedients — depends upon how far the authorities are able to bring about abrupt short-term changes in the level of current expenditure.

Among the many drawbacks attaching to such a proceeding in the case of the Latin American countries, the following deserve special mention:

1. Drastic changes in the level of current expenditure are bound to affect the volume of imports. It is a well-known fact that the composition of the region's imports has altered in the course of recent decades, and particularly since the end of the Second World War, in the sense that the relative share of capital goods and raw materials has progressively increased, while that of consumer goods has dwindled.

Tight restrictions on the volume of purchases of goods in the first two categories would create a bottleneck obstructive to economic growth.

2. There is a measure of asymmetry between the positive and negative variations in expenditure on current account. It is much easier to allow such expenditure to expand when export earnings increase than to reduce it when they decline. Despite the frequently compensatory fluctuations of external capital flows, the deficits registered prior to compensation in periods of relatively liberal import treatment are usually bigger than the hard-won surpluses obtained in periods of austerity. This partly accounts for the downward trend in the region's monetary reserves to which attention was drawn in an earlier chapter.

Of necessity, this asymmetry between the positive and negative variations in current expenditure is progressively intensified by the reduction of the flexibility of such expenditure resulting in its turn from the change in the composition of imports and from the increase in interest payments on the external debt, which represent relatively rigid expenditure items. Thus, external payments crises become increasingly acute, and the disequilibrium between the successive balance-of-payments deficits

and surpluses is also more marked, with the result that the trend towards a reduction of monetary reserves is aggravated.

Prospects of this sort, which would be highly disquieting in countries with relatively plentiful gold and foreign

exchange reserves, are much more so in most of the Latin American republics, where the reserves in question have dropped to so low a level that there is now scant possibility of using them to finance a proportion of imports in external payments emergencies.

D. GROWING INABILITY OF THE MONETARY AUTHORITIES TO COPE WITH CRITICAL EXTERNAL PAYMENTS SITUATIONS

The effect of the decrease in Latin America's net monetary reserves during the post-war period was to weaken the ability of the authorities to stabilize the balance of payments at times when the external payments situation became critical.

A preliminary method of elucidating this phenomenon consisted in calculating the proportion of each country's imports of goods and services represented by its gross monetary reserves at the close of the preceding year, in order to determine what percentage of the imports in question could have been financed with those reserves, assuming that there had been no exports of goods and services whatever. Such a procedure might be misleading, since the ability of the monetary authorities to use their available supplies of gold and foreign exchange for the purpose of covering the deficit on current account

depends not only upon the amount of these reserves but also on the maturity dates of the country's external commitments.⁶ It would be preferable to calculate what proportion of annual imports of goods and services might have been financed with the net reserves (available supplies of gold and foreign exchange, minus the monetary authorities' short-term external commitments) existing at the close of the previous year. Unfortunately, this calculation cannot always be made, since in many countries the volume of the monetary authorities' short-term commitments is unknown. It is therefore essential to use the two methods of analysis in succession.

⁶ In some countries, moreover, the use of official gold reserves is subject to certain legal restrictions. This is the case, for example, in Uruguay.

Table 136. Latin America: relationship between gross monetary reserves and expenditure on current account, 1949-62^a
(Percentages)

Country	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962 ^b
Argentina	41.6	44.2	40.3	40.7	46.9	49.4	39.9	37.1	26.9	21.1	11.3	23.6	36.8	27.7
Bolivia	26.1	30.9	24.1	32.6	31.6	27.0	11.2	6.5	0.9	6.5	7.9	15.3	6.5	6.2
Brazil	59.0	55.5	28.9	23.5	32.2	31.7	30.4	29.9	31.9	28.1	25.9	21.8	23.4	32.5
Chile	13.8	12.5	11.8	11.3	15.1	15.2	10.7	15.6	15.0	9.7	11.7	18.5	14.0	10.1
Colombia	24.2	24.9	19.6	25.3	23.6	25.0	33.4	18.2	21.7	26.0	29.0	31.3	21.2	20.7
Costa Rica	8.8	7.2	5.2	9.0	16.1	18.2	15.5	19.8	10.0	10.1	16.8	10.4	9.9	4.5
Dominican Republic	20.1	21.1	15.5	22.4	27.5	25.2	25.3	24.3	22.8	27.3	28.5	28.8	23.3	4.9
Ecuador	42.1	40.0	48.3	32.3	40.6	24.8	25.7	22.2	20.8	24.5	22.3	22.8	22.2	21.3
El Salvador	64.6	60.9	50.2	50.0	47.5	41.1	38.4	30.3	28.1	31.4	30.5	26.0	24.6	16.2
Guatemala	63.1	43.8	40.0	49.1	49.7	39.4	33.4	34.4	41.3	42.7	30.7	24.5	31.4	30.5
Haiti	28.7	12.0	14.7	19.9	22.5	12.4	18.4	14.1	16.1	10.7	2.4	6.8	9.3	6.3
Honduras	3.6	6.5	14.3	25.0	27.2	37.9	36.5	23.0	20.2	18.1	10.1	17.0	16.1	13.0
Mexico	12.4	16.3	26.9	25.4	24.4	20.8	17.6	28.9	31.3	29.2	24.9	24.4	23.2	23.6
Nicaragua	9.7	9.0	6.8	16.3	24.0	20.1	14.3	15.9	7.1	10.9	9.2	10.0	9.8	11.1
Panama ^c	43.9	42.9	36.2	40.8	43.7	36.4	32.0	26.0	22.2	16.1	23.1	17.5	13.5	12.9
Paraguay . . . . .	...	...	...	40.1	19.1	12.9	10.2	12.0	15.6	11.5	14.8	6.8	1.6	4.5
Peru	22.6	21.7	17.2	17.7	16.3	15.9	15.4	11.3	12.6	7.4	7.5	10.8	11.9	15.5
Uruguay	108.7	86.7	87.7	97.1	139.6	117.0	131.7	99.7	77.5	113.7	105.1	74.7	78.3	76.9
Subtotal I	44.7	38.0	31.7	29.7	34.1	33.6	30.9	28.5	27.1	25.2	22.8	23.6	22.3	24.0
Venezuela	33.4	35.8	28.0	25.5	27.2	26.9	24.2	22.1	27.3	51.9	39.4	32.0	26.1	25.5
Subtotal II	42.5	37.7	31.1	29.0	32.7	32.2	29.5	27.0	27.2	32.4	27.2	25.3	23.1	24.3
Cuba	55.6	47.2	47.7	57.8	65.9	69.6	62.1	59.5	46.4	43.6	44.0	...	...	...
TOTAL	43.7	38.6	32.6	31.6	35.4	34.9	31.9	29.5	28.7	33.4	28.5	...	...	...

SOURCES: IMF, *International Financial Statistics*, supplement to 1962/63 issue, various 1964 issues, and annex II.

^a Gross monetary reserves (official gold reserves plus the foreign liquid assets of the monetary authorities) at the end of each year, as reported in *International Financial Statistics*, have been calculated as a percentage

of the expenditure on current account for the following year reported in the *Balance of Payments Yearbook* and reproduced in annex II.

^b Preliminary figures.

^c There is no central bank in Panama, so the figures represented the foreign assets of the commercial banks calculated as a percentage of expenditure on current account.

Table 136 shows the relations existing between the gross monetary reserves of various countries at the close of each year (from 1948 onwards), as given in *International Financial Statistics*, and their current foreign exchange expenditure during the following year, as entered in the *Balance of Payments Yearbook* (gross percentages of imports of goods and services covered by monetary reserves).

The proportions of reserves to expenditure fluctuate sharply over the short term and differ very widely from one country to another. In five countries (Chile, Costa Rica, Haiti, Nicaragua and Peru) the ratio was invariably less than 25 per cent; in twelve (Argentina, Brazil, Bolivia, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama and Paraguay) it fluctuated between 50 and 10 per cent; only in three (Cuba, Uruguay and Venezuela) did it occasionally exceed 50 per cent. Despite these inter-country disparities, the general trend was towards a gradual reduction of the proportion of imports that could be covered with gross monetary reserves. In actual fact, in three countries only (Honduras, Mexico and Nicaragua) was this percentage higher in 1962 than in 1948; in all the rest it was lower, the most notable reduction being registered in Paraguay, Haiti, Bolivia, the Dominican Republic, El Salvador, Panama and Guatemala.

The same trend is observable in the region as a whole. The relation between gross monetary reserves and expenditures on current account, which was approximately 40 per cent in 1949, hovered around 30 per cent between 1951 and 1955, decreased in 1956 and 1957, increased in 1958 (32.4 per cent) and declined once more from that year onwards, standing at only 25 per cent at the close of the period. The downward movement during the second half of the decade appears more continuous if Venezuela is excluded from the regional total, since that country was the only one to enjoy a substantial increase in its gold and foreign exchange reserves in 1956, and especially in 1957. To sum up, the proportion of the region's expenditure on current account that could have been financed by recourse to total gross monetary reserves may be estimated at approximately 40 per cent at the close of the forties and 25 per cent at the end of the fifties.

Furthermore, the downward fluctuations were smoothed out to some extent because many countries, in order

Table 137. Latin America: relationship between net monetary reserves and expenditure on current account in selected countries, 1951-62^a

Year	Argentina	Brazil	Chile	Haiti	Uruguay
1951	31.3	...	...	14.7	87.7
1952	13.2	...	...	19.9	95.6
1953	b	30.3	...	22.5	106.0
1954	25.6	30.2	...	11.5	96.9
1955	18.4	29.2	...	18.3	106.0
1956	5.4	23.9	3.6	10.7	76.6
1957	3.4	25.2	0.4	10.6	71.8
1958	b	21.9	3.9	1.2	52.9
1959	b	17.3	b	9.4	67.4
1960	0.3	12.8	6.2	9.4	41.6
1961	10.0	2.0	b	9.3	31.8
1962 ^c	b	19.3	b	6.1	18.4

SOURCE: As for table 136.

^a Available net assets of the monetary authorities at the end of each year, as reported in *International Financial Statistics*, have been calculated as a percentage of the expenditure on current account for the following year as reported in the *Balance of Payments Yearbook*.

^b Net liabilities outstanding.

^c Preliminary figures.

to keep their gold and foreign exchange reserves at acceptable minimum levels, added to their short-term external commitments or drew out large sums against the International Monetary Fund during recent years. The situation indicated in table 137, which shows the relations between imports of goods and services and net monetary reserves in some Latin American countries is therefore more unfavorable than that presented in table 136. The proportion of current expenditure represented by net monetary reserves underwent marked reductions in Brazil (from 30.3 per cent in 1953 to 19.3 per cent in 1962), Haiti (from 14.7 per cent in 1951 to 6.1 per cent in 1962) and Uruguay (from 87.7 per cent in 1951 to 18.4 per cent in 1962). No such relationship existed in Argentina and Chile, where the figures for net reserves were negative in 1962.

Obviously, then, in order to maintain gold and foreign exchange reserves which would cover a specific proportion of their foreign exchange expenditure, many Latin American countries had to resort to heavy short-term borrowing, with the consequent cramping effects on their freedom of action.

E. CONCLUSION

As a general rule, the fluctuations of autonomous external capital inflows had compensatory effects, since it often happened that these inflows increased when the current deficit did so, and decreased when the reverse was the case. On the other hand, the fluctuations in question intensified the variations in foreign exchange receipts on current account. Consequently, the region's external payments were balanced over the short term only by virtue of the fact that imports of goods and services increased more rapidly than exports in periods when external sales expanded, and were drastically curtailed when sales abroad declined.

This method of adjusting the balance of payments is intrinsically undesirable for the Latin American countries. It implies sharp fluctuations in the level of imports, with all the ensuing unfavourable repercussions on the economic development process. Moreover, it is tending to work less and less efficiently at a time when monetary reserves have reached so low a level that there is scant possibility of the monetary authorities' being able to use them for the purpose of maintaining a minimum level of imports in periods when the external payments situation is critical.

STATISTICAL SUPPLEMENT

Table 138. Latin America (excluding Cuba): basic series for the study of short-term fluctuations in external payments, 1946-62

(Millions of dollars)

Year	Foreign exchange earnings on current account	Balance on current account	Net movements of autonomous foreign funds	Net movements of autonomous domestic funds (including net errors and omissions)
1946.	4,638.6	436.0	-99.0	-378.9
1947.	5,859.4	-965.5	410.3	-170.1
1948.	6,526.1	-359.5	-178.7	-21.9
1949.	5,500.3	-494.6	481.9	75.0
1950.	6,613.7	322.1	190.9	-141.0
1951.	7,852.3	-1,052.1	468.4	-112.0
1952.	7,259.9	-1,310.6	649.2	46.3
1953.	7,893.3	85.5	528.0	-191.1
1954.	8,349.9	-384.1	610.7	-347.4
1955.	8,670.5	-426.5	548.3	-83.5
1956.	9,406.3	-534.6	1,713.5	-494.6
1957.	9,784.6	-1,860.6	2,002.4	17.7
1958.	9,190.5	-1,231.1	838.1	-509.5
1959.	9,347.8	-694.4	780.5	-215.9
1960.	9,846.1	-986.3	1,133.4	-768.8
1961.	10,054.5	-1,066.5	1,527.9	-843.7
1962 ^a	10,442.7	-663.7	1,330.6	-1,232.0

^a Preliminary figures.

SOURCES : Annexes I and II.

DEFINITIONS :

Tables 138 to 140, which constitute the present supplement, reproduce four basic series for the study of the short term fluctuations in Latin America's external payments, namely :

(a) Foreign exchange earnings on current account

This series corresponds to items A.1 and A.2 in annex I (credit entries). It covers receipts entered under the head of goods, services and private donations in the Latin American balances of payments.

(b) Balances on current account

This series corresponds to items A.1 and A.2 in annex I (balances). It covers the balance of all operations entered under the head of goods, services and private donations in the Latin American balances of payments.

(c) Net autonomous foreign capital movements

This series corresponds to items B.1 (balances), B.2.11 (balances), B.3.1 (balances) and part of item B.4 (balances) in annex II. It covers net autonomous foreign capital inflows over the short and long terms. The data taken from B.2.12 (balances) were adjusted to include credit entries constituting the counterpart of Argentine imports without official foreign exchange backing. The data taken from item B.3.1 (balances) were adjusted to exclude foreign loan receipts registered retroactively

Table 139. Latin America (excluding Cuba and Venezuela): basic series for the study of short-term fluctuations in external payments, 1946-62

(Millions of dollars)

Year	Foreign exchange earnings on current account	Balance on current account	Net movements of autonomous foreign funds	Net movements of autonomous domestic funds (including net errors and omissions)
1946.	4,109.3	453.0	-199.4	-319.2
1947.	5,144.3	-728.7	138.4	-141.4
1948.	5,399.8	-230.6	-518.2	60.1
1949.	4,503.1	-359.7	180.2	180.8
1950.	5,415.3	310.4	166.4	-22.8
1951.	6,466.3	-1,106.6	470.5	-64.3
1952.	5,758.8	-1,350.8	-485.4	180.1
1953.	6,320.1	109.1	366.8	-97.5
1954.	6,619.6	-341.3	560.2	-337.3
1955.	6,697.8	-436.0	534.7	-110.1
1956.	7,098.0	-465.1	1,079.0	-346.5
1957.	6,901.2	-1,292.1	977.4	-29.3
1958.	6,560.0	-1,077.5	1,117.7	-546.8
1959.	6,813.0	-565.8	982.1	-201.2
1960.	7,260.7	-1,377.0	1,445.8	-380.5
1961.	7,472.4	-1,513.9	1,632.5	-507.5
1962 ^a	7,807.7	-663.7	1,566.4	-992.1

^a Preliminary figures.

in Venezuela's balance of payments (credits amounting to 256 million dollars in 1956, 498 million in 1957 and 75 million in 1958). The data taken from item B.4 (balances) were adjusted to exclude net variations in Argentina's short term private non-monetary commitments since 1955. The reasons for this adjustment are explained in tables 81 to 88.

(d) Net autonomous domestic capital movements (including net errors and omissions)

This series corresponds to items B.2.2. (balances), B.3.2 (balances), part of item B.4 (balances) and item C in annex II. It covers net domestic capital movements, including net errors and omissions. These movements may be estimated to represent essentially domestic capital flows not entered under other balance-of-payments headings. The data taken from item B.2.2 (balances) were adjusted to exclude credit entries constituting the counterpart of Argentine imports without official foreign exchange backing. The data taken from a part of item B.4 were adjusted to exclude net variations in Argentina's short-term private non-monetary assets since 1955. The data taken from item C (net errors and omissions) were adjusted to include net variations in private non-monetary assets and liabilities since 1955, and to exclude debit entries constituting the counterpart of certain receipts under the head of large external loans registered retroactively in the balance of payments of Argentina and Venezuela. The reasons for these adjustments are explained in tables 81 to 88.

Table 140. Latin America (excluding Cuba): basic series for the study of short-term fluctuations in external payments, by country, 1946-62

(Millions of dollars)

Year	Argentina				Bolivia				Brazil				Chile			
	Foreign exchange earnings on current account	Balance on current account	Net movements of autonomous foreign funds	Net movements of autonomous domestic funds (including net errors and omissions)	Foreign exchange earnings on current account	Balance on current account	Net movements of autonomous foreign funds	Net movements of autonomous domestic funds (including net errors and omissions)	Foreign exchange earnings on current account	Balance on current account	Net movements of autonomous foreign funds	Net movements of autonomous domestic funds (including net errors and omissions)	Foreign exchange earnings on current account	Balance on current account	Net movements of autonomous foreign funds	Net movements of autonomous domestic funds (including net errors and omissions)
1946	1,252.7	425.1	-328.2	-25.7	81.9	-7.6	1.1	4.8	981.0	282.8	-11.3	-262.1	265.6	-30.4	-12.0	-2.8
1947	1,717.6	-29.2	-152.2	-113.7	77.4	-12.2	9.9	5.8	1,237.0	-171.0	34.0	-55.0	317.5	-47.9	25.9	-7.3
1948	1,692.0	54.3	-611.0	-0.8	104.4	-7.8	1.5	7.3	1,254.0	-53.0	-17.8	54.8	373.1	-7.4	16.7	1.0
1949	978.0	-138.0	8.8	88.6	92.5	-18.2	1.6	13.6	1,167.0	-117.0	28.4	73.6	299.6	-86.3	68.3	18.0
1950	1,190.2	112.2	7.0	19.4	81.4	-0.5	14.5	-15.0	1,404.0	105.0	-28.0	-60.0	331.3	-12.7	-2.1	13.8
1951	1,267.7	-355.8	116.2	-126.2	126.3	3.4	11.3	-4.9	1,834.0	-472.0	42.0	92.0	419.5	-45.8	33.8	2.6
1952	806.7	-470.9	53.1	229.3	98.2	-9.0	5.8	4.8	1,486.0	-712.0	96.0	27.0	512.4	15.7	19.3	-25.8
1953	1,203.2	306.8	41.3	5.3	67.0	-24.7	-11.4	12.3	1,659.0	15.0	83.0	-71.0	382.6	-61.3	73.9	-22.3
1954	1,137.2	59.3	28.7	-88.1	75.4	-17.2	23.0	2.8	1,673.0	-237.0	147.0	11.0	446.4	-1.3	-18.1	8.8
1955	1,071.2	-241.5	38.0	28.0	85.4	-22.2	35.8	-16.6	1,551.0	-38.0	110.0	28.0	538.3	22.7	9.2	9.9
1956	1,100.3	-131.1	161.2	263.0	87.0	-20.2	51.6	-51.7	1,644.0	-2.0	335.0	-123.0	526.7	-23.9	38.4	-12.1
1957	1,114.9	-302.7	75.9	87.1	79.3	-31.7	20.5	15.8	1,603.0	-312.0	329.0	-109.0	444.8	-108.0	72.6	-27.8
1958	1,094.9	-259.4	197.5	-152.3	56.9	-35.7	33.0	-0.2	1,421.0	-276.0	265.0	-171.0	429.3	-97.5	55.9	13.7
1959	1,149.2	10.5	266.8	-156.2	65.7	-22.4	42.6	-17.9	1,447.0	-347.0	256.0	15.0	499.6	-36.9	78.5	14.8
1960	1,271.0	-204.9	650.3	-248.2	58.1	-26.8	31.7	-9.3	1,456.0	-551.0	284.0	-52.0	565.3	-155.3	76.5	33.7
1961	1,201.3	-584.4	361.8	114.5	64.7	-27.6	36.5	-6.3	1,539.0	-292.0	424.0	-69.0	527.2	-279.6	200.6	-32.4
1962 ^a	1,393.0	-272.8	308.6	-325.9	68.8	-43.5	56.4	-17.0	1,311.0	-423.0	306.0	-99.0	574.6	-157.3	255.6	-124.4
	Colombia				Costa Rica				Dominican Republic				Ecuador			
1946	228.3	-42.9	52.0	-12.1	26.5	-11.7	7.3	0.8	73.3	18.7	-0.6	-16.6	44.1	-1.8	8.1	-1.6
1947	285.5	-121.9	35.9	15.1	37.2	-15.6	19.9	-1.8	90.0	2.7	-10.1	2.6	49.0	-16.6	8.4	-0.7
1948	322.7	-63.1	21.6	12.8	49.0	-5.9	-5.3	11.0	88.7	-7.4	-0.1	3.9	56.0	-6.9	9.3	-1.4
1949	360.6	14.1	6.7	13.0	52.3	-6.5	15.4	-6.6	79.6	6.0	-0.1	-5.8	46.5	-19.5	9.4	-1.8
1950	432.2	13.5	29.4	21.9	67.4	2.3	-9.4	6.1	90.8	19.2	1.6	-16.5	85.8	19.4	4.2	-3.1
1951	520.7	4.3	18.6	-1.5	71.8	0.3	-5.0	9.2	131.6	6.2	9.0	-4.9	77.2	-0.3	4.3	-11.3
1952	523.0	29.1	58.2	-56.0	83.0	-5.8	2.7	9.5	128.2	-5.5	2.1	5.9	115.2	19.1	4.7	-11.2
1953	665.7	14.0	35.4	-20.3	92.3	-1.1	2.0	2.2	119.1	2.8	-11.1	4.3	106.6	-1.8	8.1	-12.8
1954	715.8	42.8	144.6	-63.3	98.9	0.1	3.9	-6.5	132.6	21.3	6.4	-20.1	140.9	-16.3	15.6	1.7
1955	643.0	-126.9	51.3	-35.1	95.1	-7.8	16.0	-4.8	131.2	-10.9	0.2	4.1	126.1	-22.0	13.6	-2.7
1956	735.5	-12.6	37.1	-331.5	82.1	-18.5	10.3	0.4	141.6	-6.5	4.4	-0.5	130.0	-23.3	26.2	-1.1
1957	683.4	79.9	-5.8	-14.8	100.6	-18.7	11.3	8.4	182.5	20.3	-1.0	-20.2	147.8	-6.3	11.4	-1.5
1958	618.6	61.5	-15.2	13.2	111.0	-7.7	10.3	5.2	154.7	-13.9	43.4	-34.7	148.5	-10.9	8.5	4.5
1959	612.1	60.8	22.8	5.8	94.2	-25.0	16.3	3.7	151.6	-6.3	24.7	-24.1	153.5	-3.4	12.2	-2.0
1960	594.1	-84.5	10.3	-12.9	104.5	-20.6	10.9	-1.5	180.4	48.5	-21.7	-27.4	157.9	-17.7	22.9	-6.8
1961	581.2	-141.8	84.2	-52.9	104.0	-17.7	11.0	-4.5	152.5	40.8	-24.3	-33.0	143.2	-23.4	26.1	-16.1
1962 ^a	599.4	-119.1	101.9	-10.3	111.7	-22.7	20.7	7.0	195.4	12.4	34.0	-33.7	151.9	-26.4	31.3	6.7
	El Salvador				Guatemala				Haiti				Honduras			
1946	28.0	3.1	-0.3	-2.4	54.1	7.6	4.0	-4.4	22.8	6.9	...	-6.9	36.0	-5.9	6.1	-0.5
1947	44.6	2.6	-0.4	-4.4	69.3	5.1	3.6	-5.0	31.3	2.9	...	0.7	45.7	-10.1	5.6	2.7
1948	49.3	1.4	0.5	-1.5	72.0	-7.3	5.0	-4.0	30.9	-2.4	...	2.3	57.1	-3.6	6.6	-2.6

1981

1949	61.5	15.5	0.2	-4.9	67.4	-5.7	4.6	-8.9	31.0	-1.4	...	2.7	61.5	-4.6	6.0	-1.2
1950	74.7	13.8	-0.5	-9.6	83.8	—	1.4	-0.6	42.2	-1.9	3.9	0.2	62.3	-0.6	-0.5	7.7
1951	90.0	8.5	4.3	-11.6	87.7	-0.3	-3.3	7.0	54.0	0.4	6.9	-5.6	71.8	-3.2	12.7	0.1
1952	93.9	7.9	3.3	-10.2	93.6	-5.6	-3.1	-6.9	57.5	-1.8	5.3	-0.2	70.2	-9.8	16.8	-5.4
1953	100.7	8.0	4.8	-12.9	98.1	12.2	-0.6	-11.2	44.3	-12.5	12.1	-5.2	75.3	-5.6	9.3	-2.9
1954	112.5	8.0	3.0	-10.1	105.1	11.6	0.3	-4.5	62.6	5.3	7.7	-8.7	60.0	-0.1	2.7	-1.6
1955	115.8	1.3	-6.0	-2.4	111.1	1.1	18.9	0.2	46.0	-17.2	15.0	-2.3	57.9	-7.9	4.4	-0.9
1956	133.4	4.7	5.3	-12.1	132.3	-5.6	37.7	0.6	60.8	-2.5	11.4	-10.6	80.1	-7.0	1.6	3.3
1957	140.3	1.5	8.9	-2.3	129.6	-24.7	47.7	-3.3	44.5	-3.4	2.5	3.4	74.5	-14.8	8.2	4.6
1958	128.4	1.0	0.6	-4.7	123.3	-40.0	37.2	-11.6	53.5	2.2	6.7	-8.9	78.0	-10.2	1.5	4.2
1959	124.3	-0.1	-3.5	-4.6	122.1	-50.1	36.6	-8.1	41.9	3.9	12.8	-18.3	77.4	-2.5	4.5	-0.4
1960	118.0	-28.4	1.1	3.0	133.8	-35.1	34.8	-1.8	57.0	4.1	11.2	-12.8	73.0	2.4	0.6	-2.0
1961	132.5	-1.9	12.2	-14.9	130.9	-28.5	33.5	-7.1	48.6	-4.9	18.1	-10.5	80.6	0.1	2.3	-4.6
1962 ^a	154.7	0.1	16.1	-7.2	132.1	-35.2	22.1	-0.4	56.7	-1.9	4.8	-7.6	85.7	-6.9	6.1	0.7

	<i>Mexico</i>				<i>Nicaragua</i>				<i>Panama</i>				<i>Paraguay</i>			
1946	552.9	-168.6	44.2	2.7	20.2	-3.0	2.8	-1.1	69.0	-6.2	-0.7	0.9	29.7	-2.9	3.1	1.0
1947	663.5	-212.6	92.2	-3.4	25.0	-5.3	4.1	1.6	64.2	-34.4	27.3	7.1	27.2	-8.2	2.5	2.5
1948	688.4	-76.5	26.8	-11.1	30.9	-4.1	1.3	0.2	84.7	-15.1	14.5	0.6	31.3	-4.3	-2.0	0.2
1949	636.2	10.1	42.7	-10.8	28.2	-3.6	0.4	4.0	90.4	-12.3	5.9	6.4	29.8	-2.5	0.8	0.1
1950	804.3	33.2	131.3	42.9	38.2	-0.5	0.5	-1.9	81.9	-17.0	-1.1	18.1	35.3	8.6	-0.5	1.1
1951	982.1	-123.9	146.4	-22.6	50.0	6.1	-1.3	1.4	84.1	-21.6	21.3	0.3	45.4	8.0	-2.3	-0.1
1952	975.3	-102.7	80.3	7.5	55.5	0.3	6.4	-0.7	96.2	-23.8	0.3	23.5	97.5	-6.8	7.2	-3.2
1953	939.7	20.1	43.8	44.6	59.1	-3.3	11.5	-6.9	103.2	-15.9	7.1	8.8	34.2	-5.3	6.7	-4.7
1954	1,056.7	-33.5	154.1	-161.1	67.7	-11.9	8.4	0.5	124.0	-19.0	0.1	18.9	40.0	-5.3	0.7	-1.7
1955	1,333.9	147.5	163.5	-80.2	91.7	0.6	3.4	-2.6	136.7	-13.3	-2.4	15.7	40.9	-1.8	6.8	-2.5
1956	1,395.6	-52.7	207.1	-83.0	79.1	-8.9	3.5	-1.9	138.7	-23.1	20.0	3.1	38.3	-7.9	5.9	6.2
1957	1,339.3	-221.6	219.5	-33.8	87.7	-10.7	17.3	-4.2	149.9	-39.1	11.9	27.2	42.2	-9.3	4.6	1.8
1958	1,347.4	-205.2	282.6	-156.8	87.6	-13.2	11.2	0.1	148.7	-31.3	38.6	-7.3	43.2	-12.7	10.8	2.5
1959	1,442.6	-49.5	147.3	-35.8	91.2	4.8	0.7	-0.9	174.7	-33.1	23.8	9.3	42.6	-7.2	9.2	-3.8
1960	1,506.6	-182.4	144.0	-25.5	79.6	-10.2	9.9	-3.8	174.8	-54.3	46.7	7.6	44.3	-13.8	12.4	-1.4
1961	1,604.1	-91.4	347.6	-301.1	85.1	-7.0	13.4	-10.5	206.8	-45.6	26.5	19.1	51.9	-10.7	15.7	-1.9
1962 ^a	1,807.8	63.5	264.2	-319.2	105.2	-11.4	16.5	—	173.3	-35.7	24.0	11.7	47.3	-7.6	14.0	-7.0

	<i>Peru</i>				<i>Uruguay</i>				<i>Venezuela</i>			
1946	150.8	-21.8	15.4	-1.4	192.4	11.6	9.6	1.6	529.3	-17.0	100.4	-59.1
1947	180.5	-18.4	15.8	8.8	211.0	-39.2	20.6	—	715.1	-236.8	271.9	-28.7
1948	188.0	-8.3	8.7	-8.2	227.3	-113.2	6.3	-4.4	1,126.3	-128.9	339.5	-82.0
1949	190.9	1.7	4.8	-1.0	230.2	8.5	22.4	1.9	997.2	-134.9	301.7	-105.8
1950	212.6	-5.3	9.1	-1.5	296.8	47.7	5.6	-2.0	1,198.4	11.7	24.5	-118.2
1951	276.2	-36.2	34.1	8.6	276.2	-79.4	11.7	3.2	1,385.0	54.4	-2.1	-47.7
1952	287.7	-50.7	66.8	-17.7	238.7	-36.3	60.2	9.9	1,501.1	40.2	163.8	-133.8
1953	272.6	-65.7	52.3	-2.9	297.4	68.2	-1.4	-1.9	1,573.2	-23.6	161.2	-93.6
1954	291.2	-16.5	33.7	-10.5	278.9	-35.6	-1.6	-4.7	1,730.3	-42.8	50.5	-10.1
1955	322.9	-39.8	59.6	-23.6	199.6	-53.2	-2.6	-22.3	1,972.7	9.5	13.6	26.6
1956	365.6	-96.0	98.6	-42.3	226.9	-8.9	7.3	22.1	2,308.3	-69.5	634.5	-148.1
1957	381.5	-149.8	128.1	-11.8	155.4	-125.7	16.4	59.7	2,883.4	-568.5	1,025.0	47.0
1958	347.4	-111.8	111.6	-12.2	167.6	-6.6	23.0	-30.5	2,630.5	-153.6	-279.6	37.3
1959	381.6	-33.5	39.7	10.1	141.7	-43.8	2.6	14.0	2,534.8	-128.6	-201.6	-14.7
1960	511.1	29.2	4.2	-1.0	175.2	-81.6	48.5	5.2	2,585.4	390.7	-320.7	-388.3
1961	596.4	18.2	28.9	-12.8	222.4	-16.5	-1.1	-37.6	2,582.1	447.4	-104.6	-236.2
1962 ^a	636.7	-21.3	64.8	-37.3	202.4	-64.0	19.3	-29.2	2,635.0	509.1	-235.8	-239.9

^a Preliminary figures.

Chapter VIII

THE LONG-TERM EFFECTS OF AUTONOMOUS CAPITAL MOVEMENTS ON LATIN AMERICA'S EXTERNAL PAYMENTS

A. EVOLUTION OF LATIN AMERICA'S CAPACITY TO IMPORT SINCE THE END OF THE SECOND WORLD WAR

The concept of the capacity to import, in its broadest sense, covers the foreign exchange resources that a given country has at its disposal every year for financing its imports without recourse to its net monetary reserves or to extraordinary compensatory financing. However, a distinction has to be drawn between the current capacity to import and the total capacity to import.¹

The current capacity to import is equivalent to the f.o.b. value of exports plus the net balance of service payments (i.e., net external factor payments) and of other services entered in the balance on current account (freight, insurance, other transportation, the tourist industry, government transactions not entered on capital account, etc.), to which may be added, for the reasons set forth above, net private donations. This first concept might be more accurately described as the capacity to import and to repay foreign loans.

The total capacity to import is equivalent to the current capacity to import plus the net balance of autonomous movements of both foreign and national funds. The figures thus obtained have to be adjusted by subtracting the payments in respect of amortization of deferred import payments and extraordinary compensatory financing, in so far as such repayments were not promptly refinanced by new balance-of-payments loans.

The figures arrived at on the basis of data obtained from balances of payments prepared by IMF measure the capacity to import goods f.o.b., since freight and insurance payments on imported goods are entered as a service outflow on current account.

Tables 141-146 present the figures for Latin America's total capacity to import, as defined above, by year, and also by country and by quinquennium, between the end of the Second World War and 1962. The following general comments are based on those estimates.

1. GROWTH OF THE TOTAL CAPACITY TO IMPORT

The total capacity to import, despite sharp short-term fluctuations which reflect the instability of export

resources and of autonomous capital inflows, has followed an upward trend since the end of the Second World War (see table 147 and figures XVII and XVIII). The growth rate was substantial if account is taken of figures for 1946 and 1962, since the cumulative annual rate of increase during the post-war period averages 4.9 per cent for the region as a whole, excluding Cuba, for which data are not available from 1959 onwards. Naturally, progress seems slower if a comparison is made between the annual average capacity to import attained in 1946-50 and 1951-55, but even so the cumulative increase is appreciable (3.7 per cent annually for Latin America as a whole, excluding Cuba, and 4.2 per cent if Venezuela is excluded as well). The upward trend over the long term was common to the whole region, as in only one Latin American country (Uruguay) did the capacity to import decline during the fifties. However, the cumulative annual rates of increase differed widely from country to country, ranging from a maximum annual average of 11.1 per cent in Nicaragua to a minimum of 1.4 per cent in Argentina.

It should be noted that this analysis is based on figures expressed in dollars at current prices, without adjustments to allow for variations in the purchasing power of that currency.

2. SLACKENING OF THE GROWTH RATE OF THE TOTAL CAPACITY TO IMPORT

The rate of growth of the total capacity to import, expressed in dollars at current prices, has declined since the mid-fifties (see again table 147). The cumulative rate of increase of the capacity to import, which had reached an annual average of 6.9 per cent between 1946-50 and 1951-55, dropped to 3.1 per cent between 1951-55 and 1956-60 for the region as a whole, excluding Cuba. The same downward trend is apparent if the figures for Venezuela are also excluded, as the annual average rate of increase of the country's capacity to import was only 1.8 per cent between 1951-55 and 1956-60, compared with 6.6 per cent between 1946-50 and 1951-55.

This state of affairs was almost universal. The growth of the capacity to import slackened off after 1955 in ten countries (Chile, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico,

¹ These two concepts have been used in earlier ECLA studies (see *Economic Survey of Latin America, 1957*, United Nations publication, Sales No.: 58.II.G.1, part I, ch. IV, p. 65; and *Economic Survey of Latin America, 1958*, United Nations publication, Sales No.: 59.II.G.1, part I, ch. III, p. 40).

(Millions of dollars)

Year	Official donations and non-compensatory capital														
	Foreign capital														
	Long-term capital														
	Exports f.o.b. ^a	Investment income		Other services and private donations (net) ^d	Current capacity to import goods and repay loans (1+2+ +3+4)	Official donations, net direct investment and gross disbursements of loans ^e	Loan repayments ^f	Total (6+7)	Short-term capital ^g	Total (8+9)	Domestic capital and net errors and omissions ^h	Total (10+11)	Total capacity to import goods f.o.b. (5+12)	Amortization of balance- of-payments loans and deferred import payments ⁱ	Total adjusted (13+14)
(1)	Direct investment ^b	Other ^c	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
1946	4,200.5	-357.1	-158.5	-214.3	3,470.6	194.1	-321.1	-127.0	28.0	-99.0	-378.9	-477.9	2,992.7	—	2,992.7
1947	5,330.6	-536.6	-125.0	-551.7	4,117.3	602.9	-235.2	367.7	42.6	410.3	-170.1	240.2	4,357.5	—	4,357.5
1948	5,952.6	-765.8	-60.7	-529.7	4,596.4	578.5	-778.7	-200.2	21.5	-172.7	-21.9	-200.6	4,395.8	-20.0	4,375.8
1949	4,944.2	-520.9	-67.1	-429.1	3,927.1	617.7	-142.7	475.0	6.9	481.9	75.0	556.9	4,484.0	-60.0	4,424.0
1950	6,042.5	-721.7	-65.3	-500.9	4,754.6	293.7	-185.9	108.7	82.2	190.9	-141.0	49.9	4,804.5	-141.0	4,663.5
1951	7,095.3	-882.0	-69.2	-836.7	5,307.4	590.0	-162.0	428.0	40.4	468.4	-112.0	356.4	5,663.8	-2.6	5,661.2
1952	6,428.4	-837.8	-75.5	-675.3	4,839.8	796.2	-138.5	657.7	-8.5	649.2	46.3	695.5	5,535.3	-5.1	5,531.6
1953	6,992.5	-788.7	-106.8	-593.4	5,503.6	667.4	-161.1	506.3	21.7	528.0	-191.1	336.9	5,840.5	-99.4	5,441.1
1954	7,403.9	-790.6	-118.8	-705.4	5,789.1	695.9	-232.2	463.7	147.0	610.7	-347.4	263.3	6,052.4	151.2	5,901.2
1955	7,548.6	-934.3	-113.3	-777.2	5,726.8	768.4	-309.7	458.7	89.6	548.3	-83.5	464.8	6,191.6	-77.3	6,114.3
1956	8,111.5	-1,169.9	-137.6	-848.8	5,955.2	1,793.1	-351.4	1,441.6	271.9	1,713.5	-494.6	1,218.9	7,174.1	-75.9	7,098.2
1957	8,314.4	-1,377.2	-149.0	-961.4	5,826.8	2,731.8	-467.9	1,879.0	123.4	2,002.4	17.7	2,020.1	7,846.9	-142.9	7,536.0
1958	7,779.3	-1,011.2	-164.5	-690.2	5,913.4	1,695.0	-970.1	724.9	113.2	838.1	-509.5	328.6	6,242.0	-130.8	6,086.0
1959	7,765.5	-886.4	-233.2	-632.6	6,013.3	1,804.1	-1,039.1	765.0	15.5	780.5	-215.9	564.6	6,577.9	-132.7	6,445.2
1960	8,106.5	-931.1	-264.7	-705.0	6,205.7	1,871.2	-989.0	882.2	251.2	1,133.4	-768.8	364.6	6,570.3	-186.1	6,384.2
Average															
1946-50	5,294.1	-580.4	-95.3	-445.2	4,173.2	457.4	-332.5	124.9	36.2	161.1	-127.4	33.7	4,206.9	-44.2	4,162.7
1951-55	7,091.7	-846.1	-96.7	-715.6	5,433.3	703.6	-200.7	502.9	58.0	560.9	-137.5	423.4	5,856.7	-67.1	5,789.6
1956-60	8,015.4	-1,075.2	-189.8	-767.5	5,982.9	1,902.1	-763.5	1,138.6	155.0	1,293.6	-394.2	899.4	6,882.3	-133.6	6,748.7
1961	2,248.2	-1,080.0	-319.6	-506.5	6,342.1	2,277.6	-975.3	1,302.3	225.6	1,527.9	-843.7	684.2	7,026.3	-228.4	6,797.9
1962 ⁱ	8,570.5	-1,011.2	-332.1	-468.8	-6,758.4	...	...	1,154.6	176.0	1,330.6	-1,232.0	98.6	6,857.0	-116.4	6,740.6

SOURCES: Annex I and II.

^a Corresponds to items A.1.1 (debit) and A.1.2 (debit) of annex I, and covers imports f.o.b., including non-monetary gold.

^b Corresponds to item A.15.1 (debit) of annex I and covers the earnings of direct investment enterprises in Latin America, including reinvested earnings. The losses sustained by these enterprises in some countries are not deducted from the earnings.

^c Corresponds to item A.15.2 (debit) of annex I and covers interest paid by Latin American residents on short and long-term liabilities to foreigners.

^d Corresponds to items A.1.3 (balance), A.1.4 (balance), A.15.1 (credit), A.1.6 (balance), and A.2 (balance) of annex I. It covers the net balance of freight, insurance and other transport, foreign travel, other services on current account and private donations. It also includes as a credit small amounts representing the earnings of Latin American direct investment enterprises abroad and the interest paid by foreigners on short and long-term liabilities to Latin American residents.

^e Corresponds to items B.1 (balance), B.2.11 (balance), B.2.12 (credit), and B.3.1 (credit) of annex II. It covers the gross inflow of non-compensatory long-term foreign funds into the region, i.e., net inflow of official donations and direct investment plus the gross disbursement of long-term loans (other than balance-of-payments loans) granted to Latin American private and official sectors. The data proceeding from item B.2.12 (credit) have been adjusted in order to include credit entries which are the counterpart of imports without official exchange coverage in Argentina. The figures in item B.3.1 (credit) have been adjusted to exclude receipts of foreign credits entered retroactively in the Venezuelan balance of payments (credits of 256 million dollars in 1956, 498 million in 1957, and 75 million in 1958). (See tables 81-88.)

^f Corresponds to items B.2.12 (debit) and B.3.1 (debit) of annex II. It covers reimbursements of long-term loans (other than balance-of-payments loans) granted to Latin American private and official sectors.

^g Corresponds partly to item B.4 of annex II. It covers net changes in short-term liabilities of the non-monetary private sector, the monetary private sector (commercial banks) and the non-monetary official sector of Latin American countries to foreign countries. The figures in item B.4 have been adjusted to exclude net changes in Argentina's non-monetary private short-term liabilities from 1955 onwards (see tables 81-88).

^h Corresponds to items B.2.2 (balance), B.3.2 (balance), B.4 (part of balance) and C of annex II. It covers net movements of domestic funds, including net errors and omissions which can be taken as corresponding mainly to net movements of domestic funds not recorded under other items of the balance of payments. The figures in item B.2.2 (balance) have been adjusted to exclude credit entries which are the counterpart of imports without official exchange coverage in Argentina. The figures in part of item B.4 cover net changes in short-term assets of the non-monetary private sector, the monetary private sector (commercial banks) and the non-monetary official sector of Latin American countries against foreign countries; they have been adjusted to exclude net changes in Argentina's non-monetary private short-term assets from 1955 onwards. The figures in item C (net errors and omissions) have been adjusted to include net changes in Argentina's non-monetary private short-term liabilities and assets from 1955 onwards, and to exclude debit entries which are the counterpart of certain receipts of substantial foreign credits entered retroactively in the balances of payments of Argentina and Venezuela (see again tables 81-88).

ⁱ Corresponds to items E.1 (debit) and E.2 (debit) of annex II. It covers reimbursements of deferred import payments and balance-of-payments loans as defined in the General Methodological Note. The data have been adjusted to exclude some large reimbursements of deferred import payments which were immediately refinanced by balance-of-payments loans (300 million dollars in 1953 in Brazil; 168 million in 1957 and 25.2 million in 1958 in Colombia).

^j Preliminary figures.

No sign means a net inflow of funds; a minus sign means a net outflow of funds.

Table 142. Latin America (excluding Cuba and Venezuela): capacity to import goods f.o.b., 1946-62

(Millions of dollars)

Year	Official donations and non-compensatory capital														
	Foreign capital														
	Long-term capital														
	Exports f.o.b. ^a (1)	Investment income		Other services and private donations (net) ^d	Current capacity to import goods and repay loans (1+2+ +3+4)	Official donations, net direct investment and gross disbursements of loans ^e	Loan repayments ^f	Total (6+7)	Short-term capital ^g	Total (8+9)	Domestic capital and net errors and omissions ^b	Total (10+11)	Total capacity to import goods f.o.b. (5+12)	Amortization of balance- of-payments loans and deferred import payments ⁱ	Total adjusted (13+14)
1946	3,625.0	-195.8	-158.5	-157.7	3,173.0	92.8	-320.2	-227.4	28.0	-199.4	-319.8	-519.2	2,653.8	—	2,653.8
1947	4,636.2	-257.9	-125.0	-470.1	3,783.2	334.7	-234.8	99.9	38.5	138.4	-141.4	-3.0	3,780.2	—	3,780.2
1948	4,846.4	-329.1	-60.7	-432.2	4,024.4	238.8	-778.5	-539.7	21.5	-518.2	60.1	-458.1	3,566.3	-20.0	3,546.3
1949	3,990.7	-261.3	-67.1	-286.4	3,375.9	316.0	-142.7	173.3	6.9	180.2	180.8	361.0	3,736.9	-60.0	3,676.9
1950	4,877.3	-329.1	-65.2	-350.5	4,132.5	276.8	-184.7	92.1	74.3	166.4	-22.8	143.6	4,276.1	-141.0	4,135.1
1951	5,748.4	-452.2	-69.1	-666.5	4,554.6	588.1	-161.4	426.7	43.8	470.5	-64.3	406.2	4,960.8	-2.6	4,958.2
1952	4,976.2	-325.9	-75.2	-496.3	4,018.8	636.2	-137.2	499.0	-13.6	485.4	180.1	665.5	4,684.3	-5.1	4,680.6
1953	5,478.0	-342.5	-106.8	-363.6	4,665.1	503.5	-160.7	342.8	24.0	366.8	-97.5	269.3	4,934.4	-99.4	4,535.0
1954	5,731.3	-297.3	-118.8	-437.5	4,877.7	657.7	-224.7	433.0	127.2	560.2	-337.3	222.9	5,100.6	-151.2	4,949.4
1955	5,645.0	-338.4	-113.3	-464.3	4,729.0	757.6	-306.4	451.2	83.5	534.7	-110.1	424.6	5,153.6	-77.3	5,076.3
1956	5,890.9	-397.2	-137.0	-501.8	4,854.9	1,196.6	-346.7	849.9	229.1	1,079.0	-346.5	732.5	5,587.4	-75.9	5,511.5
1957	5,550.2	-354.4	-148.8	-426.6	4,620.4	1,365.4	-462.1	903.3	74.1	977.4	-29.3	948.1	5,562.5	-142.9	5,257.6
1958	5,260.5	-369.4	-163.9	-198.9	4,528.3	1,603.0	-621.8	981.2	136.5	1,117.7	-546.8	570.9	5,099.2	-130.8	4,943.2
1959	5,372.0	-365.7	-231.5	-166.1	4,608.7	1,653.1	-653.4	999.7	-17.6	982.1	-201.2	780.9	5,389.6	-132.7	5,256.9
1960	5,653.0	-452.6	-264.4	-277.5	4,658.5	1,927.4	-745.2	1,182.2	263.6	1,445.8	-380.5	1,065.3	5,723.8	-186.1	5,537.7
<i>Average</i>															
1946-50	4,407.1	-274.6	-95.3	-339.4	3,697.8	251.9	-332.2	-80.3	33.8	-46.5	-48.7	-95.2	3,602.6	-44.2	3,558.4
1951-55	5,515.8	-364.5	-96.6	-485.7	4,569.0	628.6	-198.1	430.5	53.0	483.5	-85.8	397.7	4,966.7	-67.1	4,899.6
1956-60	5,545.3	-387.9	-189.1	-314.1	4,654.2	1,549.1	-565.8	982.3	137.1	1,120.4	-300.9	819.5	5,473.7	-133.7	5,340.0
1961	5,796.2	-519.3	-297.0	-193.0	4,786.9	2,213.3	-797.7	1,415.6	216.9	1,632.5	-507.5	1,125.0	5,911.9	-195.1	5,716.8
1962 ^j	6,053.0	-412.9	-310.9	-145.5	5,183.7	...	...	1,353.0	213.4	1,566.4	-992.1	574.3	5,758.0	-49.7	5,708.3

SOURCES: Annexes I and II.
^a to ⁱ See footnotes to table 141.

^j Preliminary figures.
 No sign means a net inflow of funds; a minus sign means a net outflow of funds.

Table 143. Latin America: capacity to import goods f.o.b., by country, 1946-50
(Millions of dollars)

Country	Official donations and non-compensatory capital														
	Foreign capital														
	Long-term capital														
	Exports f.o.b. ^a (1)	Investment income		Other services and private donations (net) ^d (4)	Current capacity to import goods and repay loans (1+2+ 3+4) ^e (5)	Official donations, net direct investment and gross disbursements of loans ^e (6)	Loan repayments ^f (7)	Total (6+7) ^e (8)	Short-term capital ^g (9)	Total (8+9) ^e (10)	Domestic capital and net errors and omissions ^b (11)	Total (10+11) ^e (12)	Total capacity to import goods f.o.b. (5+12) ^e (13)	Amortization of balance- of-payments loans and deferred import payments ⁱ (14)	Total adjusted (13+14) ^e (15)
	Direct Investment ^b (2)	Other ^c (3)													
Argentina	6,517.8	...	-240.2	-684.7	5,592.9	-113.8	-961.8	-1,075.6	—	-1,075.6	-31.6	-1,107.2	4,485.7	—	4,485.7
Bolivia	416.4	-46.9	-3.1	-83.2	283.2	27.2	-2.6	24.6	4.1	28.7	4.9	33.6	316.8	—	316.8
Brazil	5,780.0	-299.8	-99.0	-938.9	4,442.3	315.6	-328.9	-13.3	18.6	5.3	-248.7	-243.4	4,198.9	-184.0	4,014.9
Chile	1,448.1	-238.7	-39.5	-107.0	1,067.9	165.2	-68.1	97.1	-0.3	96.8	22.7	119.5	1,182.4	—	1,182.4
Colombia	1,523.4	-57.8	-19.8	-210.4	1,235.4	142.8	-37.2	105.6	40.0	145.6	21.9	167.5	1,402.9	—	1,402.9
Costa Rica	204.1	-35.0	-1.2	-14.5	153.4	22.3	-1.4	20.9	7.0	27.9	9.5	37.4	190.8	—	190.8
Dominican Republic	393.5	-75.2	-1.0	-42.6	274.7	4.8	-18.1	-13.3	4.0	-9.3	-32.4	-41.7	233.0	—	233.0
Ecuador	253.7	-14.4	-1.7	-54.2	183.4	41.5	-2.6	38.9	0.5	39.4	-9.7	29.7	213.1	—	213.1
El Salvador	237.5	-4.4	-2.5	-20.0	210.6	0.9	-3.3	-2.4	1.9	-0.5	-22.8	-23.3	187.3	—	187.3
Guatemala	326.4	-22.5	—	-31.7	272.2	19.2	-0.5	18.7	-0.1	18.6	-22.9	-4.3	267.9	—	267.9
Haiti	154.5	-4.4	-1.1	-12.9	136.1	6.0	-8.9	-2.9	—	-2.9	-1.0	-3.9	132.2	—	132.2
Honduras	260.3	-96.6	—	-27.9	135.8	25.5	-2.1	23.4	0.4	23.8	6.1	29.9	165.7	—	165.7
Mexico	2,286.2	-320.2	-40.0	574.2	2,500.2	410.9	-122.5	288.4	48.8	337.2	20.3	357.5	2,857.7	-37.0	2,820.7
Nicaragua	129.9	-23.4	-0.9	-15.3	90.3	14.1	-5.3	8.8	0.3	9.1	2.8	11.9	102.2	—	102.2
Panama	108.7	-48.7	-2.0	171.2	229.2	50.6	-18.0	32.6	13.3	45.9	39.1	85.0	314.2	—	314.2
Paraguay	147.8	-2.4	-1.6	-34.2	109.6	14.8	-10.9	3.9	—	3.9	4.9	8.8	118.4	—	118.4
Peru	841.0	-59.8	-4.4	-142.2	634.6	35.0	-10.0	25.0	28.8	53.8	-3.3	50.5	685.1	—	685.1
Uruguay	1,006.3	-23.0	-18.5	-22.6	942.2	76.5	-58.7	17.8	1.9	19.7	-2.9	16.8	959.0	—	959.0
Subtotal I	22,035.6	-1,373.2	-476.5	-1,696.9	18,489.0	1,259.1	-1,660.9	-401.8	169.2	-232.6	-243.1	475.7	18,013.3	-221.0	17,792.3
Venezuela	4,434.8	-1,528.9	-0.1	-528.8	2,377.0	1,027.8	-1.8	1,026.0	12.0	1,038.0	-393.8	644.2	3,021.2	—	3,021.2
Subtotal II	26,470.4	-2,902.1	-476.6	-2,225.7	20,866.0	2,286.9	-1,662.7	624.2	181.2	805.4	-636.9	168.5	21,034.5	-221.0	20,813.5
Cuba	3,292.0	-230.8	-36.6	-247.5	2,777.1	9.9	-34.4	-24.5	-28.9	-53.4	-134.2	-187.6	2,589.5	—	2,589.5
TOTAL	29,762.4	-3,132.9	-513.2	-2,473.2	23,643.1	2,296.8	-1,697.1	599.7	152.3	752.0	-771.1	-19.1	23,624.0	-221.0	23,403.0

SOURCES: Annexes I and II.

^a to ⁱ See footnotes to table 141.
No sign means a net inflow of funds; a minus sign means a net outflow of funds.

Table 144. Latin America: capacity to import goods f.o.b., by country, 1951-55
(Millions of dollars)

Country	Official donations and non-compensatory capital														
	Foreign capital														
	Long-term capital														
	Exports f.o.b. a (1)	Investment income		Other services and private donations (net) d (4)	Current capacity to import goods and repay loans (1+2+ +3+4) (5)	Official donations, net direct investment and gross disbursements of loans e (6)	Loan repayments f (7)	Total (6+7) (8)	Short-term capital g (9)	Total (8+9) (10)	Domestic capital and net errors and omissions b (11)	Total (10+11) (12)	Total capacity to import goods f.o.b. (5+12) (13)	Amortization of balance- of-payments loans and deferred import payments i (14)	Total adjusted (13+14) (15)
Argentina	4,903.8	-43.9	-66.1	-798.8	3,995.0	342.3	-47.3	295.0	-12.4	282.6	48.3	330.9	4,325.9	-19.2	4,306.7
Bolivia	441.6	-5.1	-6.5	-91.5	338.5	98.0	-36.2	61.8	2.7	64.5	-1.6	62.9	401.4	-17.7	383.7
Brazil	7,704.0	-509.0	-208.0	-1,401.0	5,586.0	825.0	-298.0	527.0	-49.0	478.0	87.0	565.0	6,151.0	-277.0	5,874.0
Chile	2,094.4	-251.0	-60.4	-163.8	1,619.2	234.7	-129.8	104.9	13.2	118.1	-26.8	91.3	1,710.5	-18.2	1,692.3
Colombia	2,845.6	-80.3	-36.5	-311.1	2,417.7	291.6	-114.5	177.1	131.0	308.1	-176.2	131.9	2,549.6	—	2,549.6
Costa Rica	379.2	-57.5	-1.5	-14.0	306.2	23.5	-3.0	20.5	-0.9	19.6	9.6	29.2	335.4	—	335.4
Dominican Republic	567.4	-63.3	-0.7	-55.0	457.4	4.4	-6.3	-1.9	8.5	6.6	-10.7	-4.1	453.3	—	453.3
Ecuador	508.2	-68.6	-3.7	-90.9	345.0	57.0	-10.7	46.3	—	46.3	-36.3	10.0	355.0	—	355.0
El Salvador	476.9	-8.8	-4.5	-75.0	388.6	16.4	-4.2	12.2	-2.8	9.4	-47.2	-37.8	350.8	—	350.8
Guatemala	470.5	-3.2	—	-50.3	417.0	13.1	-0.5	12.6	4.1	16.7	15.4	1.3	418.3	—	418.3
Haiti	230.7	-17.9	-1.5	-18.8	192.5	60.6	-13.6	47.0	—	47.0	-22.0	25.0	217.5	—	217.5
Honduras	317.7	-50.4	—	-25.0	242.3	46.7	-1.8	44.9	1.0	45.9	-10.8	35.1	277.4	—	277.4
Mexico	3,451.8	-442.3	-54.3	+859.5	3,814.7	736.3	-234.3	502.0	86.1	588.1	-211.8	376.3	4,191.0	—	4,191.0
Nicaragua	295.2	-31.7	-1.4	-40.1	322.0	32.0	-9.7	22.3	6.1	28.4	-8.3	20.1	242.1	—	242.1
Panama	243.3	-73.7	-4.2	+163.5	328.9	41.5	-21.3	20.2	6.2	26.4	67.2	93.6	422.5	—	422.5
Paraguay	169.0	-3.0	-2.2	-16.2	147.6	10.3	-7.9	2.4	16.7	19.1	-12.2	6.9	154.5	-3.5	151.0
Peru	1,274.0	-95.6	-12.1	-174.5	991.8	234.0	-30.6	203.4	43.1	246.5	-46.1	200.4	1,191.2	—	1,192.2
Uruguay	1,196.6	-16.9	-19.6	-125.3	1,034.8	75.7	-20.7	55.0	11.3	66.3	-15.8	50.5	1,085.3	—	1,085.3
Subtotal I	25,578.9	-1,822.2	-483.2	-2,428.3	22,845.2	3,143.1	-990.4	2,152.7	264.9	2,417.6	-429.1	1,988.5	24,833.7	-335.6	24,498.1
Venezuela	7,889.8	-2,408.2	-0.4	-1,159.7	4,321.5	374.8	-13.1	361.7	25.3	387.0	-258.6	128.4	4,449.9	—	4,449.9
Subtotal II	35,468.7	-4,230.4	-483.6	-3,588.0	27,166.7	3,517.9	-1,003.5	2,514.4	290.2	2,804.6	-687.7	2,116.9	29,283.6	-335.6	28,948.0
Cuba	3,327.7	-228.3	-19.5	-253.9	2,826.0	246.1	-26.1	220.0	81.7	301.7	25.8	327.5	3,153.5	—	3,153.5
TOTAL	38,796.4	-4,458.7	-503.1	-3,841.9	29,992.7	3,764.0	-1,029.1	2,734.4	371.9	3,106.3	-661.9	2,444.4	32,437.1	-335.6	32,101.5

SOURCES: Annexes I and II.

a to i See footnotes to table 141.
No sign means a net inflow of funds, a minus sign means a net outflow of funds.

Table 145. Latin America (excluding Cuba): capacity to import goods f.o.b., by country, 1956-60
(Millions of dollars)

Country	Official donations and non-compensatory capital														
	Foreign capital														
	Long-term capital														
	Exports f.o.b. ^a (1)	Investment income		Other services and private donations (net) ^d (4)	Current capacity to import goods and repay loans (1+2+ +3+4) (5)	Official donations, net direct investment and gross disbursements of loans ^e (6)	Loan repayments ^f (7)	Total (6+7) (8)	Short-term capital ^g (9)	Total (8+9) (10)	Domestic capital and net errors and omissions ^b (11)	Total (10+11) (12)	Total capacity to import goods f.o.b. (5+12) (13)	Amortization of balance- of-payments loans and deferred import payments ⁱ (14)	Total adjusted (13+14) (15)
Argentina	5,000.7	-139.3	-98.7	-603.2	4,159.5	1,527.3	-228.5	1,298.8	52.9	1,351.7	-261.1	1,090.6	5,250.1	-105.5	5,144.6
Bolivia	330.2	-2.5	-8.2	-89.3	230.2	211.9	-39.9	172.0	7.4	179.4	-63.3	116.1	346.3	-1.3	345.0
Brazil	6,671.0	-297.0	-461.0	-1,388.0	4,525.0	2,434.0	-1,240.0	1,194.0	275.0	1,469.0	-440.0	1,029.0	5,554.0	-311.0	5,243.0
Chile	2,187.3	-253.5	-79.3	-245.4	1,609.1	529.3	-209.5	319.8	2.1	312.9	22.3	344.2	1,953.3	-35.9	1,917.4
Colombia	2,831.8	-127.5	-55.9	-211.2	2,437.2	192.5	-133.1	59.4	-3.2	56.2	-340.2	-284.0	2,153.2	-156.1	1,997.1
Costa Rica	402.2	-20.3	-5.9	-11.6	364.4	68.3	-15.3	53.0	6.1	59.1	16.2	75.3	439.7	—	439.7
Dominican Republic	713.2	-41.0	-10.5	-55.9	605.8	56.7	-13.0	43.7	6.1	49.8	-106.9	-57.1	548.7	-39.5	509.2
Ecuador	685.3	-100.8	-11.0	-133.0	440.5	112.2	-33.0	79.2	2.0	81.2	-6.9	74.3	514.8	—	514.8
El Salvador	582.4	-12.4	-6.0	-82.9	481.1	19.5	-7.0	12.5	10.8	23.3	-20.7	2.6	483.7	—	483.7
Guatemala	568.3	-22.7	-5.4	-71.9	468.3	192.6	-7.4	185.2	8.5	193.7	-24.2	169.5	637.8	—	637.8
Haiti	185.6	-7.2	-3.8	+19.9	194.5	51.0	-7.4	43.6	1.3	44.9	-54.0	-9.1	185.4	—	185.4
Honduras	348.0	-26.3	-1.3	-25.7	294.7	21.1	-6.7	14.4	2.0	16.4	7.0	23.4	318.1	—	318.1
Mexico	3,860.8	-625.9	-109.3	+1,524.4	4,650.0	1,539.6	-688.0	851.6	197.3	1,048.9	-334.9	714.0	5,364.0	—	5,364.0
Nicaragua	345.4	-10.9	-4.3	-68.0	262.2	51.4	-17.6	33.8	8.8	42.6	-10.7	31.9	294.1	—	294.1
Panama	414.5	-82.0	-4.9	+129.2	456.8	143.6	-17.3	126.3	14.7	-141.0	39.9	180.9	637.7	—	637.7
Paraguay	181.7	-1.7	-3.8	-24.7	151.5	49.5	-5.0	44.5	-1.6	42.9	5.3	48.2	199.7	-3.6	196.1
Peru	1,713.6	-157.9	-53.5	-202.6	1,299.6	480.7	-134.4	346.3	35.9	382.2	-2.6	379.6	1,679.2	-15.5	1,663.7
Uruguay	704.6	-10.4	-22.8	-31.0	640.4	64.3	-26.1	38.2	59.6	97.8	70.5	168.3	808.7	—	808.7
Subtotal I	27,726.6	-1,939.3	-945.6	-1,570.9	23,270.8	7,745.5	-2,829.2	4,916.3	685.7	5,602.0	-1,504.3	4,097.7	27,368.5	-668.4	26,700.1
Venezuela	12,350.6	-3,436.5	-3.4	-2,267.1	6,643.6	1,764.7	-988.3	776.4	89.5	865.9	-466.8	399.1	7,042.7	—	7,042.7
TOTAL	40,077.2	-5,375.8	-949.0	-3,838.0	29,914.4	9,510.2	-3,817.5	5,692.7	775.2	6,467.9	-1,971.1	4,496.8	34,411.2	-668.4	33,742.8

SOURCES: Annexes I and II.

^a to ⁱ See footnotes to table 141.

No sign means a net inflow of funds; a minus sign means a net outflow of funds.

Table 146. Latin America (excluding Cuba): capacity to import to import goods f.o.b., by country, 1961
(Millions of dollars)

Country	Official donations and non compensatory capital														
	Foreign capital														
	Long-term capital														
	Exports f.o.b. ^a (1)	Investment income		Other services and private donations (net) ^d	Current capacity to import goods and repay loans (1+2+ +3+4)	Official donations, net direct investment and gross disbursements of loans ^e	Loan repayments ^f	Total (6+7)	Short-term capital ^g	Total (8+9)	Domestic capital and net errors and omissions ^b	Total (10+11)	Total capacity to import goods f.o.b. (5+12)	Amortization of balance- of-payments loans and deferred import payments ⁱ	Total adjusted (13+14)
(1)	Direct investment ^b (2)	Other ^c (3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
Argentina	964.1	-115.9	-49.9	-112.2	686.1	440.3	-95.9	344.4	17.4	361.8	88.6	450.4	1,136.5	-105.4	1,031.1
Bolivia	59.9	—	-2.0	-13.6	44.3	47.7	-14.2	33.5	3.0	36.5	-6.3	30.2	74.5	—	74.5
Brazil	1,405.0	-61.0	-126.0	-218.0	1,000.0	736.0	297.0	439.0	-15.0	424.0	-69.0	355.0	1,355.0	-20.0	1,335.0
Chile	442.8	-48.5	-28.4	-83.7	282.2	225.4	-59.1	166.3	34.3	200.6	-32.4	168.2	450.4	-19.3	431.1
Colombia	476.5	-36.0	-14.8	-36.7	389.0	62.4	-25.7	36.7	47.5	84.2	-59.9	31.3	420.3	-50.1	370.2
Costa Rica	83.5	-1.1	-1.8	-2.2	78.4	18.8	-4.7	14.1	-3.1	11.0	-4.5	6.5	84.9	—	84.9
Dominican Republic	137.9	-11.8	-1.5	-11.2	113.4	-3.6	-24.9	-28.5	4.2	-24.3	-33.0	-57.3	56.1	-0.3	55.8
Ecuador	132.6	-20.9	-3.1	-29.0	79.6	35.4	-10.3	25.1	1.0	26.1	-16.1	10.0	89.6	—	89.6
El Salvador	118.8	-2.8	-1.6	-16.0	98.4	8.6	-2.5	6.1	6.1	12.2	-14.9	-2.7	95.7	—	95.7
Guatemala	114.0	-11.3	-2.0	-8.6	92.1	28.2	-3.5	24.7	8.8	33.5	-7.1	26.4	118.5	—	118.5
Haiti	32.4	-3.1	-0.2	+4.0	33.1	18.5	-0.3	18.2	-0.1	18.1	-10.5	7.6	40.7	—	40.7
Honduras	74.0	-1.0	-0.6	-6.0	66.4	3.6	-2.3	1.3	1.0	2.3	-4.6	-2.3	64.1	—	64.1
Mexico	839.3	-148.1	-40.2	364.1	1,015.1	472.2	-187.2	285.0	78.1	363.1	-301.1	62.0	1,077.1	—	1,077.1
Nicaragua	69.9	-2.2	-1.1	-14.9	51.7	12.4	-3.7	8.7	4.7	13.4	-10.5	2.9	54.6	—	54.6
Panama	115.8	-12.6	-1.5	26.3	128.0	23.6	-0.7	22.9	3.6	26.5	19.1	45.6	173.6	—	173.6
Paraguay	43.9	-0.5	-1.3	-4.5	37.6	9.8	-2.7	7.1	8.6	15.7	-1.9	13.8	51.4	—	51.4
Peru	511.1	-40.9	-16.3	-35.2	418.7	61.9	-59.2	8.7	26.2	28.9	-12.8	16.1	434.8	—	434.8
Uruguay	174.7	-1.6	-4.7	+4.4	172.8	12.1	-3.8	8.3	-9.4	-1.1	-37.6	-38.7	134.1	—	134.1
Subtotal	5,796.2	-519.3	-297.0	-193.0	4,786.9	2,213.3	-797.7	1,415.6	216.9	1,632.5	-507.5	1,125.0	5,911.9	-195.1	5,716.8
Venezuela	2,452.0	-560.7	-22.6	-313.5	1,555.2	64.3	-177.6	-113.3	8.7	-104.6	-336.2	-440.8	1,114.4	-33.3	1,111.1
TOTAL	8,248.2	-1,080.0	-319.6	-506.5	6,342.1	2,277.6	-975.3	1,302.3	225.6	1,527.9	-843.7	684.2	7,026.3	-228.4	6,797.9

SOURCES: Annexes I and II.

a to i See footnotes to table 141.

No sign means a net inflow of funds; a minus sign means a net outflow of funds.

Table 147. Latin America: annual rates of growth ^a of exports f.o.b.,^b current capacity to import ^c and total capacity to import,^d 1951-62

	Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Exports f.o.b.	Capacity to import		Exports f.o.b.	Capacity to import	
		Current	Total		Current	Total
<i>Long-term rates of growth</i>						
1951-55	+5.9	+5.4	+6.9	+3.0	+4.3	+6.6
1956-60	+2.5	+2.0	+3.1	+1.6	+0.3	+1.8
1951-60	+3.0	+2.4	+3.7	+2.3	+2.3	+4.2
<i>Short-term rates of growth</i>						
1960.	+4.4	+3.2	-0.9	+5.2	+1.0	+5.3
1961.	+1.7	+2.2	+6.4	+2.5	+2.7	+3.2
1962 ^e	+3.9	+6.9	-0.2	+4.4	+8.2	-0.02

SOURCES: Tables 141 and 142.

^a The cumulative average annual rates of growth for 1951-55 and 1956-60 have been calculated over the long term by comparing the average figures for every five-year period with the corresponding figures for the preceding five years. The rates of growth for 1960, 1961 and 1962 have been calculated over the short term by comparing the figures

for each year with the corresponding figures for the previous year.

^b Exports f.o.b., including non-monetary gold.

^c Current capacity to import as estimated in tables 141-146.

^d Total capacity to import as estimated in tables 141-146.

^e Preliminary figures.

Nicaragua and Peru) out of a total of nineteen,² and declined in another five countries (Bolivia, Brazil, Colombia, Haiti, and Uruguay) between 1951-55 and 1956-60. From 1955 onwards, the capacity to import increased at the same rate or faster than that formerly registered in only four countries: Argentina, because of a slight recovery in exports and the resumption of large-scale of foreign capital inflows in the late fifties; Panama and Venezuela, by reason of a faster expansion of foreign investment in the second half of the fifties; and Paraguay, which received additional external aid from 1955 onwards.

As was to be expected, a relationship exists between the decrease in the growth rate of the capacity to import and the slackening of that of the domestic product. Thus, the decline in the rates of increase of the capacity to import was less intensive in the countries belonging to groups C and D than in those of groups A and B. In general, the product of the first two groups of countries, which registered the highest rates in the post-war period, is known to have suffered the smallest reductions in that rate between the first and the second half of the fifties.³

3. COMPARISON BETWEEN THE RESPECTIVE INCREASES IN THE TOTAL CAPACITY TO IMPORT, THE CURRENT CAPACITY TO IMPORT AND THE F.O.B. VALUE OF EXPORTS

A comparison can also be made between the respective growth rates of the total capacity to import, the current capacity to import and the f.o.b. value of exports. Two major facts emerge in this respect.

² Cuba is excluded because there are no available data from 1959 onwards.

³ See *The economic development of Latin America in the post-war period*, op. cit., pp. 83-120. Both this publication and the *Economic Survey of Latin America, 1963* (E/CN.12/696/Rev.1), analyse the evolution of the capacity to import, in terms of dollars at constant prices.

(a) *The total capacity to import increased more rapidly than the current capacity*

This is already apparent if the fifties are considered as a whole, since the average annual increase in the total capacity to import between 1946-50 and 1956-60 was 3.7 per cent for the whole region, excluding Cuba, and 4.2 per cent if Venezuela is also excluded; whereas the annual current capacity to import rose by only 2.4 per cent and 2.3 per cent respectively.

The contrast is clearer still between 1955 and 1960, because in that period the slackening of the growth rate was far more marked in the case of the current capacity to import than in that of the total capacity. While the latter went up by an annual average of 3.1 per cent between 1951-51 and 1956-60 for the region as a whole, excluding Cuba, the current capacity to import increased by only 2 per cent yearly. If the figures for Venezuela are also excluded from the regional total, it will be seen that the total capacity to import continued to follow an upward trend—although at a slower pace than before (an average growth rate of 1.8 per cent annually)—while the current capacity remained almost at a standstill (an average of 0.3 per cent annually). It is interesting to note, too, that the number of countries in which the cumulative annual rate of increase of the total capacity to import outstripped the growth rate of the current capacity rose from ten in 1951-55 to fifteen in 1956-60.

It is clear, therefore, that the sharp rise in autonomous capital inflows from 1955 onwards partly offset the slackening in the growth rate of the current capacity to import and helped to maintain that of the total capacity.

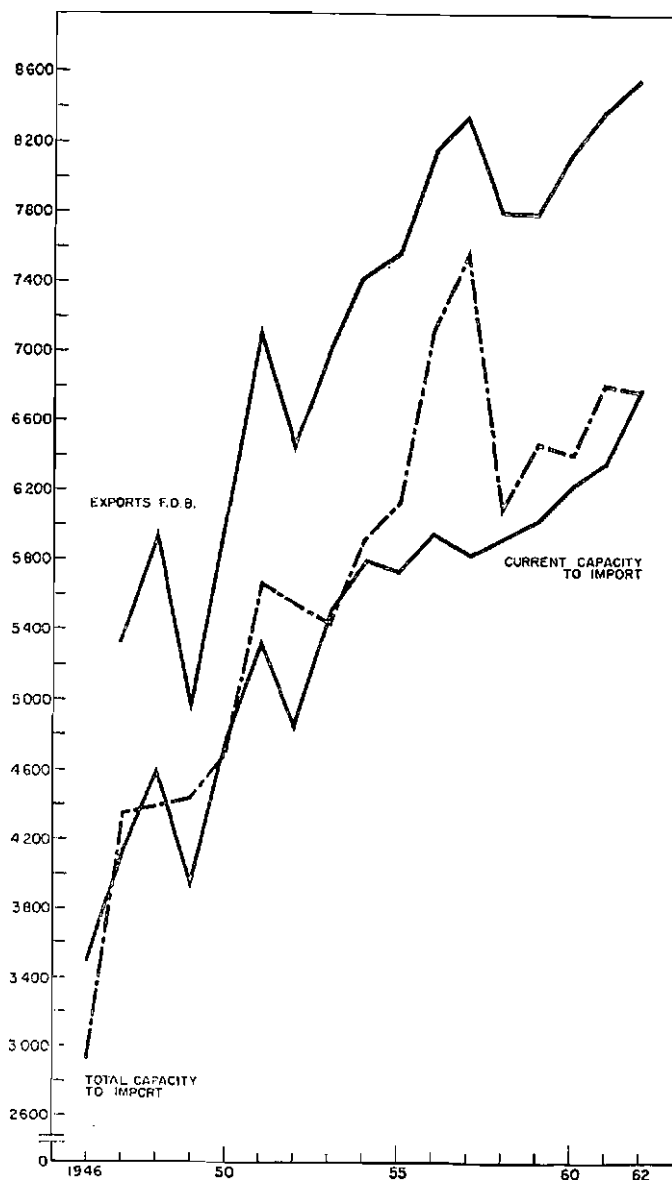
(b) *The current capacity to import increased less rapidly than the value of exports*

If the fifties are considered as a whole, it will be seen that while the current capacity to import increased by

Figure XVII. Latin America (excluding Cuba): exports f.o.b., current capacity to import and total capacity to import, 1946-62

(MILLIONS OF DOLLARS)

Natural scale



SOURCE: Table 141.

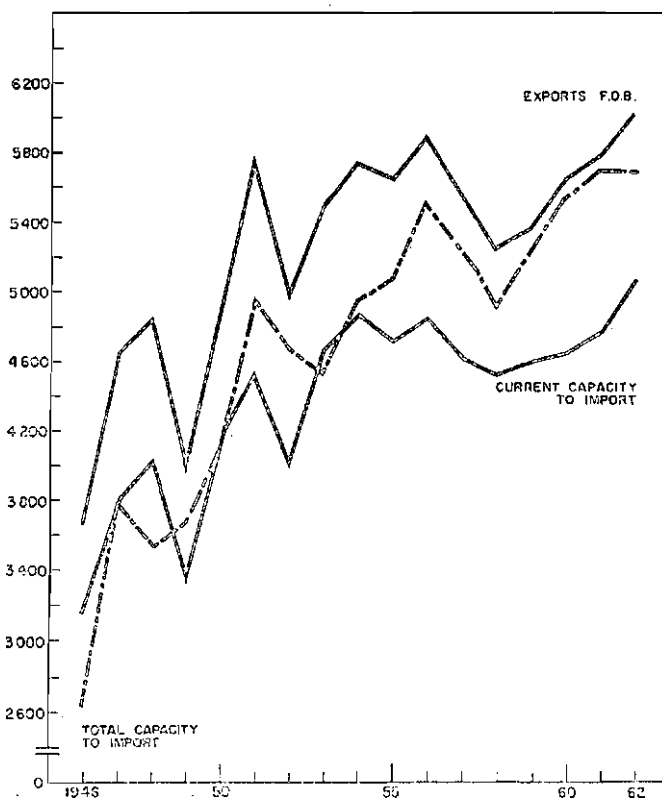
an annual average of 2.4 per cent, exports expanded at a rate of 3 per cent annually. This circumstance can be ascribed mainly to Venezuela, whose external factor payments were particularly heavy during that decade. With the exclusion of this country from the total, the capacity to import and the volume of exports seem to have expanded at the same rate (a cumulative increase of 2.3 per cent annually).

In practice, a clear distinction should be drawn between the two quinquennia of the fifties. Whereas in 1951-55 the current capacity to import increased more rapidly

Figure XVIII. Latin America (excluding Cuba and Venezuela): exports f.o.b., current capacity to import and total capacity to import, 1946-62

(MILLIONS OF DOLLARS)

Natural scale



SOURCE: Table 142.

than exports throughout the region (excepting Venezuela and Cuba), the trend appears to have reversed itself in the ensuing five-year period.

This reversal was caused mainly by the increment in external service payments, which absorbed an increasing proportion of foreign exchange earnings on current account; other service payments (except travel) accounted for a diminishing share of this income.

A comparison between the increases in the total capacity to import, the current capacity and the f.o.b. value of exports, respectively, brings to light the following effects of autonomous capital movements on the funds available to the Latin American countries for financing their purchases abroad:

(i) On the one hand, these movements helped, through the standstill in the value of exports, to weaken the rate of increase of the current capacity to import, causing service payments to rise sharply;

(ii) On the other hand, they helped to maintain a fairly high rate of growth of the total capacity to import, since they were mainly characterized by increasing flows of funds into the region.

B. COMPARISON BETWEEN NET AUTONOMOUS FOREIGN CAPITAL INFLOWS AND EXTERNAL SERVICE PAYMENTS

The meaning of net autonomous inflows of foreign funds was defined in an earlier section of this study. They cover all movements of capital which produce fluctuations in the Latin American countries' liabilities abroad, including official donations, but not deferred import payments, balance-of-payments loans or short-term changes in the liabilities of the central monetary institutions.

External service payments represent income from foreign investment (debit), that is, according to the IMF definitions,⁴ all income of non-residents on financial investment in Latin America, whether direct investment, portfolio investment, or short or long-term loans.⁵

The latter concept covers the reinvested earnings of direct investment enterprises as an outflow of funds. These earnings are also included as an inflow of funds under the head of autonomous foreign capital. If a comparison is made between the figures entered under the two heads, it will be seen that the inflows and the outflows of funds corresponding to reinvested earnings compensate one another and a balance is obtained of autonomous foreign capital inflows and service payments on that capital actually transferred abroad.⁶

ments, does not include honoraria and wages payable abroad or from abroad.

Nevertheless, the statistical importance of these divergencies does not seem to be very great as far as Latin America is concerned, so that as a first approximation the two concepts may be taken to be more or less equivalent.

⁶ With a few discrepancies, mainly due to the fact that foreign investment income includes interest paid on extraordinary compensatory financing, it would seem, however, that such interest represented only relatively small sums, and therefore cannot have had much effect on the final balance.

⁴ *Balance of Payments Manual*, 3rd ed., paragraphs 247-250.

⁵ This concept is not exactly the same as that of external factor payments, as defined in the United Nations system of national accounts, for various reasons, including the following: foreign investment income as understood here is estimated in gross terms, without deduction of Latin American residents' income on financial investment abroad, whereas the concept of external factor payments is usually taken to refer to a net balance of inflows and outflows. Secondly, foreign investment income, unlike external factor pay-

Table 148. Latin America: comparison between the net inflow of non-compensatory foreign capital and foreign investment income, 1946-62
(Millions of dollars)

	Direct investment			Other non-compensatory foreign capital			Total non-compensatory foreign capital		
	Direct investment inflow ^a (1)	Direct investment income ^b (2)	Balance (1+2) (3)	Other foreign capital inflows ^c (4)	Other foreign capital income ^d (5)	Balance (4+5) (6)	Total foreign capital inflow (1+4) (7)	Total foreign capital income (2+5) (8)	Balance (7+8) (9)
I. Latin America (excluding Cuba)									
Aggregate total, 1946-50 . . .	1,678.9	-2,902.1	-1,223.2	-873.5	-476.6	-1,350.1	805.4	-3,378.7	-2,573.3
Aggregate total, 1951-55 . . .	1,626.5	-4,230.4	-2,603.9	1,178.1	-483.6	694.5	2,804.6	-4,714.0	-1,909.4
Aggregate total, 1956-60 . . .	4,266.4	-5,375.8	-1,109.4	2,201.5	-949.0	1,252.5	6,467.9	-6,324.8	143.1
1961	285.9	-1,080.0	-794.1	1,242.0	-319.6	922.4	1,527.9	1,399.6	128.3
1962 ^e	245.0	-1,011.2	-766.2	1,085.6	-332.1	753.5	1,330.6	-1,343.3	-12.7
Aggregate total, 1946-62 . . .	8,102.7	-14,599.5	-6,496.8	4,833.7	-2,560.9	2,272.8	12,936.4	17,160.4	-4,224.0
Average, 1946-50	335.7	-580.4	-244.7	-174.6	-95.3	-269.9	161.1	-675.6	-514.6
Average, 1951-55	325.3	-846.1	-520.8	235.6	-96.7	138.9	560.9	-942.8	-381.9
Average, 1956-60	853.2	-1,075.2	-222.0	440.4	-189.8	250.6	1,293.6	-1,265.0	28.6
II. Latin America (excluding Cuba and Venezuela)									
Aggregate total, 1946-50 . . .	652.5	-1,373.2	-720.7	-885.1	-476.5	-1,361.6	-232.6	-1,849.7	-2,082.3
Aggregate total, 1951-55 . . .	1,259.8	-1,822.2	-562.4	1,157.8	-483.2	674.6	2,417.6	-2,305.4	112.2
Aggregate total, 1956-60 . . .	2,715.6	-1,939.3	776.3	2,886.4	-945.6	1,940.8	5,602.0	-2,884.9	2,717.1
1961	356.3	-519.3	-163.0	1,276.2	-297.0	979.2	1,632.5	-816.3	816.2
1962 ^e	429.4	-412.9	16.5	1,137.0	-310.9	826.1	1,566.4	-723.8	842.6
Aggregate total, 1946-62 . . .	5,413.6	-6,066.9	-653.3	5,572.3	-2,513.2	3,059.1	10,985.9	-8,580.1	2,405.8
Average, 1946-50	130.5	-274.6	-144.1	-177.0	-95.3	-272.3	-46.5	-369.9	-416.4
Average, 1951-55	251.9	-364.5	-112.6	231.6	-96.6	135.0	483.5	-461.1	22.4
Average, 1956-60	543.1	-387.9	155.2	577.3	-189.1	388.2	1,120.4	-577.0	543.4

SOURCES: Annexes I and II.

^a Corresponds to item B.2.11 (balance) of annex II and covers net inflow of direct investment capital, including reinvested earnings.

^b Corresponds to item A.1.51 (debit) of annex I and covers earnings of direct investment enterprises in Latin America, including reinvested earnings.

^c Corresponds to items B.1 (balance), B.2.12 (balance), B.31 (balance) and part of item B.4 (balance), and covers net inflow of autonomous

short and long-term foreign capital (excluding direct investment capital), as adjusted in tables 141 and 142.

^d Corresponds to item A.1.52 (debit) of annex I and covers mainly interest paid by Latin American residents on short and long-term loans from foreign private and official lending institutions.

^e Preliminary figures.

No sign means a net inflow of funds; a minus sign means a net outflow of funds.

Tables 148-153 show the results of this comparison and also distinguish net capital inflows channelled into direct investment enterprises from other net foreign capital inflows.

1. COMPARISON BETWEEN NET AUTONOMOUS FOREIGN CAPITAL INFLOWS AND FOREIGN INVESTMENT INCOME IN THE POST-WAR PERIOD

If the post-war period (1946-62) is considered as a whole, the following three main facts emerge (see table 148).

(a) *The earnings of direct investment enterprises far exceeded net flows of capital into those enterprises*

Direct investment enterprises registered earnings amounting to some 14,600 million dollars and net capital inflows of only 8,100 million dollars; thus, the deficit in the region (excluding Cuba) can be estimated at 6,500 million dollars over seventeen years.⁷ However, most of the deficit is attributable to Venezuela, where income from direct investment in petroleum represented huge sums. Thus, if the figures for Venezuela are excluded from the regional total, the difference is much smaller (some 650 million dollars).

The position varied greatly from one country to another (see table 149). The capital inflows channelled into direct investment enterprises and direct investment income showed a debit balance in twelve of the nineteen recipient countries and a credit balance in the remaining seven (Argentina, Bolivia, Brazil, Guatemala, Paraguay, Peru and Uruguay) during the period 1946-61, for which final figures are available.

This situation can be ascribed mainly to the fact that in the past the pattern of direct investment capital flows varied in the different countries. For example, Argentina registered a credit balance because direct investment was not resumed there on a large scale until the late fifties, so the cumulative income obtained from such investment amounted to only very small sums towards the end of 1961. Conversely, a deficit was recorded in Mexico, where the post-war period was marked by a fairly steady inflow of direct investment, the income from which represented substantial cumulative sums during the period concerned (see again figure IX).

It should also be noted that the rate of earnings⁸ and the relative share of reinvestment in the financing of new investment⁹ were not the same in every country because

⁷ This method of calculation is warranted because, as previously indicated, reinvested earnings are entered twice: first as an outflow of direct investment income, and later as an inflow of direct investment capital. The difference between inflows of direct investment capital and outflows of direct investment income, according to this definition, is equal to the balance of the new contributions of foreign capital to direct investment enterprises less the income of such enterprises transferred abroad.

⁸ The net rate of earnings can be defined as the ratio between net earnings and the accounting value of direct investment. For the evolution of this rate in relation to United States direct investment in Latin America, by sector, see chapter IX.

⁹ For the relative importance of reinvestment, by sector, as a source of financing new direct investment in United States enterprises, see table 125.

Table 149. Latin America (excluding Cuba): comparison between the net inflow of non-compensatory foreign capital and foreign investment income, by country, 1946-61

(Totals in millions of dollars)

Country	Direct investment inflow <i>a b</i> less direct investment income	Other non-compensatory foreign capital inflows less foreign investment income <i>c d</i>	Total non-compensatory foreign capital inflow less foreign capital income
Argentina	413.5	-247.0	166.5
Bolivia	26.9	207.9	234.8
Brazil	292.8	22.7	315.5
Chile	-396.9	135.0	-261.9
Colombia	-170.7	336.2	165.5
Costa Rica	-62.0	55.3	-6.7
Dominican Republic. . .	-161.1	-21.1	-182.2
Ecuador	-121.7	90.5	-31.2
El Salvador	-24.6	26.0	1.4
Guatemala	29.7	165.7	195.4
Haiti	-1.0	68.9	67.9
Honduras	-127.5	39.7	-87.8
Mexico	-377.4	934.4	557.0
Nicaragua	-37.4	55.0	17.6
Panama	-75.3	85.5	10.2
Paraguay	15.5	49.6	65.1
Peru.	31.3	239.6	270.9
Uruguay	76.1	-10.9	65.2
<i>Subtotal</i>	<i>-669.8</i>	<i>2,233.0</i>	<i>1,563.2</i>
Venezuela	-5,060.8	-713.7	-5,774.5
TOTAL	-5,730.6	1,519.3	-4,211.3

SOURCES: Annexes I and II.

Note: See footnotes a, b, c, and d to table 148.

No sign means a net inflow of funds; a minus sign means a net outflow of funds.

of the unequal distribution of direct investment among the different sectors of economic activity. Clearly the two factors had a direct impact on the capital inflow earnings balance. A debit balance was recorded in Venezuela, Chile and Honduras, where most of the new direct investment was channelled into the export sector, which has a relatively high rate of net earnings and where little recourse is had to reinvestment. Conversely, a credit balance was shown in Brazil, where new direct investment went mainly to the import substitution sector, the rate of earnings is lower and reinvestment took place on a considerable scale.

Despite these discrepancies between one country and another, new direct investment was clearly conducive over the long term to outflows of earnings which exceeded net foreign capital inflows.

(b) *Net capital inflows in the form of long-term loans exceeded interest payments*

Net capital inflows in the form of long-term loans¹⁰ are estimated at some 4,800 million dollars for the region as a whole (excluding Cuba) during the post-war period

¹⁰ Net capital inflows include besides long-term loans, other long and short-term capital movements.

Table 150. Latin America: comparison between the net inflow of non-compensatory foreign capital and foreign investment income, by country, 1946-50

(Totals in millions of dollars)

Country	Direct investment			Other non-compensatory foreign capital			Total non-compensatory foreign capital		
	Direct investment inflow (net) ^a (1)	Direct investment income ^b (2)	Balance (1+2) (3)	Other foreign capital inflows (net) ^c (4)	Other foreign capital income ^d (5)	Balance (4+5) (6)	Total foreign capital inflow (net) (7)	Total foreign capital income (8)	Balance (7+8) (9)
Argentina	-113.8	...	-113.8	-961.8	-240.2	-1,202.0	-1,075.6	-240.2	-1,315.8
Bolivia	0.2	-46.9	-46.7	28.5	-3.1	25.4	28.7	-50.0	-21.3
Brazil	219.6	-299.8	-80.2	-214.3	-99.0	-313.3	5.3	-398.8	-393.5
Chile	41.5	-238.7	-197.2	55.3	-39.5	15.8	96.8	-278.2	-181.4
Colombia	98.9	-57.8	41.1	46.7	-19.8	26.9	145.6	-77.6	68.0
Costa Rica	20.9	-35.0	-14.1	7.0	-1.2	5.8	27.9	-36.2	-8.3
Dominican Republic	4.4	-75.2	-70.8	-13.7	-1.0	-14.7	-9.3	-76.2	-85.5
Ecuador	27.2	-14.4	12.8	12.2	-1.7	10.5	39.4	-16.4	23.3
El Salvador	0.2	-4.4	-4.2	-0.7	-2.5	-3.2	-0.5	-6.9	-7.4
Guatemala	12.0	-22.5	-10.5	6.6	—	6.6	18.6	-22.5	-3.9
Haiti	4.7	-4.4	0.3	-7.6	-1.1	-8.7	-2.9	-5.5	-8.4
Honduras	24.9	-96.6	-71.7	-1.1	—	-1.1	23.8	-96.6	-72.8
Mexico	176.9	-320.2	-143.3	160.3	-40.0	120.3	337.2	-360.2	-23.0
Nicaragua	5.5	-23.4	-17.9	3.6	-0.9	2.7	9.1	-24.3	-15.2
Panama	29.2	-48.7	-19.5	16.7	-2.0	14.7	45.9	-50.7	-4.8
Paraguay	9.2	-2.4	6.8	-5.3	-1.6	-6.9	3.9	-4.0	-0.1
Peru	23.0	-59.8	-36.8	30.8	-4.4	26.4	53.8	-64.2	-10.4
Uruguay	68.0	-23.0	45.0	-48.3	-18.5	-66.8	19.7	-41.5	-21.8
<i>Subtotal I</i>	<i>652.5</i>	<i>-1,373.2</i>	<i>-720.7</i>	<i>-885.1</i>	<i>-476.5</i>	<i>-1,361.6</i>	<i>-232.6</i>	<i>-1,849.7</i>	<i>-2,082.3</i>
Venezuela	1,026.4	-1,528.9	-502.5	11.6	-0.1	11.5	1,038.0	-1,529.0	-491.0
<i>Subtotal II</i>	<i>1,678.9</i>	<i>-2,902.1</i>	<i>-1,223.2</i>	<i>-873.5</i>	<i>-476.6</i>	<i>-1,350.1</i>	<i>805.4</i>	<i>-3,378.7</i>	<i>-2,573.3</i>
Cuba	9.4	-230.8	-221.4	-62.8	-36.6	-99.4	-53.4	-267.4	-320.8
TOTAL	1,688.3	-3,132.9	-1,444.6	-936.3	-513.2	-1,449.5	752.0	-3,646.1	-2,894.1

SOURCES: Annexes I and II.

Note: See footnotes a, b, c and d to table 148.

No sign means a net inflow of funds; a minus sign means a net outflow of funds.

and interest payments amounted to about 2,500 million, which meant that there was a credit balance for the region of approximately 2,300 million dollars.¹¹ The surplus is somewhat higher (3,100 million dollars) if Venezuela is excluded from the regional total.

Most of the Latin American countries showed a credit balance under the head of net loans less interest (see again table 149). In fact, only four out of a total of nineteen countries registered a debit balance for the whole period 1946-61 (Argentina, Dominican Republic, Uruguay and Venezuela). In two of them (Argentina and Uruguay), this was due to large amounts having to be paid in the first five years after the war to settle overdue external debts or to foreign enterprises, or both. In a third, Venezuela, the negative balance is due to the exclusion of certain heavy inflows of long-term loans entered retroactively in the balance of payments.¹²

¹¹ This figure excludes certain heavy inflows of long-term loans entered retroactively in Venezuela's balance of payments (256 million dollars in 1956, 498 million in 1957 and 75 million in 1958). If the above figures were included, the credit balance would amount to some 3,100 million dollars.

¹² If the inflows specified in footnote ¹¹ were included, Venezuela too would show a credit balance (115.3 million dollars).

(c) *Total foreign capital inflows less service payments (earnings and interest) reflected a debit balance for Latin America if the post-war period is taken as a whole*

Total foreign capital inflows can be estimated at some 13,000 million dollars, while investment income was apparently about 17,000 million. Thus the debit balance for the region was approximately 4,000 million dollars.¹³

This was accounted for exclusively by Venezuela, by reason of the high earnings of foreign petroleum enterprises. If this country is excluded from the regional total, net foreign capital inflows must have amounted to some 11,000 million dollars and investment income to about 8,500 million. In that case, there would be a small credit balance (2,500 million dollars) in favour of Latin America over seventeen years, or an annual average of 150 million dollars.

In fact, a small surplus was built up in most of the Latin American countries (see again table 160). During the

¹³ If inflows of long-term loans entered retroactively in Venezuela's balance of payments are included (see footnote ¹¹ of this section), the debit balance would be reduced to about 3,100 million dollars.

Table 151. Latin America: comparison between the net inflow of non-compensatory foreign capital and foreign investment income, by country, 1951-55

(Totals in millions of dollars)

Country	Direct investment			Other non-compensatory foreign capital			Total non-compensatory foreign capital		
	Direct investment inflow (net) ^a (1)	Direct investment income ^b (2)	Balance (1+2) (3)	Other foreign capital inflows (net) ^c (4)	Other foreign capital income ^d (5)	Balance (4+5) (6)	Total foreign capital inflow (net) (7)	Total foreign capital income (8)	Balance (7+8) (9)
Argentina	15.8	-43.9	-28.1	266.8	-66.1	200.7	282.6	-110.0	172.6
Bolivia	3.6	-5.1	-1.5	60.9	-6.5	54.4	64.5	-11.6	52.9
Brazil	350.0	-509.0	-159.0	128.0	-208.0	-80.0	478.0	-717.0	-239.0
Chile	93.9	-251.0	-157.1	24.2	-60.4	-36.2	118.1	-311.4	-193.3
Colombia	12.2	-80.3	-68.1	295.9	-36.5	259.4	308.1	-116.8	191.3
Costa Rica	7.4	-57.5	-50.1	12.2	-1.5	10.7	19.6	-59.0	-39.4
Dominican Republic	9.1	-63.3	-54.2	-2.5	-0.7	-3.2	6.6	-64.0	-57.4
Ecuador	19.2	-68.6	-49.4	27.1	-3.7	23.4	46.3	-72.3	-26.0
El Salvador	-0.1	-8.8	-8.9	9.5	-4.5	5.0	9.4	-13.3	-3.9
Guatemala	-2.0	-3.2	-5.2	18.7	—	18.7	16.7	-3.2	13.5
Haiti	21.1	17.9	3.2	25.9	-1.5	24.4	47.0	-19.4	27.6
Honduras	41.4	-50.4	-9.0	4.5	—	4.5	45.9	-50.4	-4.5
Mexico	439.4	-442.3	-2.9	148.7	-54.3	94.4	588.1	-496.6	91.5
Nicaragua	9.0	-31.7	-22.7	19.4	-1.4	18.0	28.4	-33.1	-4.7
Panama	27.4	-73.7	-46.3	-1.0	-4.2	-5.2	26.4	-77.9	-51.5
Paraguay	2.2	-3.0	-0.8	16.9	-2.2	14.7	19.1	-5.2	13.9
Peru	170.2	-95.6	74.6	76.3	-12.1	64.2	246.5	-107.7	138.8
Uruguay	40.0	-16.9	23.1	26.3	-19.6	6.7	66.3	-36.5	29.8
Subtotal I	1,259.8	-1,822.2	-562.4	1,157.8	-483.2	674.6	2,417.6	-2,305.4	112.2
Venezuela	366.7	-2,408.2	-2,041.5	20.3	-0.4	19.9	387.0	-2,408.6	-2,021.6
Subtotal II	1,626.5	-4,230.4	-2,603.9	1,178.1	-483.6	694.5	2,804.6	-4,714.0	-1,909.4
Cuba	89.0	-228.3	-139.3	212.7	-19.5	193.2	301.7	-247.8	53.9
TOTAL	1,715.5	-4,458.7	-2,743.2	1,390.8	-503.1	887.7	3,106.3	-4,961.8	-1,855.5

SOURCES: Annex I and II.

Note: See footnotes a, b, c and d to table 148.

No sign means a net inflow of funds; a minus sign means a net outflow of funds.

period 1946-61 the balance of autonomous foreign capital inflows and external service payments was positive in thirteen countries (Argentina, Bolivia, Brazil, Colombia, El Salvador, Guatemala, Haiti, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay) and negative in the remaining six countries (Chile, Costa Rica, Dominican Republic, Ecuador, Honduras and Venezuela). Both the credit and debit balances — except in the case of Venezuela — were small.

2. LONG-TERM EVOLUTION OF THE RELATIONSHIP BETWEEN NET FOREIGN CAPITAL INFLOWS AND FOREIGN INVESTMENT INCOME

The effects of foreign capital investment and service payments on Latin America's total capacity to import varied throughout the post-war period. Thus the following three general observations can be made.

(a) *The balance of net foreign capital inflows and external service payments was increasingly favourable to Latin America*

This trend is observable whether or not Venezuela is included (see again table 148). If it is, the debit balance

diminished appreciably between the first five post-war years (an annual average of 514.6 million dollars) and the second (381.9 million dollars), and in the third quinquennium it was converted into a small surplus (28.6 million dollars). If Venezuela is excluded, the negative balance recorded in 1946-50 (416.4 million dollars annually) was replaced by a surplus from 1951 onwards, which increased substantially from 1956 onwards, rising from 22.4 million dollars annually in 1951-55 to 543.4 million in 1956-60, then to 816.2 million in 1961 and, finally, to 824.6 million in 1962. Consequently, the number of countries where foreign capital inflows showed a credit balance once service payments had been made also increased, from two in 1946-50 to nine in 1951-55, and to thirteen in 1956-60.

(b) *The evolution of the balance of net capital inflows channelled into direct investment enterprises less the earnings of such enterprises contributed little towards this improvement*

It is true that net capital inflows into direct investment enterprises (minus the earnings of those enterprises) which had reflected a considerable debit balance in the

Table 152, Latin America (excluding Cuba): comparison between the net inflow of non-compensatory foreign capital and foreign investment income, by country, 1956-60

(Total in millions of dollars)

Country	Direct investment			Other non-compensatory foreign capital			Total non-compensatory foreign capital		
	Direct investment inflow (net) ^a (1)	Direct investment income ^b (2)	Balance (1+2) (3)	Other foreign capital inflows (net) ^c (4)	Other foreign capital income ^d (5)	Balance (4+5) (6)	Total foreign capital inflow (net) (7)	Total foreign capital income (8)	Balance (7+8) (9)
Argentina	828.8	-139.3	689.5	522.9	-98.7	424.2	1,351.7	-238.0	1,113.7
Bolivia	66.2	-2.5	63.7	113.2	-8.2	105.0	179.4	-10.7	168.7
Brazil	743.0	-297.0	446.0	726.0	-461.0	265.0	1,469.0	-758.0	711.0
Chile	208.3	-253.5	-45.2	113.6	-79.3	34.3	321.9	-332.8	-10.9
Colombia	18.7	-127.5	-108.8	37.5	-55.9	-18.4	56.2	-183.4	-127.2
Costa Rica	15.9	-20.3	-4.4	43.2	-5.9	37.3	59.1	-26.2	32.9
Dominican Republic	20.3	-41.0	-20.7	29.5	-10.5	19.0	49.8	-51.5	-1.7
Ecuador	29.6	-100.8	-71.2	51.6	-11.0	40.6	81.2	-111.8	30.6
El Salvador	0.6	-12.4	-11.8	22.7	-6.0	16.7	23.3	-18.4	4.9
Guatemala	71.8	-22.7	49.1	121.9	-5.4	116.5	193.7	-28.1	165.6
Haiti	2.1	-7.2	-5.1	42.8	-3.8	39.0	44.9	-11.0	33.9
Honduras	-12.0	-26.3	-38.3	28.4	-1.3	27.1	16.4	-27.6	-11.2
Mexico	423.5	-625.9	-202.4	625.4	-109.3	516.1	1,048.9	-735.2	313.7
Nicaragua	10.3	-10.9	-0.6	32.3	-4.3	28.0	42.6	-15.2	27.4
Panama	78.9	-82.0	-3.1	62.1	-4.9	57.2	141.0	-86.9	54.1
Paraguay	10.4	-1.7	8.7	32.5	-3.8	28.7	42.9	-5.5	37.4
Peru	179.2	-157.9	21.3	203.0	-53.5	149.5	382.2	-211.4	170.8
Uruguay	20.0	-10.4	9.6	77.8	-22.8	55.0	97.8	-33.2	64.6
Subtotal I	2,715.6	-1,939.3	776.3	2,886.4	-945.6	1,940.8	5,602.0	-2,884.9	2,717.1
Venezuela	1,550.8	-3,436.5	-1,885.7	-684.9 ^e	-3.4	-688.3 ^e	865.9 ^e	-3,439.9 ^e	-2,574.0 ^e
Subtotal II	4,266.4	-5,375.8	-1,109.4	2,201.5 ^e	-949.0	1,252.5 ^e	6,467.9 ^e	-6,324.8 ^e	143.1 ^e

SOURCES: Annexes I and II.

Note: See footnotes a, b, c and d to table 148.

^e These figures exclude receipts of foreign credits entered retroactively in the Venezuelan balance of payments (256 million dollars in 1956, 498 million in 1957 and 75 million in 1958). If these receipts are included the figures become the following:

	Other non-compensatory capital			Total non-compensatory capital		
	Other foreign capital inflows (4)	Other foreign capital income (5)	Total (4+5) (6)	Total foreign capital inflow (7)	Total foreign capital income (8)	Total (7+8) (9)
Venezuela	144.1	-3.4	140.7	1,694.9	-3,439.9	-1,745.0
Subtotal II	3,030.5	-949.0	2,081.5	7,296.9	-6,324.8	972.1

No sign means a net inflow of funds; a minus sign means a net outflow of funds.

first two five-year periods after the war, tended to level off during the third quinquennium and even showed a credit balance. If the region is considered as a whole (excepting Cuba), it will be noted that the deficit under the head of direct investment rose from an annual average of 244.7 million dollars in 1946-50 to 520.8 million in 1951-55, but dropped to an average of 222 million in 1956-60. If Venezuela is also excluded, the investment deficit would have shrunk already between the first and second five-year periods after the war, turning into a surplus in the third quinquennium.

The position altered radically in 1961 and 1962. The direct investment deficit climbed steeply for the region as a whole; from an annual average of 222 million

dollars in 1956-60 it rose to 794.1 million in 1961, and 766.2 million in 1962. If the figures for Venezuela are excluded, the surplus under the head of direct investment becomes a deficit, at least in 1961.

There is a fairly simple explanation for this. During the second half of the fifties, the earnings of direct investment enterprises grew less rapidly than the net inflows of capital in those enterprises,¹⁴ owing to a downward

¹⁴ The earnings of direct investment enterprises increased by an annual average of 4.9 per cent between 1951-56 and 1956-60 for Latin America as a whole (excluding Cuba), while net capital inflows went up by 17.8 per cent during the same period. If Venezuela is also excluded, the former grew by an annual average of 1.2 per cent and the latter by 16.6 per cent between the two five-year periods considered.

Table 153. Latin America (excluding Cuba): comparison between the net inflow of non-compensatory foreign capital and foreign investment income, by country, 1961

(Totals in millions of dollars)

Country	Direct investment			Other non-compensatory foreign capital			Total non-compensatory foreign capital		
	Direct investment inflow (net) ^a (1)	Direct investment income ^b (2)	Balance (1+2) ^c (3)	Other foreign capital inflows (net) ^e (4)	Other foreign capital income ^d (5)	Balance (4+5) (6)	Total foreign capital inflow (net) (7)	Total foreign capital income (8)	Balance (7+8) (9)
Argentina	-18.2	-115.9	-134.1	380.0	-49.9	330.1	361.8	-165.8	196.0
Bolivia	11.4	—	11.4	25.1	-2.0	23.1	36.5	-2.0	34.5
Brazil	147.0	-61.0	86.0	277.0	-126.0	151.0	424.0	-187.0	237.0
Chile	51.1	-48.5	2.6	149.5	-28.4	121.1	200.6	-76.9	123.7
Colombia	1.1	-36.0	-34.9	83.1	-14.8	68.3	84.2	-50.8	33.4
Costa Rica	7.7	-1.1	6.6	3.3	-1.8	1.5	11.0	-2.9	8.1
Dominican Republic	-3.6	-11.8	-15.4	-20.7	-1.5	-22.2	-24.3	-13.3	-37.6
Ecuador	7.0	-20.9	-13.9	19.1	-3.1	16.0	26.1	24.0	2.1
El Salvador	3.1	-2.8	0.3	9.1	-1.6	7.5	12.2	-4.4	7.8
Guatemala	7.6	-11.3	-3.7	25.9	-2.0	23.9	33.5	-13.3	20.2
Haiti	3.7	-3.1	0.6	14.4	-0.2	14.2	18.1	-3.3	14.8
Honduras	-7.5	-1.0	-8.5	9.8	-0.6	9.2	2.3	-1.6	0.7
Mexico	119.3	-148.1	-28.8	243.8	-40.2	203.6	363.1	-188.3	174.8
Nicaragua	6.0	-2.2	3.8	7.4	-1.1	6.3	13.4	-3.3	10.1
Panama	6.2	-12.6	-6.4	20.3	-1.5	18.8	26.5	-14.1	12.4
Paraguay	1.3	-0.5	0.8	14.4	-1.3	13.1	15.7	-1.8	13.9
Peru	13.1	-40.9	-27.8	15.8	-16.3	-0.5	28.9	-57.2	-28.3
Uruguay	—	-1.8	-1.6	-1.1	-4.7	-5.8	-1.1	-6.3	-7.4
Subtotal	356.3	-519.3	-163.0	1,276.2	-297.0	979.2	1,632.5	-816.3	816.2
Venezuela	-70.4	-560.7	-631.1	-34.2	-22.6	-56.8	-104.6	-583.3	-687.9
TOTAL	285.9	-1,080.0	-794.1	1,242.0	-319.6	922.4	1,527.9	-1,399.6	128.3

SOURCES: Annexes I and II.

Note: See footnotes a, b, c and d to table 148.

No sign means a net inflow of funds; a minus sign means a net outflow of funds.

trend shown by the net rate of earnings. This drop in the rate of earnings was conducive over the long term to a decline in the flow of capital, which occurred in 1961 and 1962, while earnings continued to follow an upward movement. Hence the larger investment deficit, or the fact that the surplus became a negative balance. The analysis by country confirms the foregoing observations (see tables 151-153). The balance between net capital inflows channelled into direct investment enterprises and the earnings of those enterprises improved in eleven countries of the region and deteriorated in the remaining eight between 1951-55 and 1956-60; conversely, the same balance deteriorated in thirteen countries and improved in only six between 1956-60 and 1961.

(c) *The improvement in the balance between net foreign capital inflows and external service payments is mainly attributable to various direct investment operations (official donations and long and short-term official and private loans)*

Capital operations financed with foreign funds, excluding direct investment, were balanced by net outflows during the first five post-war years, because the Governments of some of the Latin American countries paid their overdue external debt at that time, or purchased

foreign enterprises, or both. From 1951 onwards, these operations were balanced by net inflows of funds which far exceeded interest payments abroad, thus resulting in a growing surplus in favour of the region.¹⁵ Whether Latin America is considered as a whole or the figures for Venezuela are excluded, capital transactions other than direct investment constituted the main source of the credit balance shown by the net inflows of foreign funds after deduction of external service payments from 1956 onwards.¹⁶

¹⁵ For the region taken as a whole (excluding Cuba), this surplus rose from an annual average of 138.9 million dollars in 1951-55 to 250.6 million in 1956-60, 922.4 million in 1961 and 753.5 million in 1962. If the figures for Venezuela are also excluded, the surplus went up from an annual average of 138.9 million dollars in 1951-55 to 250.6 million in 1956-60, 979.2 million in 1961 and 826.1 million in 1962.

¹⁶ If the region is taken as a whole (excluding Cuba), the positive balance of inflows of foreign funds under heads other than direct investment, less interest payments abroad, was constantly larger than the credit balance of total foreign capital inflows less external service payments during the period 1956-62, since the earnings of direct investment enterprises transferred abroad exceeded the new foreign capital contributions received during the period concerned. If the figures for Venezuela are also excluded, it will be seen that the former balance represented 86 per cent of the latter in 1956-62.

C. THE LONG-TERM EFFECTS OF AUTONOMOUS CAPITAL MOVEMENTS ON LATIN AMERICA'S TOTAL CAPACITY TO IMPORT

Net foreign capital inflows under all heads exceeded external service payments over the long term, showing a positive balance in favour of the region. This balance, a modest one if the post-war period is taken as a whole, reached a relatively high level from 1956 onwards.

It must be remembered, however, that net outflows of domestic capital also followed an upward trend in many countries from that year onwards. These outflows failed to bring about any appreciable increment in the income represented by service payments from abroad, because a large proportion was reinvested outside the region.

Under these circumstances, the question might be asked whether the adverse effects of those outflows on the total capacity to import did not largely offset the positive effects resulting from the existence of a surplus of net foreign capital inflows in relation to service payments. To answer this question, net foreign capital inflows, service payments on that capital (earnings and interest) and net domestic capital outflows were calculated as a percentage of Latin America's total capacity to import (see tables 154 and 155).

1. CONTRIBUTION OF FOREIGN CAPITAL MOVEMENTS TO THE TOTAL CAPACITY TO IMPORT

To judge from the figures available, net foreign capital inflows tended to finance an increasing proportion of Latin America's total capacity to import (excluding Cuba's): 3.9 per cent in 1946-50, 9.7 per cent in 1951-55 and 19.2 per cent in 1956-60. However, the transfer of earnings of direct investment enterprises and interest payments on foreign loans also absorbed a growing proportion of the total capacity to import from 1956 onwards: 16.2 per cent in 1946-50, 16.3 per cent in 1951-55 and 18.7 per cent in 1956-60. Lastly, in balancing the two effects it would appear that foreign capital transactions (after external service payments had been made), which helped to reduce the total capacity to import by 12.3 per cent in 1946-50 and 6.6 per cent in 1951-55, increased it slightly in 1956-60 (by 0.5 per cent).

This last percentage largely reflects the special position of Venezuela. If the figures relating to that country are excluded from the regional total, foreign capital transactions less external service payments will be seen to have increased the total capacity to import by 10.7 per

Table 154. Latin America: foreign investment income and net non-compensatory movements of foreign and domestic capital as a percentage of the total capacity to import,^a 1946-62

Year or period	Foreign investment income and net foreign capital inflow			Net movements of domestic capital and net errors and omissions ^d	
	Foreign investment income ^b (1)	Net foreign capital inflow ^c (2)	Total (1+2) (3)	(4)	Total (3+4) (5)
I. Latin America (excluding Cuba)					
1945-50	-16.2	3.9	-12.3	-3.1	-15.4
1951-55	-16.3	9.7	-6.6	-2.4	-9.0
1956-60	-18.7	19.2	0.5	-5.8	-5.3
1961	-20.6	22.5	1.9	-12.4	-10.5
1962	-19.9	19.7	-0.2	-18.3	-18.5
II. Latin America (excluding Cuba and Venezuela)					
1945-50	-10.4	-1.3	-11.7	-1.4	-13.1
1951-55	-9.4	9.9	0.5	-1.7	-1.2
1956-60	-10.4	21.0	10.6	-5.6	5.0
1961	-14.3	28.6	14.3	-8.9	5.4
1962	-12.7	27.4	14.7	-17.4	-2.7

SOURCES: Tables 141, 142 and 148.

^a No sign indicates a net inflow of funds, i.e., a positive contribution to the total capacity to import; a minus sign means a net outflow of funds, i.e., a negative contribution to the total capacity to import.

^b Covers earnings of direct investment enterprises (including reinvested earnings) plus interest paid by Latin American residents on short and

long-term loans from foreign private and official lending institutions.

^c Covers net inflow of autonomous foreign short and long-term capital, as adjusted in tables 141 and 142. It includes reinvested earnings of direct investment enterprises.

^d Covers net movements of autonomous domestic short and long-term capital as adjusted in tables 141 and 142.

cent in 1956-60, 14.3 per cent in 1961 and 14.7 per cent in 1962. The fact remains, therefore, that these operations tended to increase the region's total capacity to import, particularly from 1955 onwards.

Actually, the situation differed considerably from one country to another. The contribution made by the movements of foreign funds less service payments in seven countries (Argentina, Bolivia, Brazil, Guatemala, Haiti, Paraguay and Peru) equalled or exceeded the average for the region as a whole (excluding Cuba and Venezuela) during the period 1956-60; was below that average in six other countries (Costa Rica, El Salvador, Mexico, Nicaragua, Panama and Uruguay), and in the remaining six (Chile, Colombia, Dominican Republic, Ecuador, Honduras and Venezuela) foreign capital transactions, after deduction of service payments, were balanced by net outflows, thereby considerably reducing the total capacity to import.

It should be noted that the first group comprises not only two of the four principal recipients of long-term foreign capital (Argentina and Brazil), but also countries which received only small amounts of foreign funds, often on such terms as not to generate service payments (donations), and whose exports were limited in volume

(Bolivia, Guatemala, Haiti and Paraguay). Conversely, the last group includes countries which received a major proportion of foreign funds in the form of new direct investment in the export sector, and whose earnings easily exceeded the new inflows of funds (Chile, Honduras, and Venezuela).

2. EFFECTS OF DOMESTIC CAPITAL MOVEMENTS ON THE TOTAL CAPACITY TO IMPORT

In order to measure the effects of domestic capital operations on the capacity to import, after deduction of service payments, suffice it to calculate the balance of the movements of domestic funds entered on capital account as a percentage of that capacity, since these movements did not usually generate reverse flows of service payments on current account. The results of this calculation should be accepted with certain reservations, because the series covering movements of domestic funds on capital account is only approximate, as explained earlier. There is no doubt, however, that the growing net domestic capital outflows tended to reduce Latin America's total capacity to import on a progressively larger scale from 1956 onwards, whether or not Venezuela

Table 155. Latin America: foreign investment income and net non-compensatory movements of foreign and domestic capital as a percentage of the total capacity to import, by country,^a 1946-61

Country	1946-50					1951-55				
	Foreign investment income and net foreign capital inflow			Net movements of domestic capital and net errors and omissions ^d	Total (3+4)	Foreign investment income and net foreign capital inflow			Net movements of domestic capital and net errors and omissions ^d	Total (8+9)
	Foreign investment income ^b	Net foreign capital inflow ^c	Total (1+2)			Foreign investment income ^b	Net foreign capital inflow ^c	Total (6+7)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
Argentina	-5.3	-24.0	-29.3	-0.7	-30.0	-2.5	6.6	4.1	1.1	5.2
Bolivia	-15.8	9.0	-6.8	1.5	-5.3	-3.0	16.8	13.8	-0.4	13.4
Brazil	-9.93	0.01	-9.92	-6.19	-16.11	-12.2	8.1	-4.1	1.5	-2.6
Chile	-23.5	8.2	-15.3	1.9	-13.4	-18.4	7.0	-11.4	-1.5	-12.9
Colombia	-5.5	10.4	4.9	1.6	6.5	-4.7	12.1	7.4	-6.9	-0.5
Costa Rica	-18.9	14.6	-4.3	5.0	0.7	-17.6	5.8	-11.8	2.9	-8.9
Dominican Republic	-32.7	-4.0	-36.7	-13.9	-50.6	-14.1	1.4	-12.7	-2.3	-15.0
Ecuador	-7.5	18.5	11.0	-4.5	6.5	-20.4	13.0	-7.4	-10.2	-17.6
El Salvador	-3.7	-0.3	-4.0	-12.2	-16.2	-3.8	2.7	-1.1	-13.4	-14.5
Guatemala	-8.4	6.9	-1.5	-8.5	-10.0	-0.8	4.0	3.2	-3.7	-0.5
Haiti	-4.2	-2.2	-6.4	-0.7	-7.1	-8.9	21.6	12.7	-10.1	2.6
Honduras	-58.3	14.4	-43.9	3.7	-40.2	-18.2	16.5	-1.7	-3.9	-5.6
Mexico	-12.8	11.9	-0.9	0.7	-0.2	-11.8	14.0	2.2	-5.0	-2.8
Nicaragua	-23.8	8.9	-14.9	2.7	-12.2	-13.7	11.7	-2.0	-3.4	-5.4
Panama	-16.1	14.6	-1.5	12.4	10.9	-18.4	6.2	-12.2	15.9	3.7
Paraguay	-3.4	3.3	-0.1	4.1	4.0	-3.4	12.6	9.2	-8.1	1.1
Peru	-9.4	7.8	-1.6	-0.5	-2.1	-9.0	20.7	11.7	-3.8	7.9
Uruguay	-4.3	2.0	-2.3	-0.3	-2.6	-3.4	6.1	2.7	-1.4	1.3
<i>Subtotal I</i>	<i>-10.4</i>	<i>-1.3</i>	<i>-11.7</i>	<i>-1.4</i>	<i>-13.1</i>	<i>-9.4</i>	<i>9.9</i>	<i>0.5</i>	<i>-1.7</i>	<i>-1.2</i>
Venezuela	-50.6	34.3	-16.3	-13.0	-29.3	-54.1	8.7	-45.4	-5.8	-51.2
<i>Subtotal II</i>	<i>-16.2</i>	<i>3.9</i>	<i>-12.3</i>	<i>-3.1</i>	<i>-15.4</i>	<i>-16.3</i>	<i>-9.7</i>	<i>-6.6</i>	<i>-2.4</i>	<i>-9.0</i>
Cuba	-10.3	-2.1	-12.4	-5.2	-17.6	-7.9	9.6	1.7	0.8	2.5
TOTAL	-15.6	3.2	-12.4	-3.3	-15.7	-15.5	9.7	-5.8	-2.1	-7.9

Table 155. Latin America: foreign investment income and net non-compensatory movements of foreign and domestic capital as a percentage of the total capacity to import, by country,^a 1946-61 (continued)

Country	1956-60					1961				
	Foreign investment income and net foreign capital inflow			Net movements of domestic capital and net errors and omissions ^d	Total (13+14)	Foreign investment income and net foreign capital inflow			Net movements of domestic capital and net errors and omissions ^d	Total (18+19)
	Foreign investment income ^b	Net foreign capital inflow ^c	Total (11+12)			Foreign investment income ^b	Net foreign capital inflow ^c	Total (16+17)		
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	
Argentina	-4.6	26.3	21.7	-5.1	16.6	-16.1	35.1	19.0	8.6	27.6
Bolivia	-3.1	52.0	48.9	-18.3	30.6	-2.7	49.0	46.3	-8.4	37.9
Brazil	-14.4	28.0	13.6	-8.4	5.2	-14.0	31.8	17.8	-5.2	12.6
Chile	-17.4	16.8	-0.6	1.2	0.6	-17.8	46.5	28.7	-7.5	21.2
Colombia	-9.2	2.8	-6.4	-17.0	-23.4	-13.7	22.7	9.0	-14.3	-5.3
Costa Rica	-6.0	13.4	7.4	3.6	11.0	-3.4	12.9	9.5	-5.3	4.2
Dominican Republic	-10.1	9.8	-0.3	-20.9	-21.2	-23.8	-43.5	-67.3	-59.1	-126.4
Ecuador	-21.7	15.8	-5.9	-1.3	-7.2	-26.7	29.1	2.4	-18.0	-15.6
El Salvador	-3.8	4.8	1.0	-4.3	-3.3	-4.6	12.7	8.1	-15.6	-7.5
Guatemala	-4.4	30.4	26.0	-3.8	22.2	-11.2	28.3	17.1	-6.0	11.1
Haiti	-5.9	24.2	18.3	-29.1	-10.8	-8.1	44.5	36.4	-25.8	10.6
Honduras	-8.7	5.1	-3.6	2.2	-1.4	-2.5	3.6	1.1	-7.2	-6.1
Mexico	-13.7	19.5	5.8	-6.2	-0.4	-17.6	33.7	16.1	-27.9	-11.8
Nicaragua	-5.2	14.5	9.3	-3.6	5.7	-6.0	24.5	18.5	-19.2	-0.7
Panama	-13.6	22.1	8.5	6.2	14.7	-8.1	15.3	7.2	11.0	18.2
Paraguay	-2.8	21.9	19.1	2.7	21.8	-3.5	30.5	27.0	-3.7	23.3
Peru	-12.7	23.0	10.3	-0.1	10.2	-13.1	6.6	-6.5	-2.9	-9.4
Uruguay	-4.1	12.1	8.0	8.7	16.7	-4.7	-0.8	-5.5	-28.0	-33.5
<i>Subtotal I</i>	<i>-10.4</i>	<i>21.0</i>	<i>10.6</i>	<i>-5.6</i>	<i>5.0</i>	<i>-14.3</i>	<i>28.6</i>	<i>14.3</i>	<i>-8.9</i>	<i>5.4</i>
Venezuela	-48.8	12.3 ^e	-36.5 ^e	-6.6 ^e	-43.1	-52.5	-9.4	-61.9	-30.2	-92.1
<i>Subtotal II</i>	<i>-18.7</i>	<i>19.2^e</i>	<i>0.5^e</i>	<i>-5.8^e</i>	<i>-5.3</i>	<i>-20.6</i>	<i>22.5</i>	<i>1.9</i>	<i>-12.4</i>	<i>-10.5</i>
Cuba . . . . .	...	...	...	...	...	...	...	...	...	...
TOTAL	...	...	...	...	...	...	...	...	...	..

SOURCES: Tables 143-146 and 149-152.

^a No sign indicates a net inflow of funds, i.e., a positive contribution to the total capacity to import; a minus sign means a net outflow of funds, i.e., a negative contribution to the total capacity to import.

^b Covers earnings of direct investment enterprises (including reinvested earnings), plus interest paid by Latin American residents on short and long-term loans from foreign private and official lending institutions.

^c Covers the net inflow of short and long-term autonomous foreign capital, as adjusted in tables 143-146. It includes reinvested earnings of direct investment enterprises.

^d Covers net movements of short and long-term autonomous domestic capital, as adjusted in tables 143-146.

^e These percentages have been calculated on the basis of figures excluding some receipts of foreign credits entered retroactively in the Venezuelan balance of payments.

is included in the regional total.¹⁷ Moreover, this situation was particularly serious in the last few years, when domestic funds transferred abroad appear to have reduced Latin America's total capacity to import by over 10 per cent.¹⁸

¹⁷ If the region is taken as a whole (excluding Cuba), net domestic capital outflows calculated as a percentage of the total capacity to import declined between the first and second post-war quinquennia. (from 3.1 per cent in 1946-50 to 2.4 per cent in 1951-55), but increased substantially from 1955 onwards, averaging 5.8 per cent in 1956-60. If the figures for Venezuela are also excluded, these outflows — still calculated as a percentage of the total capacity to import — followed an upward trend, climbing from 1.4 per cent in 1946-50 to 1.7 per cent in 1951-55 and 5.6 per cent in 1956-60.

¹⁸ Domestic capital outflows calculated as a percentage of the total capacity to import amounted to 12.4 per cent in 1961 and 18.3 per cent in 1962 for the region as a whole (excluding Cuba), and 8.9 per cent in 1961 and 17.4 per cent in 1962 if Venezuela is also excluded.

As was to be expected, the pressure of outflows of domestic funds on the capacity to import varied widely from one country to another. Thus, it was relatively heavy in the period 1956-60 in seven countries, including both those in which domestic capital outflows reached high figures (Brazil, Colombia, Mexico and Venezuela), and countries where such outflows were generally small but exports also were limited (Bolivia, Dominican Republic and Haiti).

3. EFFECTS OF MOVEMENTS OF AUTONOMOUS CAPITAL OF ALL TYPES ON THE TOTAL CAPACITY TO IMPORT

A comparison between the effects of movements of foreign funds after service payments had been made and the effects of movements of domestic funds on the total capacity to import makes it possible to determine what influence the movements of all types of autonomous

capital ultimately exerted on that capacity. Three general comments can be made on the basis of this comparison.

1. Autonomous capital movements in the region as a whole, after deduction of service payments, had a persistently negative effect on Latin America's total capacity to import.

2. The position improved steadily over the long term. For the region as a whole (excepting Cuba), the negative balance of net foreign and domestic inflows of funds, less external service payments, gradually declined with respect to the total capacity to import (from 15.4 per cent in 1946-50 to 9 per cent in 1951-55 and 5.3 per cent in 1956-60). This trend appears somewhat more favourable after 1955 if the figures for Venezuela are also excluded from the regional total. In this way, net movements of autonomous funds of all types, after deduction of service payments, are seen to reflect a positive balance

in favour of the region, which increased the total capacity to import by 5 per cent in 1956-60 and 5.4 per cent in 1961. However, the trend does not seem to have been maintained in 1962.

3. Net autonomous capital inflow less service payments failed to increase the total capacity to import in all countries, even during the period 1956-60. In actual fact these inflows exceeded foreign investment income and therefore contributed to increasing the total capacity to import, in only ten of the nineteen Latin American countries for which figures are available (Argentina, Bolivia, Brazil, Chile, Costa Rica, Guatemala, Panama, Paraguay, Peru and Uruguay). In the other nine countries (Colombia, Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Mexico, Nicaragua and Venezuela) autonomous capital inflows were less than foreign investment income, the resulting debit balance helping to reduce the total capacity to import.

D. CONCLUSION

It seems apparent that foreign capital inflows, after deduction of service payments, reflected a credit balance in favour of the region at least from 1956 onwards, thereby helping to increase the resources available for financing imports. On the other hand, the growing domestic capital outflows helped, in the long run, to reduce those resources. Lastly, the contribution of autonomous capital movements as a whole to the capacity to import, and consequently to balancing the Latin American countries' external payments, seems very modest if account is taken of the region's huge service payments abroad.

Admittedly, this conclusion is based solely on a review of the *direct effects* of autonomous capital movements on external payments, which are easily measured with the aid of balance of payments figures. But in principle, these movements can be said to have had economic effects as well; for example, the contribution of new direct investment to the expansion of sales abroad when channelled into the export sector, its incidence in the import substitution and industrialization process, and its share in infrastructural capital formation, which constitute other facets of the development process not covered by the present study.

Chapter IX

LONG-TERM FOREIGN CAPITAL SERVICING AND ITS EFFECTS ON LATIN AMERICA'S EXTERNAL PAYMENTS

The accumulation of foreign capital as a result of inflows of funds from abroad naturally entails an increase in the service payments due from the Latin American republics to other countries.

In the preceding chapter, net autonomous capital inflows were balanced against foreign investment income; that is, the sums disbursed for amortization of non-compensatory loans, the interest payable on such loans and the earnings of foreign firms established in the region were successively deducted from the gross amount of autonomous external capital contributions. This method is justifiable so long as it is the net *ex post* contribution of autonomous foreign capital movements to the region's balance of external payments over the long term that has to be determined. But when the aim is to reconstruct the situation in which the debtor countries found themselves *ex ante* with respect to the servicing of foreign capital invested in their territory, the analysis must be carried further, and other factors must be taken into account.

In these circumstances, all forms of long-term foreign capital servicing (earnings of foreign enterprises esta-

blished in the region, as well as interest and amortization payments on long-term compensatory and non-compensatory loans) must be considered; and these service payments must then be compared with the capacity of the debtor countries, which in turn depends upon the evolution of domestic saving and on the possibility of transferring this saving (i.e., on export earnings).¹

¹ The concept of external debt servicing capacity — or, more broadly speaking, foreign capital servicing capacity — has been studied during recent years by IBRD economists. See especially D. Avramovic and R. Gulhati, *Debt Servicing Capacity and Post-War Growth in International Indebtedness*, IBRD, Washington, 1958, and *Debt Servicing Problems of Low-Income Countries, 1956-58*, IBRD, Washington, 1960; Gerald M. Alter, "The Servicing of Foreign Capital by Under-Developed Countries", *Economic Development for Latin America: Proceedings of a Conference held by the International Economic Association*, London, 1961, pp. 139-167; S. R. N. Badri Rao, *Recent Changes in the External Public Indebtedness of Latin American Countries*, IBRD, Washington, 1963. See also the statement of the question by Raymond F. Mikesell, "The Capacity to Service Foreign Investment", *United States Private and Government Investment Abroad*, University of Oregon, 1962, pp. 377-406.

A. EVOLUTION OF LONG-TERM FOREIGN CAPITAL SERVICING

Long-term foreign capital servicing must be defined in the broadest possible terms as aggregate payments to foreign countries made in connexion with capital invested in the region, whether they correspond to the earnings of direct investment enterprises, to interest on long-term loans contracted abroad, or to amortization of the principal of these loans.

The following three significant aggregates can be differentiated on the basis of the data furnished in the Latin American balances of payments, as compiled by IMF:

(a) Direct investment income, which is equivalent to the aggregate earnings of enterprises operating in Latin America, but controlled from abroad. This concept includes earnings reinvested on the spot, whereas it ought properly to cover only those transferred abroad. The burden represented by the servicing of direct investment might therefore be regarded as over-estimated;

(b) Long-term external debt servicing, which is equivalent to the sums disbursed in respect of repayment of all long-term loans granted by foreign credit institutions to public and private residents in Latin America (autonomous loans, deferred payment imports, extraordinary

compensatory financing), plus the interest paid on such loans. It proved impossible to distinguish from these latter the interest paid on short-term loans, but this does not seem to have represented substantial sums, except perhaps in countries where the short-term operations of the monetary authorities resulted in a heavy piling-up of debts to the foreign private sector (swaps negotiated by the Banco do Brasil, for example);

(c) Long-term foreign capital servicing, which is equivalent to the sum of direct-investment income and long-term external debt servicing.

1. TOTAL LONG-TERM FOREIGN CAPITAL SERVICING

Table 156 and figures XIX and XX present these three series for the region as a whole, with the exclusion of Cuba and Venezuela, for the reasons previously set forth. In addition, tables 157 and 158 furnish the same data for each of the twenty Latin American countries.

According to the tables and figures referred to, long-term foreign capital servicing substantially increased. In the region as a whole (excluding Cuba), it rose from some 800 million dollars in 1946 to about 2,600 million

Table 156. Latin America: service payments on long-term foreign capital, 1946-62
(Millions of dollars)

Year	Latin America				Latin America (excluding Cuba)				Latin America (excluding Cuba and Venezuela)						
	Direct investment income ^a (1)	External long-term debt service			Total service payments on long-term foreign capital (1+4) (5)	Direct investment income ^a (6)	External long-term debt service			Total service payments on long-term foreign capital (6+9) (10)	Direct investment income ^a (11)	External long-term debt service			Total service payments on long-term foreign capital (11+14) (15)
		Interest ^b (2)	Amortization ^c (3)	Total (2+3) (4)		Interest ^b (7)	Amortization ^c (8)	Total (7+8) (9)		Interest ^b (12)	Amortization ^c (13)	Total (12+13) (14)			
1946	391.8	165.7	327.4	493.1	884.9	357.1	158.5	321.1	479.6	836.7	195.8	158.5	320.2	478.7	674.5
1947	600.9	135.7	241.9	377.6	978.5	536.6	125.0	235.2	360.2	896.8	257.9	125.0	234.8	359.8	617.7
1948	810.5	68.8	805.7	874.5	1,685.0	765.8	60.7	798.7	859.4	1,625.2	329.1	60.7	798.5	859.2	1,188.3
1949	547.0	72.2	205.9	278.1	825.1	520.9	67.1	202.7	269.8	790.7	261.3	67.1	202.7	269.8	531.1
1950	782.7	70.8	337.2	408.0	1,190.7	721.7	65.3	326.0	391.3	1,113.0	329.1	65.2	325.7	390.9	720.0
1951	947.9	74.1	165.9	240.0	1,187.9	882.0	69.2	164.6	233.8	1,115.8	458.2	69.1	164.0	233.1	691.3
1952	891.7	78.2	142.8	221.0	1,112.7	837.8	75.5	142.2	217.7	1,055.5	385.9	75.2	140.9	216.1	602.0
1953	818.7	110.5	276.2	386.7	1,205.4	788.7	106.8	260.5	367.3	1,156.0	342.5	106.8	260.1	366.9	709.4
1954	826.8	120.6	385.8	506.4	1,333.2	790.6	118.8	383.4	502.2	1,292.8	297.3	118.8	375.9	494.7	792.0
1955	973.6	119.7	393.1	512.8	1,486.4	931.3	113.3	387.0	500.3	1,431.6	338.4	113.3	383.7	497.0	835.4
1956	1,221.3	146.4	429.8	576.2	1,797.5	1,169.9	137.6	427.3	564.9	1,734.8	397.2	137.0	422.6	559.6	956.8
1957	1,455.2	157.8	643.5	801.3	2,256.5	1,377.2	149.0	610.8	759.8	2,137.0	354.4	148.8	605.0	753.8	1,108.2
1958	1,063.2	176.1	1,140.5	1,316.6	2,379.8	1,011.2	164.5	1,100.9	1,265.4	2,276.6	369.4	163.9	752.6	916.5	1,285.9
1959	933.8	245.0	1,230.7	1,475.7	2,409.5	886.4	233.2	1,171.8	1,405.0	2,291.4	365.7	231.5	786.1	1,017.6	1,383.3
1960 . . . . .	...	...	...	...	...	931.1	264.7	1,175.8	1,440.5	2,371.6	452.6	264.4	932.0	1,196.4	1,649.0
<i>Average</i>															
1946-50	626.6	102.6	383.6	486.2	1,112.8	580.4	95.3	376.7	472.0	1,052.4	274.6	95.3	376.4	471.7	746.3
1951-55	891.7	100.6	273.0	373.6	1,265.3	846.0	196.7	267.8	364.5	1,210.5	364.5	96.6	265.0	361.6	726.1
1956-60 . . . . .	...	...	...	...	...	1,075.2	189.8	897.2	1,087.0	2,162.2	387.9	189.1	699.5	888.6	1,276.5
1961 . . . . .	...	...	...	...	...	1,080.0	319.6	1,203.7	1,523.3	2,603.3	519.3	297.0	992.8	1,289.8	1,809.1
1962 ^d . . . . .	...	...	...	...	...	1,011.2	332.1	1,347.8	1,674.9	2,691.1	412.9	310.9	1,196.9	1,507.8	1,920.7

SOURCES: Annexes I and II.

^a Corresponds to item A.15.1 (debit) of annex I, and covers the earnings of net direct investment enterprises in Latin America, including reinvested earnings. The losses suffered by these enterprises in some countries are not deducted from the earnings.

^b Corresponds to item A.15.2 (debit) of annex I, and mainly covers interest paid by Latin American residents on short and long-term liabilities to foreigners.

^c Corresponds to items B.2.12 (debit), B.3.1 (debit), E.1 (debit) and E.2 (debit) of annex II, and covers reimbursements on long-term loans granted to Latin American official and private sectors, including reimbursements on deferred import payments and balance-of-payments loans, as defined in the General Methodological Note. The figures have been adjusted to exclude some large reimbursements on deferred import payments which were immediately refinanced by balance-of-payments loans (300.0 million dollars in Brazil in 1953, 168 million in 1957 and 25.2 million in 1958 in Colombia).

^d Preliminary figures.

Table 157. Latin America: service payments on long-term foreign capital, by country, 1946-60

(Millions of dollars)

Country	1946-50					1951-55					1956-60				
	Direct investment income ^a	External long-term debt service			Total service payments on long-term foreign capital (1+4)	Direct investment income ^a	External long-term debt service			Total service payments on long-term foreign capital (6+9)	Direct investment income ^a	External long-term debt service			Total service payments on long-term foreign capital (11+14)
		Interest ^b	Amortization ^c	Total (2+3)			Interest ^b	Amortization ^c	Total (7+8)			Interest ^b	Amortization ^c	Total (12+13)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
Argentina . . . . .	...	240.2	961.8	1,202.0	1,202.0	43.9	66.1	66.5	132.6	176.5	139.3	98.7	334.0	432.7	572.0
Bolivia	46.9	3.1	2.6	5.7	52.6	5.1	6.5	53.9	60.4	65.5	2.5	8.2	41.2	49.4	51.9
Brazil	299.8	99.0	512.9	611.9	911.7	509.0	208.0	575.0	783.0	1,292.0	297.0	461.0	1,551.0	2,012.0	2,309.0
Chile	238.7	39.5	68.1	107.6	346.3	251.0	60.4	148.0	208.4	459.4	253.5	79.3	245.4	324.7	578.2
Colombia	57.8	19.8	37.2	57.0	114.8	80.3	36.5	114.5	151.0	231.3	127.5	55.9	289.2	345.1	472.6
Costa Rica	35.0	1.2	1.4	2.6	37.6	57.5	1.5	3.0	4.5	62.0	20.3	5.9	15.3	21.2	41.5
Dominican Republic	75.2	1.0	18.1	19.1	94.3	63.3	0.7	6.3	7.0	70.3	41.0	10.5	52.5	63.0	104.0
Ecuador	14.4	1.7	2.6	4.3	18.7	68.6	3.7	10.7	14.4	83.0	100.8	11.0	33.0	44.0	144.8
El Salvador	4.4	2.5	3.3	5.8	10.2	8.8	4.5	4.2	8.7	17.5	12.4	6.0	7.0	13.0	25.4
Guatemala	22.5	—	0.5	0.5	23.0	3.2	—	0.5	0.5	3.7	22.7	5.4	7.4	12.8	35.5
Haiti	4.4	1.1	8.9	10.0	14.4	17.9	1.5	13.6	15.1	33.0	7.8	3.8	7.4	11.2	18.4
Honduras	96.6	—	2.1	2.1	98.7	50.4	—	1.8	1.8	52.2	26.3	1.3	6.7	8.0	34.3
Mexico	320.2	40.0	159.5	199.5	519.7	442.3	54.3	234.3	288.6	730.9	625.9	109.3	688.0	797.3	1,423.2
Nicaragua	23.4	0.9	5.3	6.2	29.6	31.7	1.4	9.7	11.1	42.8	10.9	4.3	17.6	21.9	32.8
Panama	48.7	2.0	18.0	20.0	68.7	73.7	4.2	21.3	25.5	99.2	82.0	4.9	17.3	22.2	104.2
Paraguay	2.4	1.6	10.9	12.5	14.9	3.0	2.2	11.4	13.6	16.6	1.7	3.8	8.6	12.4	14.1
Peru	59.8	4.4	10.0	14.4	74.2	95.6	18.1	30.6	42.7	138.3	157.9	53.5	149.9	203.4	361.3
Uruguay	23.0	18.5	58.7	77.2	100.2	16.9	19.6	20.7	40.3	57.2	10.4	22.8	26.1	48.9	59.3
Subtotal I	1,373.2	476.5	1,881.9	2,358.4	3,731.6	1,822.2	483.2	1,326.0	1,809.2	3,631.4	1,939.3	945.6	3,497.6	4,443.2	6,382.5
Venezuela	1,528.9	0.1	1.8	1.9	1,530.8	2,408.2	0.4	13.1	13.5	2,421.7	3,436.5	3.4	988.3	991.7	4,428.2
Subtotal II	2,902.1	476.6	1,883.7	2,360.3	5,262.4	4,230.4	483.6	1,339.1	1,822.7	6,053.1	5,375.8	949.0	4,485.9	5,434.9	10,810.7
Cuba	230.8	36.6	34.4	71.0	301.8	228.3	19.5	26.1	45.6	273.9	...	...	...	...	...
TOTAL	3,132.9	513.2	1,918.1	2,431.3	5,564.2	4,458.7	503.1	1,365.2	1,868.3	6,327.0	...	...	...	...	...

SOURCES: Annexes I and II.

Note: See footnotes a, b and c to table 156.

Table 158. Latin America: service payments on long-term foreign capital, by country, 1959-61
(Millions of dollars)

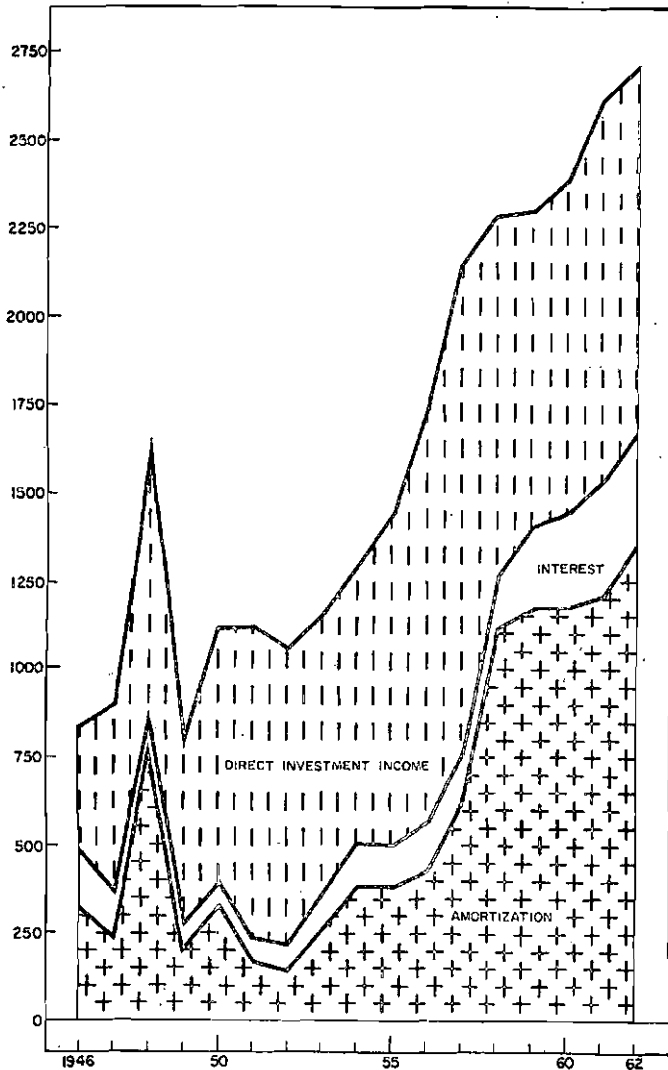
Country	1959					1960					1961				
	Direct investment income ^a	External long-term debt service			Total service payments on long-term foreign capital (1+4)	Direct investment income ^a	External long-term debt service			Total service payments on long-term foreign capital (6+9)	Direct investment income ^a	External long-term debt service			Total service payments on long-term foreign capital (11+14)
		Interest ^b	Amortization ^c	Total (2+3)			Interest ^b	Amortization ^c	Total (7+8)			Interest ^b	Amortization ^c	Total (12+13)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
Argentina	28.2	32.9	63.4	96.3	124.5	63.0	25.4	78.2	103.6	166.6	115.9	49.9	201.3	251.2	167.1
Bolivia	—	1.8	9.3	11.1	11.1	—	1.1	5.0	6.1	6.1	—	2.0	14.2	16.2	16.2
Brazil	52.0	100.0	382.0	482.0	534.0	61.0	137.0	403.0	540.0	601.0	61.0	126.0	317.0	443.0	504.0
Chile	38.3	19.6	50.5	70.1	108.4	50.0	18.5	59.6	78.1	128.1	48.5	28.4	78.4	106.8	155.3
Colombia	18.7	19.1	48.7	67.8	86.5	27.1	14.9	67.8	82.7	109.8	36.0	14.8	75.8	90.6	126.6
Costa Rica	3.0	1.2	3.0	4.2	7.2	2.6	1.4	4.7	6.1	8.7	1.1	1.8	4.7	6.5	7.6
Dominican Republic	11.1	4.1	17.5	21.6	32.7	11.0	2.9	21.0	23.9	34.9	11.8	1.5	25.2	2.7	38.5
Ecuador	20.6	2.8	7.3	10.1	30.7	22.1	2.1	7.9	10.0	32.1	20.9	3.1	10.3	13.4	34.3
El Salvador	2.7	1.2	2.3	3.5	6.2	3.0	1.2	2.0	3.2	6.2	2.8	1.6	2.5	4.1	6.9
Guatemala	3.6	2.1	2.4	4.5	8.1	9.7	1.6	4.4	6.0	15.7	11.3	2.0	3.5	5.5	16.8
Haiti	0.8	0.9	0.2	1.1	1.9	3.5	0.5	0.1	0.6	4.1	3.1	0.2	0.3	0.5	3.6
Honduras	2.9	0.4	1.4	1.8	4.7	—	0.5	4.1	4.6	4.6	1.0	0.6	2.3	2.9	3.9
Mexico	128.6	24.5	161.5	86.0	314.6	137.4	30.1	209.9	240.0	377.4	148.1	40.2	187.2	227.4	375.5
Nicaragua	1.7	0.9	4.3	5.2	6.9	1.2	0.9	2.7	3.6	4.8	2.2	1.1	3.7	4.8	7.0
Panama	14.0	1.2	0.7	1.9	15.9	16.0	1.1	3.5	4.6	20.6	12.6	1.5	0.7	2.2	14.8
Paraguay	0.2	0.8	1.2	2.0	2.2	0.4	1.2	1.1	2.3	2.7	0.5	1.3	2.7	4.0	4.5
Peru	38.0	13.3	24.9	38.2	76.2	43.0	19.3	53.6	72.9	115.9	40.9	16.3	59.2	75.5	116.4
Uruguay	1.3	4.7	5.5	10.2	11.5	1.6	4.7	3.4	8.1	9.7	1.6	4.7	3.8	8.5	10.1
Subtotal I	365.7	231.5	786.1	1,017.6	1,383.3	452.6	264.4	932.0	1,196.4	1,649.0	519.3	297.0	992.8	1,289.8	1,809.1
Venezuela	520.7	1.7	385.7	387.4	908.1	478.5	0.3	243.8	244.1	722.6	567.2	22.6	210.9	233.5	800.7
Subtotal II	886.4	233.2	1,171.8	1,405.0	2,291.4	931.1	264.7	1,175.8	1,440.5	2,371.6	1,086.5	319.6	1,203.7	1,523.3	2,609.8
Cuba	47.4	11.8	58.9	70.7	118.1	...	...	...	...	...	...	...	...	...	...
TOTAL	933.8	245.0	1,230.7	1,475.7	2,409.5	...	...	...	...	...	...	...	...	...	...

SOURCES: Annexes I and II.

Note: See footnotes a, b and c to table 156.

Figure XIX. Latin America (excluding Cuba): service payments on long-term foreign capital, 1946-62

(MILLIONS OF DOLLARS)
Natural scale



SOURCE: Table 157.

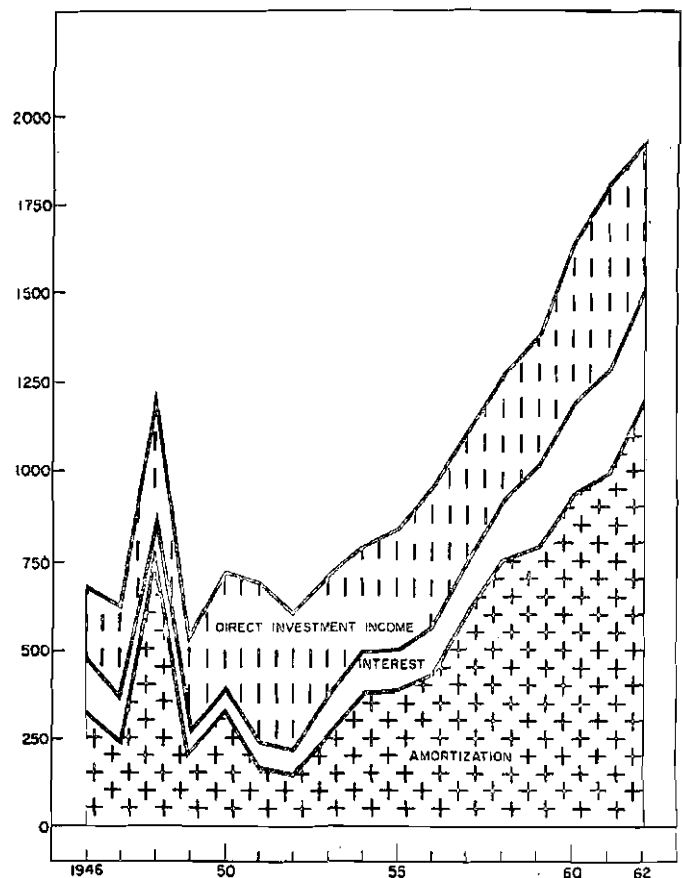
in 1961, or, in other words, more than trebled in sixteen years (if the beginning and end of the period are taken as points of reference).

This upward trend was not uninterrupted. The servicing of foreign capital did not really increase to a very marked extent between the first and second quinquennia of the post-war period, since its annual average climbed from about 1,000 million dollars in 1946-50 to approximately 1,200 million in 1951-55. In 1956, however, it began to soar, reaching an annual average of about 2,100 million dollars in 1956-60, a figure which implies an increase of 75 per cent, between the first and second half of the fifties. The upward movement continued in more recent years, bringing the servicing of foreign capital up to 2,600 million dollars in 1961 and a similar level in 1962.

The rising trend was widespread throughout the region. Between 1951-55 and 1955-60, payments under the head of servicing of foreign capital decreased in only six

Figure XX. Latin America (excluding Cuba and Venezuela): service payments on long-term foreign capital, 1946-62

(MILLIONS OF DOLLARS)
Natural scale



SOURCE: Table 157.

countries (Bolivia, Costa Rica, Haiti, Honduras, Nicaragua and Paraguay). The remainder, in contrast, paid out sums representing, as a rule, substantial increments.

2. LONG-TERM EXTERNAL DEBT SERVICING

As far as long-term external debt servicing was concerned, the burden became a good deal heavier in the course of the post-war period, increasing from some 500 million dollars in 1946 to about 1,500 million in 1961 and about 1,600 million in 1962. This trend was not continuous, since payments under the head of servicing decreased between the first and second quinquennia of the post-war period, only to rise rapidly from 1956 onwards. As was previously noted, at the end of the Second World War several of the Latin American countries paid off their external arrears and purchased foreign-owned direct investment enterprises, with the result that amortization payments (including disbursements for financing these purchases), and, therefore, external debt servicing, reached a very high level at that time; but they were considerably reduced in the next few years. Naturally, when the Latin American countries started borrowing again in the mid-fifties, debt servicing once again became a relatively heavy item.

Its rapid upward trend from 1956 onwards was in some measure due to the increase in payments of interest, which rose from an annual average of 96.7 million dollars in 1951-55 to one of 189.8 million in 1956-60, i.e., by 90 per cent. As from 1960 the trend was accelerated, since payments under the head of interest amounted to 319.6 million dollars in 1961 and 332.1 million in 1962. This long-term upward movement is explained not only by the expansion of the volume of the current external debt, but also by the higher rates of interest consequent upon the rise in the price of money registered after the end of the Second World War in most of the capital-exporting countries.²

Amortization payments, however, increased much faster than payments of interest. The sums disbursed for repayment of the principal of long-term loans opened by foreign credit institutions, computed in terms of annual averages, rose from 267.8 million dollars in 1951-55 to 897.2 million in 1956-60, i.e., by 235 per cent between the first and second halves of the decade. The rate of increase seems to have speeded up from 1960 onwards, since the payments in question amounted to 1,203.7 million dollars in 1961 and 1,347.8 million in 1962.

Because the rising trend was so much more rapid in the case of amortization payments than in that of interest, the share of the former in debt servicing appreciably increased (from 73.5 per cent in 1951-55 to 82.5 per cent in 1956-60 and similar percentages in 1961 and 1962), whereas the proportion represented by the latter decreased correspondingly.

This marked increase in amortization payments is attributable not only to the growth of the region's external debt, but also to a trend towards the reduction of maturity periods. According to D. Avramovic and R. Gulhati,³ it would have taken twenty-eight years to liquidate Latin America's long-term external public debt completely at the rate of repayment prevailing just after the Second World War. But by 1955, according to S. R. N. Badri Rao,⁴ it would have taken only about ten years, and about eight in 1960.⁵

² See D. Avramovic and R. Gulhati, *Debt Servicing Capacity and Post-War Growth in International Indebtedness*, op. cit., pp. 34-35; and D. Avramovic and R. Gulhati, *Debt Servicing Problems of Low-Income Countries, 1956-1958*, op. cit., pp. 18-22. These two writers attempt to estimate, for each under-developed region of the world, the real rate of interest on its long-term external public debt, by relating interest payments to the volume of that debt outstanding. The figures thus obtained are lower than the rates actually paid, the volume of debt outstanding being equivalent, according to the definitions adopted by IBRD, not to the cumulative balance of disbursements minus repayments, but to the cumulative balance of credit authorizations minus repayments. Nevertheless, they clearly reveal the upward trend in the price of money. Thus, the real rate of interest for Latin America would seem to have risen from 1.9 per cent in 1946-48 to 2.1 per cent in 1953-55 and to 3.7 per cent in 1956-59.

³ See *Debt Servicing Problems of Low-Income Countries, 1956-1958*, op. cit., p. 21.

⁴ See *Recent Changes in the External Public Indebtedness of Latin American Countries*, op. cit., p. 15 and tables I and VIII.

⁵ To calculate these periods, amortization payments were related to the "total amount outstanding" of Latin America's external public debt, i.e., to the balance of the credit authorizations obtained

This shortening of external debt maturity periods can undoubtedly be ascribed to the fact that a growing proportion of the long-term foreign loans granted to the Latin American countries took the form of medium-term trade credits with an average duration of not more than five years.

3. DIRECT INVESTMENT INCOME

Direct investment income (including reinvested earnings) underwent very sharp fluctuations over the short term. During the post-war period, in the region as a whole (excluding Cuba) it three times rose to a peak: once in 1948 (765.8 million dollars), owing to the marked recovery of the region's export trade just after the Second World War; again in 1951 (882 million dollars), when the price of ore mounted during the Korean boom; and yet again in 1957 (1,377.2 million dollars), thanks to the increase in the value of Latin America's petroleum exports as a result of the Suez crisis. It sank to three minimum levels in 1949, 1953 and 1959. After that it recovered in some measure, climbing from 886.4 million dollars in 1959 to 931.1 million in 1960 and 1,080 million in 1961, but in 1962, according to the preliminary data available for that year, it once again declined (to 1,011.2 million dollars).

Despite these short-term fluctuations, direct investment income followed a manifestly rising trend, for it increased by 45.7 per cent between the first and second quinquennia of the post-war period, and again by 27.5 per cent between the second and third quinquennia. For this increment, however, Venezuela was largely responsible. If Venezuela as well as Cuba is excluded from the region as a whole, the increase in the earnings of direct investment enterprises works out at only 32.7 per cent between 1946-50 and 1951-55, and 6.4 per cent between 1951-55 and 1956-60. In any event, from 1956 onwards the growth rate of investment income was much slower than that of service payments on the external debt, particularly if the figures for Venezuela are excluded from the regional total. Consequently, the share of this income in total long-term foreign capital servicing decreased considerably, falling from 69 per cent in 1951-55 to 50 per cent in 1956-60 and to 40 per cent in 1961 and 1962, if Cuba only is excluded from the region as a whole, and dropping, if Venezuela is also excluded, from 55 per cent in 1951-55 to 30 per cent in 1956-60 and 20 per cent in 1961 and 1962.

It may be asked whether so slight an improvement in the absolute value of the earnings of enterprises controlled from abroad does not imply a reduction of the rates of return registered by such firms, since the book value of their capital showed a rising trend owing to reinvestment and new capital contributions from abroad. It is hard to give a definite reply to this question in the absence of information on the total amount

by the region minus repayments. The reduction in debt maturity periods is still more marked if amortization payments are related to the amount of disbursements outstanding, i.e., to the balance of disbursements minus repayments. In this case, the average period required for the liquidation of the external public debt works out at nine years in 1955 and only six-and-a-half in 1960.

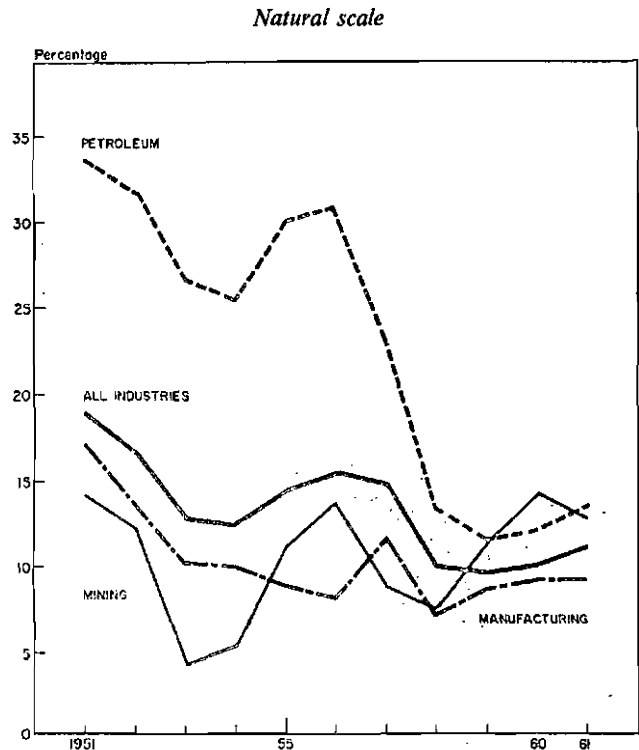
of direct investment in Latin America from all sources. On the other hand, the United States Department of Commerce does issue yearly statistics on the net earnings after tax of United States enterprises in Latin America, as well as estimates of the book value of their capital. Their rates of return can therefore be calculated from these data.

According to table 159 and figure XXI, which present the results of this calculation, the rates of return estimated for the industries as a whole, although fluctuating a great deal over the short-term, tended to decline in the long run, falling from 18.7 per cent in 1951 to 11.1 per cent in 1961. Clearly, this trend is not universal, as the rates of return remained relatively steady over the long term in mining and smelting. In contrast, there was a particularly marked drop in the petroleum sector, where the corresponding rates shrank from 33.6 per cent in 1951 to 13.4 per cent in 1961. They also decreased considerably in manufacturing (from 17.1 per cent in 1951 to 9.2 per cent in 1961), as well as in other industries (from 11.6 per cent in 1951 to 8.4 per cent in 1961), where the rise in the rates of return registered for commodities, finance and banking was more pronounced by the falling-off in the rates for electricity, transport, telegraphs and telephones.

Hence, the rates of return of foreign firms established in Latin America tended to tally with those of corporations operating in capital-exporting countries. Admittedly, these rates are very difficult to co-relate, since it is virtually impossible to assemble data that are wholly comparable.⁶ However, it is interesting to compare the rates of return registered, in a preliminary analysis covering certain years between 1951 and 1961, for branches and

subsidiaries of United States corporations operating in Latin America and for their head offices established in the United States. Table 159, which gives the two series, shows that the margin in favour of the enterprises established in Latin America contracted sharply from 1958 onwards in the petroleum sector. Conversely, in the case of mining and smelting, rates of return in

Figure XXI. United States: comparison between the net earnings of branches and subsidiaries and the book value of the investment, by sector, 1951-61



SOURCE: Table 159.

⁶ See Raymond F. Mikesell, *United States Private and Government Investment Abroad*, op. cit., p. 67.

Table 159. Net earnings ^a of United States firms as a percentage of the book value of investment, by sector, 1951-61

Year	All industries		Mining and smelting		Petroleum		Manufacturing		Other	
	United States branches and subsidiaries in Latin America	Leading corporations in the United States	United States branches and subsidiaries in Latin America	Leading corporations in the United States	United States branches and subsidiaries in Latin America	Leading corporations in the United States	United States branches and subsidiaries in Latin America	Leading corporations in the United States	United States branches and subsidiaries in Latin America	Leading corporations in the United States
1951	18.7	...	14.3	...	33.6	...	17.1	...	11.6	...
1952	16.8	...	11.4	...	31.8	...	13.7	...	10.6	...
1953	12.9	10.6	4.3	8.8	26.6	14.7	10.4	12.7	8.4	...
1954	12.4	10.3	5.3	10.0	25.5	13.8	10.1	12.3	7.9	...
1955	14.4	12.0	10.8	13.7	30.1	14.2	8.9	15.0	8.3	...
1956	15.4	11.3	13.5	15.3	30.8	14.7	8.2	13.9	8.1	...
1957	14.9	10.6	8.7	7.9	23.1	13.6	11.8	12.8	10.2	...
1958	9.8	9.0	7.5	6.5	13.4	10.2	7.4	9.8	8.1	...
1959	9.5	9.8	11.3	7.4	11.2	10.0	8.6	11.6	7.3	...
1960	9.9	...	14.2	...	12.0	...	9.1	...	6.3	...
1961	11.1	...	12.8	...	13.4	...	9.2	...	8.4	...

SOURCES: United States Department of Commerce, (1) *Balance of Payments Statistical Supplement 1958*; (2) *United States Business Investment in Foreign Countries*, by S. Pizer and F. Cutler (*Supplement to the Survey of Current Business*) 1960, and (3) *Survey of Current Business*, various issues 1958-62; First National City Bank of New York, *Monthly Letter*, various issues 1955-60, quoted by Raymond F. Mikesell in

United States Private and Government Investment Abroad, University of Oregon Books, Eugene, Oregon, 1962, table III-11, p. 67.

^a Net earnings of United States subsidiaries and branches in Latin America are after Latin American taxes but before United States taxes. Net earnings of leading corporations in the United States are after United States taxes.

Latin America, which appear to have been lower than their counterparts in the United States from 1953 to 1956, seem to have been higher from 1958 onwards. Lastly, in manufacturing industry, the advantage was

permanently on the side of the corporations operating in the United States, but here the soundness of the comparison is somewhat dubious, since the composition of the sector is not the same in the two areas.

B. EVOLUTION OF LATIN AMERICA'S CAPACITY TO SERVICE FOREIGN CAPITAL OVER THE LONG TERM

The next problem is to determine whether Latin America was able to service long-term foreign capital without serious difficulty over the ten years under review, even though the payments became larger as time went on. The capacity of a country (or region) to honour its external financial commitments really depends on the volume and rate of growth of its domestic product, its savings, and its foreign exchange earnings from exports of goods and services.

The evolution of each of these aggregates during the last decade, in relation to the service payments made by the region to external sources, is therefore briefly reviewed below.

1. THE SERVICING OF LONG-TERM FOREIGN CAPITAL, THE DOMESTIC PRODUCT AND SAVINGS

It is useful to compare the evolution of the domestic product with that of the servicing of long-term foreign capital. To this end, the percentages of the gross domestic product represented by such service payments is given in table 160. It can be seen that for the region as a whole the increase in this percentage was very slight during the fifties, since it rose from 2.5 per cent in 1951 to 3 per cent in 1960, a peak of 3.4 per cent having been reached in 1957. What happened was that service payments on the long-term external debt, expressed as percentages of the total product, rose from 0.5 per cent in 1951 to 1.8 per cent in 1960. But the proportion represented by direct investment earnings followed a downward trend

over the long term, falling from 2 per cent in 1951 to 1.2 per cent in 1960.

The relative importance of service payments was undoubtedly greater in the countries which received the most external capital, particularly in the export sector (Venezuela). Moreover, they must have represented a heavier burden than might be supposed from their low absolute value, since the most growth rate of the *per capita* domestic product tended to decline over the whole period.⁷

It is also interesting to work out the percentage relationship between foreign capital servicing and gross domestic savings (see table 161).⁸ The relevant comparisons show that the servicing of the proportion of domestic savings represented by foreign capital rose considerably, from an annual average of 18.5 per cent in 1951-55 to one of 22.4 per cent in 1956-60 for the region as a whole (excluding Cuba). The rate of increase is similar if the figures for Venezuela are also excluded from the regional total; the annual average then becomes 11.7 per cent in 1951-55 and 16.1 per cent in 1956-60. In both cases, the upward movement was caused by a net increase in the percentage of domestic savings represented by external debt servicing. Conversely, the proportion corresponding to the servicing of direct investment decreased.

Generally speaking, transfers abroad under the head of servicing and reimbursement of long-term foreign investment of all types tended to increase more rapidly than gross domestic savings in every Latin American country.

Table 160. Latin America: service payments on long-term foreign capital as a percentage of the gross domestic product, 1951-60

Year	Direct investment income	External long-term debt service	Total service payments on long term foreign capital
1951.	2.0	0.5	2.5
1952.	1.8	0.4	2.2
1953.	1.6	0.8	2.4
1954.	1.5	0.9	2.4
1955.	1.7	0.8	2.5
1956.	2.0	0.8	2.8
1957.	2.1	1.3	3.4
1958.	1.5	1.7	3.2
1959.	1.2	1.7	2.9
1960.	1.2	1.8	3.0

SOURCES: For service payments on long-term foreign capital the figures used in calculating the percentages were taken from IMF, *Balance of Payments Yearbook*, vols. 8, 12, 13 and 14; for the gross domestic product the figures were obtained from national sources and processed by ECLA.

2. SERVICING OF LONG-TERM FOREIGN CAPITAL AND CURRENT FOREIGN EXCHANGE INCOMES

In order to guarantee the servicing of public and private foreign investment, Latin America has not only to earmark part of its domestic savings for this purpose but also actually to transfer this proportion abroad. Such transfers cannot be effected without recourse to the region's foreign exchange earnings from its exports of goods and services; and the more plentiful the income accruing

⁷ According to *The Economic Development of Latin America in the Post-War Period*, op. cit., the *per capita* gross domestic product, after increasing by 3.3 per cent yearly in 1945-50, expanded by only 2 per cent in 1951-55 and 1.1 per cent in 1956-60.

⁸ For the purposes of these comparisons, gross domestic savings, considered *ex post*, were estimated as equivalent to gross domestic investment plus the balance (negative or positive) on current account before the transfer of foreign investment income. Gross national savings are equal to gross domestic investment plus the final negative or positive balance on current account.

Table 161. Latin America: service payments on long-term foreign capital as a percentage of gross domestic savings,^a 1951-60

Year	Latin America			Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital
1951	12.8	3.2	16.0	12.5	3.3	15.8	8.2	4.2	12.4
1952	11.4	2.8	14.2	11.3	2.9	14.2	7.0	3.9	10.9
1953	10.1	4.7	14.8	10.0	4.6	14.6	5.6	6.0	11.6
1954	9.1	5.6	14.7	9.0	5.7	14.7	4.4	7.3	11.7
1955	10.2	5.4	15.6	10.2	5.5	15.7	4.8	7.0	11.8
1956	12.1	5.4	17.5	12.2	5.9	18.1	5.5	7.8	13.3
1957	14.1	7.8	22.2	14.1	7.8	21.9	4.9	10.4	15.3
1958	10.0	12.4	22.4	9.9	12.4	22.3	4.8	11.9	16.7
1959	8.0	12.5	20.5	7.9	12.6	20.5	4.3	12.0	16.3
1960	...	...	...	8.1	12.6	20.7	5.2	13.7	18.9
1951-55	10.6	4.4	15.0	14.0	4.5	18.5	5.9	5.8	11.7
1956-60	...	...	...	12.0	10.4	22.4	4.9	11.2	16.1
1951-60	...	...	...	12.8	7.8	20.6	5.4	8.9	14.3

SOURCES: For service payments on long-term foreign capital the figures used in calculating the percentages were from the same sources as for table 156. For gross domestic savings the figures were obtained from national sources and processed by ECLA.

^a Gross domestic savings represent the sum of gross domestic investment and the balance (positive or negative) of goods and services before investment income payments.

Table 162. Latin America: service payments on long-term foreign capital as a percentage of foreign exchange earnings on current account, 1946-62^a

Year	Latin America (excluding Cuba)			Latin America (excluding Cuba and Venezuela)		
	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital (1+2)	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital (4+5)
1946	7.7	10.3	18.0	4.7	11.6	16.3
1947	9.1	6.1	15.2	5.0	7.0	12.0
1948	11.7	13.2	24.9	6.1	15.9	22.0
1949	9.5	4.9	14.4	5.8	6.0	11.8
1950	10.9	5.9	16.7	6.1	7.2	13.3
1951	11.2	3.0	14.2	7.1	3.6	10.7
1952	11.5	3.0	14.5	6.7	3.8	10.5
1953	10.0	4.4	14.4	5.4	5.8	11.2
1954	9.5	6.0	15.5	4.5	7.5	12.0
1955	10.7	5.8	16.5	5.1	7.4	12.5
1956	12.4	6.0	18.4	5.6	7.9	13.5
1957	14.1	7.8	21.9	5.1	10.9	16.0
1958	11.0	13.8	24.8	5.6	14.0	19.6
1959	9.6	15.0	24.6	5.3	14.9	20.2
1960	9.5	14.6	24.1	6.3	16.5	22.8
1946-50	10.0	8.1	18.1	5.6	9.6	15.2
1951-55	10.6	4.6	15.2	5.7	5.7	11.4
1956-60	11.3	11.4	22.7	5.6	12.8	18.4
1961	10.7	15.1	25.8	6.9	17.3	24.2
1962 ^b	10.6	16.5	27.1	6.4	20.0	26.4

SOURCES: Annexes I and II.

^a Service payments on long-term foreign capital cover direct investment income plus external long-term debt service, as defined in footnotes ^a, ^b and ^c to table 156. Foreign exchange earnings on current account cover all the credit entries registered in the Latin American balances of payments under the head of goods, services and private donations.

^b Preliminary figures.

from exports, and the greater the rapidity with which it increases, the easier will the process become.

One possible procedure for measuring *a posteriori* the region's capacity to meet service payments would be to express the latter as a percentage of exports of goods and services (aggregate rate of foreign capital servicing). For purposes of comparison, it is interesting to estimate the proportions absorbed by each of the components of service payments, i.e., direct investment earnings on the one hand, and on the other, interest and amortization payments on the long-term debt. The first of these relations may be designated the rate of direct investment servicing, and the second, the rate of external debt servicing.

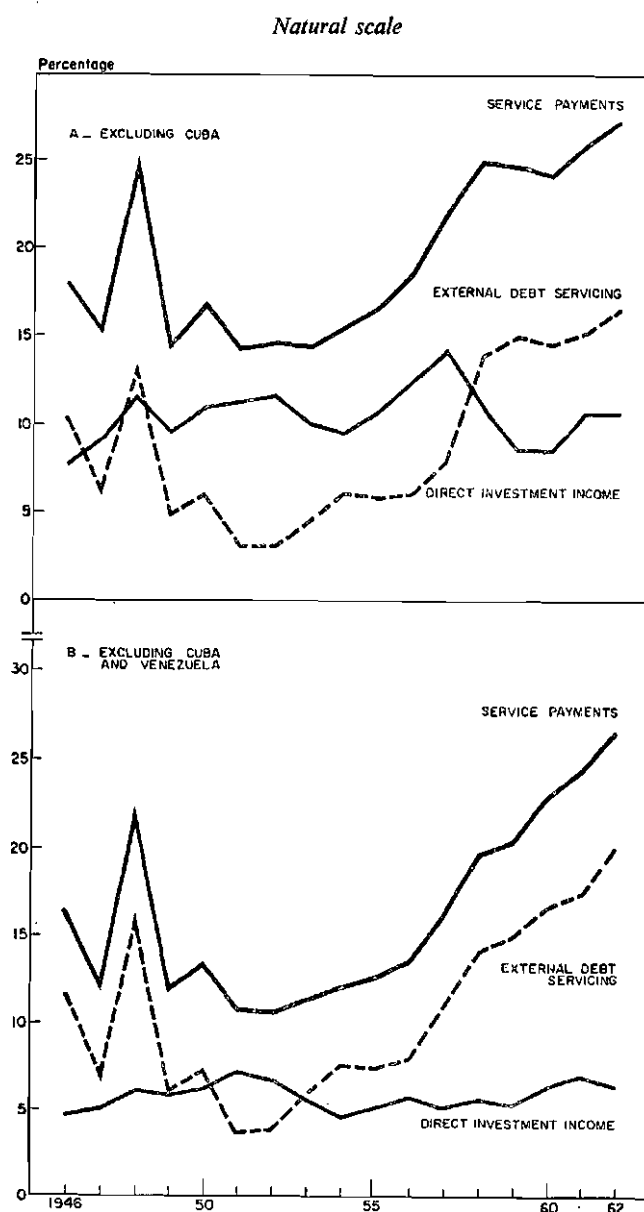
(a) *Evolution of servicing of long-term foreign capital as a percentage of current foreign exchange income in Latin America as a whole.*

Table 162 and figure XXII present the three percentage series referred to above, for Latin America as a whole (excluding first Cuba and then Venezuela as well).

It can be seen from these series that the proportion of current foreign exchange income absorbed by direct investment earnings, while undergoing very sharp short-term fluctuations, remained relatively constant over the longer term. For Latin America as a whole (excluding Cuba), the proportion in question climbed from an annual average of 10 per cent in 1946-50 to one of 10.6 per cent in 1951-55 and to 11.3 per cent in 1956-60. This increase is almost entirely attributable to Venezuela. If the figures for that country are excluded from the regional total, the rate of direct investment servicing will be seen to have stood at almost the same level throughout each of the quinquennia of the post-war period (annual averages of 5.6 per cent in 1946-50, 5.7 per cent in 1951-55 and 5.6 per cent in 1956-60). Hence the inference is that over the long term the earnings of enterprises controlled from abroad evolved at the same tempo as external sales.

On the other hand, the proportion of export income absorbed by service payments on the external debt fluctuated relatively sharply over both the short and the long terms. It was relatively substantial in the five-year period 1946-50 (8.1 per cent for the region as a whole, excluding Cuba), on account of the heavy payments effected at that time by several Latin American Governments under the head of outstanding trade debts or purchases of foreign enterprises. In 1951-55 it appreciably decreased (4.6 per cent for the region as a whole, excluding Cuba), but from 1955 onwards it recovered, and in 1956-60 attained a much higher level than in the early post-war years (11.4 per cent in the region as a whole, excluding Cuba). Furthermore, this movement towards recovery seems to have speeded up in the later years of the period under review, for as from 1958 the rate of servicing reached higher levels than during 1956-60 (13.8 per cent in 1958, 15 per cent in 1959, 14.6 per cent in 1960, 15.1 per cent in 1961 and 16.5 per cent in 1962, in Latin America as a whole, excluding Cuba). Consequently, it may be asserted that from the mid-fifties onwards Latin America had to allocate an increasingly large share of its current foreign exchange supplies to total foreign capital servicing,

Figure XXII. Latin America: comparison between service payments on long-term foreign capital and foreign exchange earnings on current account, 1946-62



SOURCE: Table 162.

since in the case of the external debt the burden represented by interest and amortization payments became heavier, while that represented by direct investment earnings remained almost the same. In 1951-55 this proportion of export income—i.e., the rate of total foreign capital servicing—was 15.2 per cent for the region as a whole, excluding Cuba, and 11.4 per cent if Venezuela too is excluded, while in 1956-60 the corresponding figures were 22.7 per cent and 18.4 per cent, respectively. But these averages give only an imperfect idea of the sharp upward slant of the rate of foreign capital servicing during the last years of the period under consideration; by 1961 it had reached 25.8 per cent for the region as a whole with the exclusion of Cuba only, or 24.2 per cent if both Cuba and Venezuela are excluded, and in 1962 these proportions continued to increase, attaining 27.1 and 26.4 per cent, respectively.

In other words, foreign capital servicing of all types can be said to absorb one-fourth of the region's export earnings at the present time.

(b) *Evolution and level of the rate of foreign capital servicing in the different Latin American countries*

The foregoing over-all analysis may usefully be completed by examination of the evolution and level of the rate of total foreign capital servicing and of its components in each of the Latin American countries.⁹ In this connexion, two general observations may be formulated on the basis of tables 163 and 164.

(i) The percentage of export earnings absorbed by foreign capital servicing, despite short-term fluctuations, rose over the long term from 1955 onwards in most of the Latin American countries. A comparison of the rates of foreign capital servicing in 1951-55 and in 1956-60 shows an upswing between the two quinquennia in all but six countries (Costa Rica, Haiti, Honduras, Nicaragua, Panama and Paraguay) which were not called upon to cope with a formidable increase in service payments on foreign capital, because

⁹ Excluding Cuba, for which no data are available from 1959 onwards.

they were among those receiving the smallest quantities of long-term external capital during the last ten years of the period under review.

This rise in the rate of foreign capital servicing was due, in the main, to the aggravation of the relative burden represented by interest and amortization payments on the long-term external debt. In six of the thirteen countries in which the rate increased (Bolivia, Brazil, Chile, Dominican Republic, Uruguay, and Venezuela), the percentage of export proceeds absorbed by direct investment earnings decreased. In the other seven, there was a slight rise in the earnings of enterprises controlled from abroad, expressed in terms of percentages of current foreign exchange income, but the proportion of this income represented by service payments on the long-term external debt increased more rapidly.

Consequently, the pressure of indebtedness on the external payments of most of the Latin American countries was strengthened and at the same time underwent a change of character. In 1951-55, investment earnings absorbed a larger proportion of export income than debt servicing in fourteen of the countries of the region, whereas in 1956-60 this was true of only seven (Cuba, Ecuador, Guatemala, Honduras, Mexico, Panama and Venezuela).

Table 163. Latin America: service payments on long-term foreign capital as a percentage of foreign exchange earnings on current account, by country, 1946-60^a

Country	1946-50			1951-55			1956-60		
	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital
Argentina . . . . .	...	17.7	17.7	0.8	2.4	3.2	2.4	7.6	10.0
Bolivia	10.7	1.3	12.0	1.2	9.4	10.6	0.7	13.9	14.6
Brazil	5.0	10.1	15.1	6.2	9.5	15.7	4.0	26.5	30.5
Chile	15.0	6.8	21.8	10.9	9.1	20.0	10.2	13.2	23.4
Colombia	3.5	3.5	7.0	2.6	4.9	7.5	3.9	10.6	14.5
Costa Rica	15.1	1.1	16.2	13.1	1.0	14.1	4.1	4.3	8.4
Dominican Republic	17.8	4.5	22.3	9.8	2.2	12.0	5.0	7.8	12.8
Ecuador	5.1	1.5	6.6	12.1	2.7	14.8	13.6	6.0	19.6
El Salvador	1.7	2.2	3.9	1.7	1.7	3.4	1.9	2.0	3.9
Guatemala	6.5	0.1	6.6	0.6	0.1	0.7	3.5	2.0	5.5
Haiti	2.8	6.3	9.1	6.8	5.7	12.5	2.8	4.3	7.1
Honduras	36.8	0.8	37.6	15.0	0.3	15.3	6.9	1.4	8.3
Mexico	9.6	6.0	15.6	8.4	5.5	13.9	8.9	9.8	18.7
Nicaragua	16.4	4.3	20.7	9.8	3.4	13.2	2.5	5.2	7.7
Panama	12.5	5.1	17.6	8.5	4.7	18.2	10.4	2.7	13.1
Paraguay	1.6	8.1	9.7	1.5	6.9	8.4	0.8	5.9	6.7
Peru	6.5	1.6	8.1	6.6	2.9	9.5	8.0	10.2	18.2
Uruguay	2.0	6.7	8.7	1.3	3.1	4.4	1.2	5.6	6.8
Subtotal I	5.6	9.6	15.2	5.7	5.7	11.0	5.6	12.8	18.4
Venezuela	33.5	0.04	33.54	29.5	0.2	29.7	26.5	7.7	34.2
Subtotal II	10.0	8.1	18.1	10.6	4.6	15.2	11.3	11.4	22.7
Cuba	6.5	2.0	8.5	6.3	1.3	7.6	...	...	...
TOTAL	9.6	7.4	17.0	10.2	4.3	14.5	...	...	...

SOURCES: Annexes I and II.

^a See footnote ^a to table 162.

Table 164. Latin America: service payments on long-term foreign capital as a percentage of foreign exchange earnings on current account, by country, 1959-62^a

Country	1959			1960			1961			1962 ^b		
	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital	Direct investment income	External long-term debt service	Total service payments on long-term foreign capital
Argentina	2.4	8.4	10.8	4.9	8.1	13.0	9.6	20.9	30.5	8.7	19.8	22.5
Bolivia	—	16.9	16.9	—	10.5	10.5	—	25.0	25.0	—	13.1	13.1
Brazil	3.6	33.3	36.9	4.2	37.1	41.3	4.0	28.7	32.7	6.3	33.1	39.4
Chile	7.7	14.0	21.7	8.8	13.8	22.6	9.2	20.2	29.4	9.0	18.5	27.5
Colombia	3.0	11.1	14.1	4.6	13.9	18.5	6.2	13.1	19.3	6.0	39.5	45.5
Costa Rica	3.2	4.4	7.6	2.4	5.8	8.2	1.1	6.3	7.4	5.2	7.4	12.6
Dominican Republic	7.3	14.2	21.5	6.1	13.2	19.3	7.7	1.2	8.9	6.1	1.2	7.3
Ecuador	13.4	6.6	20.0	13.2	6.3	19.5	14.6	9.4	24.0	11.9	9.7	21.6
El Salvador	2.2	2.8	5.0	2.5	2.7	5.2	2.1	3.1	5.2	2.2	3.3	5.5
Guatemala	2.9	3.7	6.6	7.2	4.5	11.7	8.6	4.2	12.8	8.0	6.2	14.2
Haiti	1.9	2.6	4.5	6.1	1.0	7.1	6.4	1.0	7.4	4.4	1.8	6.2
Honduras	3.7	2.3	6.0	—	6.3	6.3	1.2	3.6	4.8	7.6	3.3	10.9
Mexico	8.9	12.9	21.8	9.1	15.9	25.0	9.2	14.2	23.4	10.1	20.5	30.6
Nicaragua	1.9	5.7	7.6	1.5	4.5	6.0	2.6	5.6	8.2	8.1	6.4	8.5
Panama	8.0	1.1	9.1	9.1	2.6	11.6	6.1	1.1	7.2	9.8	1.9	11.7
Paraguay	0.4	4.7	5.1	1.1	5.2	6.3	0.9	7.7	8.6	1.0	7.9	8.9
Peru	10.0	10.0	20.0	8.4	14.3	22.7	6.9	12.7	19.6	6.7	12.5	19.2
Uruguay	0.9	7.2	8.1	0.9	4.6	5.5	7.2	3.8	11.0	—	2.2	2.2
<i>Subtotal I</i>	<i>5.3</i>	<i>14.9</i>	<i>20.2</i>	<i>6.3</i>	<i>16.5</i>	<i>22.8</i>	<i>6.9</i>	<i>17.3</i>	<i>24.2</i>	<i>6.4</i>	<i>20.0</i>	<i>26.4</i>
Venezuela	20.5	15.3	35.8	18.5	9.4	27.9	21.7	8.9	30.6	22.7	6.5	29.2
TOTAL	9.6	15.0	24.6	9.5	14.6	24.1	10.7	15.1	25.8	10.6	16.5	27.1

SOURCES: Annexes I and II.

^a See footnote ^a to table 162.

^b Preliminary figures.

(ii) The percentage of export income represented by foreign capital servicing differs very widely from one country to another. Its determinants are the volume of foreign capital invested in each country; the rates of return obtained by enterprises controlled from abroad; the interest and amortization terms on which the loans granted to each country are obtained; the total value of exports of goods and services; and the growth rate of such exports. These different variables may be combined in a number of ways.

In relation to the five-year period 1956-60, the Latin American countries can be classified in three groups, according to whether their rate of total indebtedness was higher than 15 per cent, between 15 and 10 per cent, or lower than 10 per cent.

The first group comprises Venezuela (whose rate of indebtedness attained a peak of 34.2 per cent), Brazil (30.5 per cent), Chile (23.4 per cent), Ecuador (19.6 per cent), Mexico (18.7 per cent) and Peru (18.2 per cent). The second group is formed by Bolivia (14.6 per cent), Colombia (14.5 per cent), Panama (13.1 per cent), Dominican Republic (12.8 per cent) and Argentina (10 per cent). The third group consists of all the remaining republics, the lowest rate of foreign capital servicing being registered in El Salvador (3.9 per cent).

Of the countries in the first group, five are among the principal recipients of long-term autonomous capital

in the region (Venezuela, Brazil, Chile, Mexico and Peru), while in Ecuador direct investment earnings grew faster than sales abroad. The group of countries with intermediate rate of foreign capital servicing includes Colombia (which had to pay off a substantial amount of trade arrears during the five-year period in question), together with Bolivia (which received relatively little foreign capital, but whose export trade was in a state of stagnation), and Argentina (which, on the contrary, is one of the biggest Latin American importers of foreign capital, but started to receive it only in 1958, so that service payments on foreign capital did not begin to increase until 1960).

In 1961 and 1962 the grouping of the Latin American countries according to the levels reached by the rate of foreign capital servicing was much the same as in 1956-60. It may be noted, however, that Argentina thenceforward took its place among the countries shouldering the heaviest burden of foreign capital servicing, since payments under this head represented 30.5 per cent of its current foreign exchange income in 1961, and 22.5 per cent in 1962.

(c) *Comparison between rates of foreign capital servicing registered in different periods*

It would be useful to compare the current rates of foreign capital servicing in Latin America with those recorded in the past.

Although the inadequacy of the available data precludes the determination of rates of total foreign capital servicing for relatively remote periods, the rate of external public debt servicing in eight countries can be estimated for the end of 1913 and for certain years in the twenties and thirties. On the basis of balance of payments data, the rate of long-term external debt servicing can be computed for the same countries as from 1951. Although the two series are not strictly comparable, as can be seen from table 165, if they are considered in conjunction two interesting conclusions can be drawn:

(i) While the percentages recorded in 1951-62 showed a marked upswing at the end of the period, they were still lower than those registered in 1930-33. In other words, in all the countries under consideration, the proportion of current foreign exchange supplies absorbed by the servicing of the total long-term external debt in recent years was smaller than the percentage used for servicing the long-term public debt alone during the thirties. It should be noted, however, that the burden

represented by official debt servicing in the thirties was abnormally heavy, owing to the slump in the value of Latin America's exports which ensued upon the 1929 depression.

(ii) The situation wears a completely different aspect if the percentages for the last four years under review are compared with those recorded in 1913 or in 1926-29, the former being much higher, except in Uruguay. The inference is that, with a single exception, all the countries considered have to spend a larger share of their current foreign exchange income on servicing their net external debt at the present time than on the eve of the First World War or of the Depression.

To sum up, although there are striking disparities among the various countries of the region, it would seem that in most of them, in more recent years, the relative level of indebtedness, while lower than in the thirties, tended to become comparable with that attained immediately before the First World War and again during the twenties.

Table 165. Latin America: ratio of debt servicing to exports in selected countries
(Percentages)

Year	Argentina	Bolivia	Brazil	Chile	Colombia	Cuba	Peru	Uruguay
A. 1913-33 ^a								
1913	16.8	2.4	16.9	9.2	5.7	3.3	9.4	13.9
1926	10.0	7.3	13.2	5.5	2.7	3.1	2.6	7.6
1927	7.9	6.1	14.4	8.7	4.4	2.7	3.2	9.2
1928	8.9	8.5	14.6	9.5	8.1	3.3	6.0	8.5
1929	10.4	7.8	16.5	9.2	11.9	3.6	7.4	9.5
1930	18.2	13.5	23.5	18.0	14.0	6.1	9.5	9.7
1931	22.5	24.5	28.4	32.9	15.6	13.4	16.3	22.4
1932	27.6	50.0	41.0	102.6	21.8	18.1	21.4	36.3
1933	30.2	38.5	45.1	81.9	29.8	22.4	21.7	31.3
B. 1951-62 ^a								
1951	1.5	4.1	4.5	7.5	3.1	0.7	2.1	2.2
1952	7.5	8.1	4.1	7.7	3.8	0.5	1.6	6.6
1953	1.3	16.0	11.6	9.5	6.0	2.7	2.3	2.6
1954	1.9	39.0	15.0	11.4	4.7	0.7	2.3	3.5
1955	5.7	8.3	12.7	9.1	6.4	1.8	6.0	5.0
1956	4.8	8.0	16.1	8.8	4.5	1.4	7.9	4.5
1957	7.7	19.7	20.6	14.4	11.3	4.4	7.8	6.5
1958	8.6	16.9	27.7	15.4	13.6	5.9	9.7	6.1
1959	8.4	16.9	33.3	14.0	11.1	9.2	10.0	7.2
1960	8.2	10.5	37.1	13.8	13.9	...	14.3	4.6
1961	20.9	25.0	28.7	2.2	13.1	...	12.7	3.8
1962 ^b	19.8	13.1	33.1	18.5	39.5	...	12.5	2.2

SOURCES: For 1913, Table 16 and Pan American Union, *The Foreign Trade of Latin America since 1913*, Washington 1952, p. 44; 1926-33: D. Avramovic and R. Gulhati, *Debt Servicing Capacity and Post-War Growth in International Indebtedness*, IBRD, Johns Hopkins Press, Baltimore, 1958, p. 194; 1951-62: Annexes I and II.

^a The ratios in section A are not fully comparable with those in section B for two main reasons. Firstly, the export figures in section A cover only sales of goods abroad, whereas the export figures for 1951-62 include exports of services, that is, receipts for freight, insurance and travel, payments

by foreigners on Latin American investments abroad, and other credit entries on current account. However, this discrepancy can be regarded as negligible, except as regards Uruguay, where travel receipts are high. Secondly, the debt service figures cover only interest payments and reimbursements in respect of the long-term public debt in section A, whereas in section B they also include interest payments and reimbursements in respect of the long-term private debt, plus interest payments on the short-term debt. It can therefore be assumed that the ratios for 1951-62 are over-estimated in comparison with those for 1913-33.

^b Preliminary figures.

(d) *Implications of the rise in the rate of foreign capital servicing*

The implications of the upward trend in the rate of foreign capital servicing can be differently analysed according to whether the long or the short term is taken into account.

Over the *short term*, each country's capacity to adapt itself to the fluctuations of its export income is closely dependent on the volume and, above all, on the rate structure of total indebtedness. A distinction can be drawn between the pressures exerted on each country's external payments by the servicing of direct investment and of the external debt, respectively. The former frequently slackens, although sometimes with a certain time-lag, in periods when current foreign exchange income contracts, since the earnings of enterprises controlled from abroad tend to decrease in such circumstances — not only in export industries, but also in those producing for the domestic market — and the over-all level of economic activity in most of the Latin American countries is partly determined by the evolution of external sales. Conversely, more pressure is exerted by external debt servicing when the value of exports drops, since interest and amortization payments are fixed at the time when the loan contracts are concluded.

Hence, if the rate of total indebtedness is high and the pressure exerted by debt service payments is greater than the pressure of direct investment servicing, the impact of any reduction in external sales will have to be borne entirely by purchases, unless inflows of autonomous capital steadily increase or there are sufficient monetary reserves to wipe out the supplementary deficit on current account. As has just been shown, not only did the rate of total indebtedness rise considerably in most of the Latin American countries during the last ten years of the period under review, but its structure changed as well, as a result of the reduction in the net earnings of foreign enterprises and the increase in external debt payments, both calculated as a percentage of export receipts. This twofold trend reintroduced a certain rigidity into Latin America's external payments, comparable to that prevailing on the eve of the world depression.

Over the *long term*, payments of all kinds effected under the head of foreign investment (earnings of enter-

prises controlled from abroad, interest and amortization payments on long-term loans) compete with external purchases, since both are financed by current supplies of foreign exchange. It may be asked, therefore, whether the balance of foreign exchange outstanding after the transfer of service payments was enough to keep imports at a level compatible with a satisfactory rate of growth of the national product over the long term.

To answer this question, it would be useful to determine the growth rate of income from exports of goods and services net of foreign capital servicing. Without embarking upon too minute an analysis, it may be noted that the balance rose from an annual average of 7,410 million dollars in 1951-55 to one of 8,000 million dollars in 1956-60, i.e., by only 7.9 per cent between the first and second half of the decade. Meanwhile, imports of goods f.o.b. alone increased by an average of 14.7 per cent annually, i.e., from 6,932.6 million dollars in 1951-55 to 7,951.3 million in 1956-60. Hence, it is evident that the growth of export receipts, after deduction of all payments made under the head of foreign investment, failed to keep abreast of the growth of external purchases.

In short, from the mid-fifties onwards, Latin America found itself caught up in what may be termed the external indebtedness spiral. As indicated in the preceding chapter, over the long term autonomous capital inflows helped to strengthen the region's over-all capacity to import and consequently to improve the symmetry of the balance of payments, since a credit balance remained after direct investment and the long-term debt has been serviced. On the other hand, however, these capital flows, in common with compensatory financing, led to a substantial increase in the volume of direct investment and in the public and private external debt. This increase in the amount of foreign capital invested in Latin America in its turn was responsible for a sharp rise in external service payments of all kinds, which were effected against foreign exchange receipts on current account. The maintenance of the level of imports therefore meant that the region had to receive a constant supply of new autonomous capital or, at the worst, new balance-of-payments loans, since gold and foreign exchange holdings had sunk so low in most of the Latin American countries that it was hardly possible to use them to defray the cost of foreign purchases for any length of time.

C. LATIN AMERICA'S EXTERNAL PUBLIC DEBT

The extent of the financial assistance that Latin America will have to request from abroad in future does not depend solely on the volume of external aid that will be needed — given specific levels of domestic savings — to finance sufficient investment for the domestic product to achieve a satisfactory rate of growth, but also on the level of service payments on capital already invested in the region.

It is no easy matter to formulate projections of returns on direct investment, since rates of return and reinvestment are very fluid over the short term, as has been seen already. It should be possible, however, to predict

the evolution of long-term external debt servicing, so long as there are enough data available on the amount of the debt, the rates of interest charged and amortization schedules.

1. THE GROWTH OF LATIN AMERICA'S EXTERNAL PUBLIC DEBT

The long-term external public debt can be defined as all debts with maturity periods of more than a year arising from loans granted to the official sector or guaranteed by it. It therefore includes private sector commitments backed by government guarantee, but excludes

debts repayable in local currency and all liabilities resulting from drawings on IMF.

The International Bank for Reconstruction and Development periodically estimates the Latin American countries' external public debt outstanding, as defined above. The estimates for 1945 and 1950 have been published by Avramovic and Gulhati¹⁰ and those for 1955-61 by Rao.¹¹ It was possible to complete them for 1962 by using the preliminary version of a new IBRD study on the external debt of developing countries.¹²

From tables 166, 167 and 168, in which these data are reproduced, three main conclusions can be drawn.

(a) Latin America's long-term public debt, which declined in the early years of the post-war period, showed a rising trend as from the beginning of the fifties. The total debt outstanding (loan authorizations minus repayments), which may be estimated to have been approximately 2,900 million dollars at the end of 1945, decreased by about 700 million dollars (i.e., 24 per cent)

¹⁰ See Avramovic and Gulhati, *Debt Servicing Capacity and Post-War Growth in International Indebtedness*, op. cit., appendix II, p. 163; and *Debt Servicing Problems of Low-Income Countries, 1956-1958*, op. cit., table II-13, p. 13.

¹¹ See S. R. N. Badri Rao, op. cit., table I.

¹² International Bank for Reconstruction and Development and International Development Association, *Economic Growth and External Debt*, 3 volumes, Washington, March-April 1964.

during the quinquennium 1946-50, so that by the end of 1950 it amounted only to some 2,200 million.¹³ This liquidation of the public debt, comfortably financed by the monetary reserves accumulated during the war, was particularly noteworthy in Argentina and Uruguay and in the Central American countries, but in greater or lesser degree it took place in all the other countries of the region, the only exceptions being Ecuador, El Salvador and Peru.

During the second quinquennium of the post-war period, the volume of debt grew larger, expanding from about 2,200 million dollars at the end of 1950 to some 4,000 million at the close of 1955, i.e., by approximately 82.8 per cent between the two dates. This increase did not affect all the countries of the region, since two of these traditionally receiving the biggest inflows of foreign capital (Mexico and Chile) reduced their indebtedness during the period in question.

The upward movement persisted from 1955 onwards, when the debt outstanding rose from about 4,000 million dollars at the end of 1955 to about 9,000 million in 1962, that is, by 118.8 per cent. It is of interest to note that the upswing was particularly sharp in 1961 (20.9 per cent in relation to the preceding year), but slackened in 1962 (10.3 per cent). The biggest percentage increases

¹³ For most of the Latin American countries, debt statistics relating to 1945 and 1950 are only roughly approximate figures.

Table 166. Latin America: external public long-term debt outstanding at year end, in selected years ^a

(Millions of dollars)

Country	1945 ^b	1950	1955	1956	1957	1958	1959	1960	1961	1962
Argentina	900.0 ^c	400.0 ^c	600.0	686.5	1,072.8	1,375.1	1,492.6	1,478.1	1,862.6	2,092.1
Bolivia	61.0 ^c	50.0 ^c	93.1	91.0	147.9	153.0	158.3	199.8	198.6	205.4
Brazil	432.7	409.4	1,380.3	1,542.6	1,474.1	1,780.8	1,556.1	1,823.9	2,264.8	2,224.6
Chile	425.9	355.4	350.7	346.4	384.1	398.6	533.5	565.9	774.8	741.9
Colombia	171.4	157.5	276.2	280.8	448.6	458.9	395.1	376.8	468.4	638.8
Costa Rica	14.0 ^c	12.0 ^c	36.0	41.3	38.2	40.0	40.4	56.1	81.4	84.1
Dominican Republic	12.0 ^c	10.0 ^c	—	—	—	6.2	6.0	5.7	5.5	36.6
Ecuador	24.2	31.9	67.6	74.2	90.1	96.7	102.2	100.8	110.1	121.5
El Salvador	13.4	22.4	28.4	27.3	26.5	25.5	31.5	33.3	49.4	51.3
Guatemala	0.9	0.4	22.2	22.2	22.2	22.2	33.5	53.5	68.8	67.5
Haiti	15.2	8.3	39.6	39.4	44.9	43.2	42.2	39.7	39.7	38.0
Honduras	5.4	1.3	4.7	4.8	8.2	13.8	15.8	23.6	32.4	39.8
Mexico	540.0 ^c	509.1	478.9	489.8	557.1	642.9	810.2	1,038.4	1,165.4	1,359.9
Nicaragua	5.8	4.6	23.1	28.0	26.1	24.4	29.3	41.1	42.2	47.4
Panama	15.6	13.0	18.1	17.1	31.5	41.6	41.1	58.4	57.8	64.4
Paraguay	15.8	15.3	22.1	17.7	15.5	19.7	23.9	22.3	30.8	28.7
Peru	104.8	107.2	229.1	213.8	204.2	254.6	221.1	268.1	292.9	500.5
Uruguay	153.4	105.5	126.6	146.0	138.6	131.2	138.1	131.8	130.8	150.2
Venezuela	—	—	249.8	241.6	233.4	182.6	151.5	314.1	345.4	361.8
TOTAL	2,911.5	2,213.3	4,046.5	4,310.5	4,964.0	5,711.0	5,822.4	6,631.4	8,021.8	8,854.5

SOURCES: *Debt Servicing Capacity and Post-War Growth in International Indebtedness*, op. cit., Annex II, p. 163; S. R. N. Badri Rao, *Recent Changes in the External Public Indebtedness of Latin American Countries*, IBRD, October 1963, table I.

^a In accordance with the IBRD definition, the external long-term public debt covers all debts with a maturity of more than one year that are owed or guaranteed by Latin American official institutions (including local government, public agencies and State-owned enterprises, as well as central Governments), and that are contracted and repayable abroad.

Loans granted by foreign governments but repayable in local currency are excluded, and so are commitments arising out of drawings on IMF resources. Outstanding indebtedness represents authorized amounts of loans less repayments, and thus covers both disbursed and undisbursed portions of contracted loans.

^b The figures under this head do not agree with the corresponding figures in table 23, because of discrepancies in definition and coverage.

^c Estimate.

Table 167. Latin America: disbursed and undisbursed portions of external public long-term debt outstanding at year end, 1955 and 1962

Country	1955 Outstanding amount				1962 Outstanding amount			
	Disbursed portion	Undisbursed portion	Total	Undisbursed portion as percentage of total	Disbursed portion	Undisbursed portion	Total	Undisbursed portion as percentage of total
	Millions of dollars				Millions of dollars			
Argentina	460.0 ^a	140.0 ^a	600.0 ^a	24.0	1,927.0 ^a	165.1	2,092.1	7.9
Bolivia	90.7	2.4	93.1	2.6	171.2	34.2	205.4	16.6
Brazil	1,242.8	137.5	1,380.3	10.0	2,141.0	83.6	2,224.6	3.7
Chile	326.1	24.6	350.7	7.0	565.4	176.5	741.9	23.7
Colombia	217.3	58.9	276.2	21.3	417.7	221.1	638.8	34.6
Costa Rica	26.1	9.9	36.0	27.5	51.2	32.9	84.1	39.1
Dominican Republic	—	—	—	—	16.6	20.0	36.6	54.6
Ecuador	54.7	12.9	67.6	19.0	95.4	26.1	121.5	21.5
El Salvador	17.7	10.7	28.4	37.6	32.7	18.6	51.3	36.2
Guatemala	4.7	17.5	22.2	78.8	38.5	29.0	67.5	43.0
Haiti	32.4	7.2	39.6	18.1	38.0	—	38.0	—
Honduras	0.5	4.2	4.7	89.3	19.1	90.7	39.8	52.0
Mexico	416.1	62.8	478.9	13.1	1,071.2	288.6	1,359.8	21.2
Nicaragua	11.0	12.1	23.1	52.0	28.0	19.4	47.4	40.9
Panama	12.3	5.8	18.1	32.0	44.3	20.1	64.4	31.2
Paraguay	11.3	10.8	22.1	48.9	18.5	10.2	28.7	35.5
Peru	176.9	52.2	229.1	22.8	418.8	81.7	500.5	16.3
Uruguay	120.1	6.5	126.6	5.1	118.4	31.8	150.2	21.1
Venezuela	249.8	—	249.8	—	234.8	127.0	361.8	35.1
TOTAL	3,470.5	576.0	4,046.5	14.2	7,447.8	1,406.7	8,854.5	15.8

SOURCE: As for table 166.

^a Estimate.

Table 168. Latin America: percentage increase in public long-term debt, by countries 1945-62

Country	Total outstanding debt						Disbursed outstanding debt
	1945-50	1950-55	1955-60	1960-61	1961-62	1955-62	1955-62
Argentina	-55.6	+50.0	+146.3	+26.0	+12.3	+248.7	+318.9
Bolivia	-18.0	+86.2	+114.6	-1.7	+3.4	+125.7	+88.8
Brazil	-5.4	+237.1	+32.1	+24.1	—	+61.2	+72.2
Chile	-16.6	-1.4	+61.3	+36.9	-4.3	+115.5	+73.4
Colombia	-9.1	+75.4	+36.4	+24.3	+36.4	+131.3	+92.2
Costa Rica	-14.0	+200.0	+55.8	+45.0	+3.3	+133.6	+96.2
Dominican Republic	-16.0	—	—	-3.6	+565.4	—	—
Ecuador	+31.8	+119.1	+49.1	+9.2	+10.3	+79.7	+74.4
El Salvador	+67.2	+26.8	+17.2	+48.3	+3.8	+80.6	+84.7
Guatemala	-56.0	+5,550.0	+140.9	+28.5	-1.9	+204.0	+719.1
Haiti	-45.4	+377.1	+0.2	—	-4.3	-4.1	+17.1
Honduras	-75.9	+261.5	+402.1	+37.2	+22.8	+746.8	+3,720.0
Mexico	-5.7	-5.9	+116.8	+12.2	+16.7	+193.9	+157.4
Nicaragua	-20.7	+402.1	+77.9	+2.6	+12.3	+105.1	+154.5
Panama	-16.7	+39.2	+222.6	-1.1	+11.4	+255.8	+260.2
Paraguay	-3.2	+44.4	+0.9	+38.1	-6.8	+29.8	+63.7
Peru	+2.3	+113.7	+17.0	+9.2	+70.8	+118.5	+136.7
Uruguay	-31.2	+20.0	+4.1	-0.8	+14.8	+18.6	-1.4
Venezuela	—	—	+25.7	+9.9	+4.7	+44.8	-6.0
TOTAL	-24.0	+82.8	+83.8	+20.9	+10.3	+118.8	+114.6

SOURCES: Tables 166 and 167.

for the period 1955-62 as a whole were observable in Honduras (746.8), Panama (255.8), Argentina (248.7), Guatemala (204), Mexico (193.9), Costa Rica (133.6), Colombia (131.3), Bolivia (125.7), Peru (118.5), Chile (115.5) and Nicaragua (105.1). Brazil's debt expanded by 61.2 per cent, but it had already stood at a high level at the end of 1955;

(b) Latin America's long-term public debt, outstanding at the end of 1962, may be estimated to have totalled about 9,000 million dollars. This total drops to approximately 7,500 million dollars upon deduction of loans authorized but not actually disbursed, which, although they affect creditworthiness, do not give rise to service payments liable to exert pressure on the balance of payments within the period concerned. For the outstanding debt thus defined, in relation to actual disbursements, six countries were mainly responsible, accounting for 87.8 per cent of the total for Latin America. The following were the countries concerned with the amounts of their debt, expressed in millions of dollars: Brazil (2,141), Argentina (1,927), Mexico (1,071.2), Chile (565.5), Peru (418.8) and Colombia (417.7);

(c) The figures for the increase in the public debt outstanding in respect of loan disbursements from 1955 onwards approximately correspond to the data for net foreign capital inflows into Latin America in the form of long-term loans and portfolio investment. According to the data compiled by IBRD, the debt referred to increased by some 3,400 million dollars between the end of 1955 and the end of 1962; while net foreign capital inflows under the head of loans and portfolio investments (including balance of payments loans), as entered in the balance of payments of the Latin American countries, amounted to about 4,300 million. The difference (approximately 900 million dollars), can be explained by the fact that balance of payments data cover not only loans granted to the public sector or guaranteed by it, but also loans to the private sector not backed by an official guarantee, including traditional types of portfolio investment.

2. STRUCTURE OF LATIN AMERICA'S EXTERNAL PUBLIC DEBT

The growth of Latin America's external debt brought about certain significant changes in its structure. Without going into detail, two main observations may be formulated in this connexion:

(a) A relatively large proportion of Latin America's outstanding public debt represented sums not actually disbursed (see again table 167).

This proportion, calculated as a percentage of the total debt, slightly increased over the long term, rising from 14.2 per cent at the end of 1955 to 15.8 per cent at the close of 1962. But its evolution differed very widely from one country to another, since it expanded in nine republics (Bolivia, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Uruguay and Venezuela), but contracted in the other nine.¹⁴ To discover the reason for this, it

¹⁴ Not counting the Dominican Republic, whose public debt was nil at the end of 1955.

would be necessary to examine each specific case. It is, of course, the insufficient capacity to absorb foreign capital displayed by some Latin American countries that explains why a part of the debt corresponds to sums not actually disbursed.¹⁵ In addition to this factor, there are others of a political or administrative nature that may also help to induce financial institutions in lender countries to defer the disbursement of loans already authorized;

(b) From 1955 onwards, a growing proportion of Latin America's public debt was financed by private sources abroad (see table 169). This proportion represented a percentage of the debt outstanding in respect of sums actually disbursed which rose from 33.3 per cent at the close of 1955 to 48 per cent at the end of 1962, its evolution reflecting the expansion of the volume of medium-term credits granted by foreign suppliers, and, to a lesser extent, some resumption of traditional types of portfolio investment.

3. PROSPECTS FOR THE SERVICING OF LATIN AMERICA'S EXTERNAL PUBLIC DEBT

In the series of studies prepared by the International Bank for Reconstruction and Development on the indebtedness of developing countries, service payments on the long-term external public debt are usually related to foreign exchange receipts on current account. Although the rates of long-term external public debt servicing thus obtained differ from those computed in another section of the present chapter — owing to discrepancies in the coverage of the basic data¹⁶ — they constitute a useful instrument for measuring the pressure of external indebtedness on the region's external payments.

Table 170 presents an estimate of the rates of public debt servicing in 1956-61 for all the Latin American countries, which are classified in three groups, according to whether the proportion of foreign exchange receipts represented by public debt servicing tended to decrease (group 1), followed a rising trend but kept at a level close to that of group 1 (group 2), or registered a sharp upward trend (group 3). If in 1962-65 exports were to remain at the same level as in 1959-61, rates of public

¹⁵ It is of interest to note in this connexion that in 1962 the percentage of the total debt outstanding which corresponded to sums not disbursed was particularly high in small countries where there is reason to suppose that the capacity to absorb foreign capital is limited (for example, the Central American countries, the Dominican Republic and Paraguay), while it was much lower in countries like Argentina and Brazil, whose absorption capacity is greater. However, a significant role is also played by other factors, as can be seen in the cases of Chile, Colombia, Mexico and Venezuela, where it might be presumed that there are possibilities of making rapid and efficient use of the foreign capital available, but where the percentage relationship between the total debt and the part relating to sums not actually disbursed was higher than the average for the region.

¹⁶ The concept of "long-term external debt servicing" is of course, broader than that of "long-term external public debt servicing". In the first place, it covers reimbursements not only of loans granted to the public sector, but also of loans to the private sector; secondly, it comprises not only the interest paid on the public debt, but also interest payments on the private debt, including returns on the traditional types of portfolio investment.

Table 169. Latin America: comparison between privately placed debt, disbursed and outstanding, and total external public debt, disbursed and outstanding, 1955, 1961 and 1962

(Millions of dollars)

Country	1955			1961			1962		
	Total debt at year end (1)	Privately placed debt (2)	(2) as a percentage of (1) (3)	Total debt at year end (4)	Privately placed debt (5)	(5) as a percentage of (4) (6)	Total debt at year end (7)	Privately placed debt (8)	(8) as a percentage of (7) (9)
Argentina	99.4 ^a	13.9	14.0	1,713.5	892.1	52.1	1,927.0	1,075.8	55.8
Bolivia	90.7	56.3	62.1	166.8	25.8	15.5	171.2	26.8	15.6
Brazil	1,242.8	357.0	28.7	2,013.7	1,009.7	50.1	2,141.0	1,086.2	50.7
Chile	326.1	72.7	22.3	522.2	146.2	28.0	565.4	133.1	23.5
Colombia	217.3	75.8	34.9	342.8	59.2	17.3	417.7	112.1	26.8
Costa Rica	26.1	3.7	14.2	46.9	15.8	33.7	51.2	17.6	34.4
Dominican Republic	—	—	—	5.5	3.2	58.2	16.6	3.5	21.1
Ecuador	54.7	19.5	35.6	84.9	18.1	21.3	95.4	16.7	17.5
El Salvador	17.7	—	—	31.4	—	—	32.7	—	—
Guatemala	4.7	4.0	85.1	37.6	19.2	51.1	38.5	19.2	49.8
Haiti	32.4	8.8	27.2	39.1	9.5	24.3	38.0	8.8	23.1
Honduras	0.5	0.5	100.0	10.9	1.5	13.8	19.1	4.9	25.6
Mexico	416.1	76.5	18.4	901.6	470.7	52.2	1,071.2	663.9	62.0
Nicaragua	11.0	5.1	46.4	25.2	1.0	4.0	28.0	1.9	6.7
Panama	12.3	9.8	79.7	34.0	8.9	26.2	44.3	—	—
Paraguay	11.3	2.3	20.4	20.2	2.6	12.9	18.5	2.1	11.3
Peru	176.9	76.3	43.1	196.3	83.3	42.4	418.8	287.9	68.7
Uruguay	120.1	4.5	3.7	113.6	—	—	118.4	—	—
Venezuela	249.8	247.7	99.1	252.8	224.3	88.7	234.8	118.4	50.4
TOTAL	3,109.9	1,034.4	33.3	6,559.0	2,991.1	45.6	7,447.8	3,579.0	48.0

SOURCES: S. R. N. Badri Rao, op. cit., table IV; for 1962, data obtained from Inter-American Development Bank (IDB).

^a This figure does not agree with the corresponding figure in table 167 because it only covers the debt recognized by the Government of Argentina.

Table 170. Latin America: external public long-term debt service as a percentage of foreign exchange earnings on current account, 1959-65

	1959-61	1962-65
Group I		
Panama	1.4	4.5
Haiti	3.3	7.6
Nicaragua	4.9	6.3
Uruguay	6.3	8.2
Paraguay	6.5	7.6
Group II		
Guatemala	2.2	8.2
El Salvador	2.4	5.7
Venezuela	2.6	3.7
Honduras	2.8	3.3
Costa Rica	5.4	10.2
Ecuador	7.7	9.3
Peru	8.4	14.5
Group III		
Mexico	11.3	15.0
Bolivia	13.0	22.1
Chile	15.7	19.3
Colombia	15.9	11.6
Brazil	17.1	20.3
Argentina	18.4	23.7

SOURCE: S. R. N. Badri Rao, op. cit., pp. 17-18.

debt servicing would be higher in the first of these periods than in the second for all countries of the region (with the sole exception of Colombia), whichever group was considered.

The additional burden thus represented by debt servicing will mean that further external financial assistance becomes yet more essential. It must normally lead to a fresh increase in external debt servicing, which in turn will reduce the supply of foreign exchange available on current account after foreign capital servicing, unless the value of exports of goods and services rises at a rapid rate. Thus, the mere maintenance of the level of total capacity to import will require steadily increasing inflows of autonomous capital, irrespective of those that will be needed to enlarge the volume of domestic investment and secure a more satisfactory rate of growth for the domestic product. New funds of this kind would undoubtedly be difficult to obtain in default of some modification of currently prevailing terms and conditions, since Latin America's capacity to meet new external financial commitments seems likely to be all the more limited, inasmuch as a higher proportion of its foreign exchange receipts on current account is now absorbed by the servicing of capital previously invested in the region.

One solution would be to stagger the maturity dates of loans already contracted abroad, to prolong amortization schedules and to establish more flexible conditions for repaying loans granted to the region in the future, apart from the adoption of other measures that might facilitate the expansion of financial co-operation from abroad.

Chapter X

UNITED STATES PRIVATE AND PUBLIC CAPITAL FLOWS TO LATIN AMERICA

The statistical analysis of capital flows from all parts of the world to Latin America, according to the data compiled by IMF and given in tables 120 and 128; has shown clearly that the United States has been the main public and private foreign investor in the region for the last ten years, having disbursed over 70 per cent of the net development loans granted to the Latin American countries and financed nearly 80 per cent of new direct investment (including reinvestment) in the region during the period 1951-61. Hence it may be interesting to analyse more closely United States private and public capital flows according to detailed data compiled by the Department of Commerce in connexion with the United States balance of payments with Latin America. In other words, it is proposed to study capital movements from the standpoint of the main creditor, as a sequel to their study from the angle of the recipient countries.

This change of approach involves some modifications in the terminology previously used; it is therefore necessary at the outset to make a few comments on some of the terms and concepts to be found below. First of all, the data measure non-military long-term transactions entered on the capital account of the United States balance of payments, namely, private direct investment, private portfolio operations, official government loans and various types of public grants and related assistance in local currency. No distinction has been made between

ordinary and extraordinary financing, since this is of no importance from the standpoint of a supplying country. Secondly, the word "flow" is used throughout, even though total direct private investment includes the reinvested earnings of United States subsidiaries operating in the Latin American area. In a formal sense, the latter would not normally be included in flow measurements. As, however, reinvested branch earnings are entered on the United States balance of payments as part of the net flow concept, and both reinvested branch and subsidiary earnings perform an identical function in so far as they add to Latin America's availabilities for fixed capital formation, it is considered that both types of reinvestment should receive analogous treatment. Thirdly, the phrase "private portfolio lending" is used here to cover all long-term private investment transactions other than direct investment. Fourthly, it would be desirable if the flow of United States capital to Latin America could be measured in gross as well as net terms. For various reasons connected with the source materials available, however, only a partial grossing is possible. The main reason is that private direct investment, which accounts for such a substantial proportion of all United States capital flows, is published in net terms only. Hence most of the following tables and discussions deal only with net data unless expressly indicated to the contrary.

A. GENERAL OBSERVATIONS

1. THE CUMULATIVE TOTAL AND ITS PRINCIPAL COMPONENTS

Between 1951 and 1963, Latin America received about 11,000 million dollars in net long-term capital from the United States. Nearly two-thirds came from the private sector, and the remainder consisted of funds made available by various agencies of the United States Government. This cumulative total of 11,000 million dollars covered the flow of direct private investment, private portfolio capital, official loans, and non-military public grants or other unilateral transfers. However, a closer glance at the various channels through which all the private and public funds moved shows that there were two main media of transmission. Private direct investment alone, for instance, comprised five-sixths of all United States private capital entering Latin America since 1951, while Eximbank accounted for almost half the United States public capital moving to Latin America during

those same years (see table 171). Altogether, 7,474 million dollars, or 69 per cent of the entire inflow, took place in these two forms.

2. THE INCREASE IN THE INFLOW OF CAPITAL AFTER 1955

In a recent United Nations study¹ measuring the flow of long-term financial assistance on a world-wide basis during the fifties, it was pointed out that the overall amount of assistance given increased considerably between the first and second halves of the decade. The rising trend after 1955 has been partly due to the circulation of an increasingly large volume of capital between countries that are already developed. The main reason, however, has been a 60 per cent increase in the flow of

¹ *International Flow of Long-term Capital and Official Donations: 1951-59*, op. cit., p. 17 and table 8.

Table 171. United States: cumulative total net flow of long-term capital to Latin America, 1951-63

	Millions of dollars	Percentage
<i>Total private and public capital</i>	10,840 ^a	100
<i>Private: subtotal</i>	6,936	64
Direct ^b	5,843	
Portfolio	1,093	
<i>Public: subtotal</i>	3,904	36
Loans:		
Total	2,616	
Eximbank	1,631	
Others	985 ^a	
Non-military grants	1,288	

SOURCES: United States Department of Commerce, *Balance of Payments, Statistical Supplement to the Survey of Current Business*, 1963, and *Survey of Current Business*, various issues 1963 and 1964.

^b Excluding contribution to IDB.

^a Including reinvested earnings of subsidiaries, except in 1963.

funds from developed to under-developed areas. As table 172 indicates, the United States flow to Latin America also changed perceptibly during the second half of the fifties. In net terms it rose from 541 million dollars a year in 1951-55 to 1,081 million in 1956-61. The rate remained the same in 1961-63 when the flow of capital averaged approximately 1,000 million dollars.

3. SHIFTS IN THE RELATIVE IMPORTANCE OF PRIVATE AND PUBLIC CAPITAL

For more than half a century, and especially since the end of the Second World War, private funds have been

by far the predominant element in the aggregate flow of United States capital to Latin America. They continued to be during the period 1951-63 as a whole, when, as table 171 shows, private capital accounted for more than two-thirds of the incoming total.

This pattern, which lasted for the whole of the fifties, suddenly began to change at the beginning of the sixties, since the ratio of private to public capital (72 to 28 per cent in 1951-60) was virtually reversed in 1961-62 (34 to 66 per cent) (see again table 172). This was partly due to the fact that private investment, which had increased in both absolute and relative terms during the five-year period 1956-60, dropped sharply in 1961-63 from an annual average of 789 million dollars to 338 million, in other words by 58 per cent. On the other hand, there has been a steady flow of public United States capital from the second half of the fifties onwards. In all, net government loans and grants rose from an annual average of 147 million dollars in 1951-55 to 292 million dollars in 1956-60 and 652 million in 1961-63. As a result, the inflow of public capital as a proportion of the total increased from 28 per cent before 1960 to 66 per cent in 1961-63.

The main factors underlying the increase in public capital inflows will be reviewed later, but it may be said at this point that the increment was due both to an acceleration in the tempo of United States Government loans and grants for non-military purposes and to transactions effected in local currency under the terms of the different Mutual Security Programs (MSP) and Public Law 480.

Table 172. United States: average annual net flow of long-term capital to Latin America, 1951-63

	1951-55		1956-60		1961-63	
	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage
<i>Private capital:</i>						
<i>Subtotal</i>	394	72	789	72	338	34
Direct	350	64	666	61	253	25
Portfolio	44	8	123	11	85	9
<i>Public capital:</i>						
<i>Subtotal</i>	147	28	292	28	652	66
Loans	112	21	185	18	459	46
Non-military grants	35	7	107	10	193	20
<i>Total public and private capital</i>	541	100	1,081	100	990	100

SOURCES: As for table 171.

B. THE PRINCIPAL SOURCES OF UNITED STATES CAPITAL

1. PUBLIC CAPITAL

The inflow of official United States capital totalled 3,900 million dollars during the thirteen years ending in 1963. Of this sum 2,600 million dollars represented net official lending—disbursements minus repayments of principal—Eximbank being the principal loan agency involved. Other forms of non-military public aid amounted to over 1,300 million dollars.

(a) *The Export-Import Bank (Eximbank) in Washington*

Eximbank has long played a leading role in the provision of external financial assistance by the United States, and has been the principal source of United States non-military credits utilized abroad since the Second World War.² As will be discussed later, it has mainly con-

² More than two-fifths of all these United States credits utilized abroad between 1945 and 1960 came from Eximbank.

centrated upon loans for specific projects, but during the fifties approximately a quarter of its total net authorized credits were intended for general purpose or balance-of-payments loans.³ In terms of the sectoral distribution of loans extended for specific projects, Eximbank has traditionally laid stress on economic infrastructural works — mainly connected with transport and power — followed in order of importance by mining and metal refining. Industrial investment accounted for approximately one-sixth of all its loans for projects during the fifties. From the end of the Second World War to 1950, some 80 per cent of all Export-Import Bank credits were utilized by high-income countries of the world, mainly for the reconstruction of war-damaged areas in Western Europe.⁴ Conversely, during the fifties, nearly 75 per cent of its credits were allocated to low-income areas, mirroring thereby the increasing attention given to economic development during that period. As might be expected, Latin America's position within this changing geographical pattern has been directly affected. The twenty countries accounted for less than a fifth of all Eximbank credits used before 1950, when reconstruction needs dominated world credit operations. Subsequently, however, Latin America's share increased to over half the Bank's total volume of loans. United States credit policies towards developing areas in general and Latin America in particular serve therefore to explain the major shift in emphasis in Eximbank lending from high to low-income areas of the world since the end of the Second World War.

During the period 1951-63, gross disbursements by Eximbank in Latin America totalled 3,119 million dollars. Since principal repayments of 1,488 million dollars took place over the same interval, the final effect was a net capital flow to Latin America of 1,630 million dollars. The importance of this net total can be judged by the fact that it alone accounted for just under one-sixth of the net flow of all United States private and public capital into the region during those same years. In terms of public capital alone, Eximbank continues to occupy a dominant position, since it has provided more than 60 per cent of all net flows to Latin America in the form of official United States loans since 1951.

On the average, gross Eximbank disbursements to Latin America were 239 million dollars annually between 1951 and 1963. As shown in table 173, however, this average figure masks a sharply rising level of disbursements after 1955. During 1951-55, for instance, gross lending averaged 170 million dollars a year, increasing to 250 million in 1956-63. Repayments of principal rose even more swiftly, thus keeping the increment in net disbursements down to a more modest level, i.e., from an annual average of 112 million dollars in 1951-55 to 116 million in 1956 and 164 million in 1961-63.

³ *U.S. Private and Government Investment Abroad*, op. cit., pp. 291 and 468.

⁴ *U.S. Private and Government Investment Abroad*, op. cit., table XI-7: "high" income areas comprise Western Europe, Japan, Canada, South Africa and Oceania in that table, while Asia, Latin America, the Middle East, Africa and Eastern Europe are the "low" income areas.

Table 173. Eximbank loans to Latin America, 1951-63

(Millions of dollars)

Year	Gross disbursements	Principal repayments	Net lending
1951	130.6	-33.5	97.1
1952	105.2	-41.7	63.5
1953	396.8	-43.2	353.6
1954	98.1	-66.0	32.1
1955	117.1	-105.1	12.0
1956	65.6	-107.1	-41.5
1957	195.6	-118.4	77.0
1958	514.1	-133.0	381.1
1959	310.4	-152.0	158.4
1960	164.3	-159.3	5.0
1961	486.9	-139.9	347.0
1962	296.4	-157.6	138.8
1963	238.1	-231.5	6.2
TOTAL	3,119.2	-1,488.3	1,630.9
<i>Annual average:</i>			
1951-55	169.6	-57.9	111.7
1956-60	250.0	-134.0	116.0
1961-63	340.4	-176.3	164.0
1951-63	239.9	-114.4	125.4

SOURCE: Export-Import Bank, *Statement of Loans and Authorized Credits*, Washington, selected issues.

One reason for this upsurge in Eximbank's credit activities after 1955 was the increasing imbalance in Latin America's balance of payments occasioned by its steadily expanding investment requirements at a time when export earnings had begun to level off and then to decline. An additional reason was the fact that after 1953, the United States Government laid more stress on IBRD and less on Eximbank as the principal source of long-term development loans. When this policy was reversed in 1957, the pace of Eximbank lending rose sharply from its low level during the three preceding years.⁵

As regards geographic distribution, Eximbank has carried out credit transactions with each of the twenty Latin American countries, as will be noted from table 174. However, half a dozen countries have accounted for by far the bulk of its activities in Latin America since 1951. In terms of loans received these countries were, in descending order, Brazil, Mexico, Argentina, Colombia, Chile and Peru, whose gross receipts from the Bank ranged from 196 million dollars (Peru) to 1,221 million dollars (Brazil) between 1951 and 1963. Together they accounted for 90 per cent of all Eximbank disbursements

⁵ ". . . from December 1953 to December 1956 the Eximbank . . . failed to provide any net capital investment for Latin America. . . This was the result of a policy decision by the new U.S. administration that declared the World Bank to be the lender of first recourse for developmental capital: the Eximbank was left to operate in the limited area outside the range of World Bank operations. This policy was evidently reversed in 1957 with the reorganization of the Eximbank and a rapid acceleration in the net capital provided for Latin America." See Reynold E. Carlson, "The Economic Picture", published in *The United States and Latin America*, The American Assembly, Columbia University, December 1959, pp. 135-136.

Table 174. Eximbank loans to selected groups of countries, 1951-63
(Millions of dollars)

Groups of countries	Gross disbursements	Principal repayments	Net lending
<i>Group A: subtotal</i>	2,807.3	-1,393.5	1,413.8
Brazil	1,221.1	-563.7	657.4
Mexico	469.4	-285.5	183.9
Argentina	457.3	-154.0	303.3
Colombia	237.4	-150.3	87.1
Chile	226.1	-133.3	92.8
Peru	196.0	-106.7	89.3
<i>Group B: subtotal</i>	311.9	-94.8	217.1
Venezuela	109.4	-19.0	90.4
Caribbean countries ^a	65.3	-3.3	62.0
Central America ^b	67.6	-17.3	50.3
Others	69.6	-55.2	14.4
TOTAL, LATIN AMERICA	3,119.2	-1,488.3	1,630.9
Group A: Percentage of total	90.0	93.6	86.7
Group B: Percentage of total	10.0	6.4	13.3

SOURCE: As for table 173.

^a Cuba, Dominican Republic and Haiti.

^b Including Panama.

in Latin America. In fact, Brazil, Mexico and Argentina alone accounted for more than 70 per cent of the total. Two factors are mainly responsible for this heavy concentration on relatively few countries. The first is the growing tendency for Eximbank to give general purpose loans to Latin American countries.⁶ Some of these loans were extended in conjunction with broad stabilization programmes; others were more specifically geared toward the repayment or funding of large trade arrears, while others again were for over-all development objectives. Nearly all of them were, in any case, localized in the six countries mentioned. Secondly, a basically important factor is the economic and social magnitude of these six countries which together represent a substantial proportion of Latin America's total population, income, foreign trade, and economic activity in general. Given the short-term balance-of-payments problems they have faced, the long-run development financing they have required, and the economic and political criteria being emphasized by official United States credit policies and actions in the Latin American area, the fact that these six countries should have been Eximbank's principal customers is not surprising. During 1951-55 they received 89 per cent of all Eximbank disbursements in the region. In 1956-60, however, their share rose to 93 per cent and dropped to 87 per cent in 1961-63.

⁶ "The general purpose or balance-of-payments category has been assuming increasing importance lately, and consists mainly of loans to Latin American countries, including Argentina, Brazil, Chile, Colombia, Peru, Guatemala, Nicaragua and Mexico. Most of these . . . were to maintain essential imports or to increase confidence in their currencies while they were instituting monetary reforms, frequently on advice of the IMF." *U.S. Private and Government Investment Abroad*, op. cit., p. 469.

As for the fourteen remaining countries, they received a combined total of only 20 million dollars gross and 17 million dollars net per year on an average since 1951. The Central American area, which had not been a net recipient of Eximbank funds before 1955, thereafter obtained just over 5 million dollars per year, rising to an annual average of 11 million dollars gross receipts in 1961-63.

(b) *Other United States public capital*

Table 171 shows that the net flow of all United States long-term public capital to Latin America between 1951 and 1963 comprised loans and grants totalling 2,600 million dollars and 1,300 million dollars respectively. It has also been shown that Eximbank was the principal source of public loans. Accordingly attention will now be devoted to the remainder originating from non-Eximbank loans, and from other government grants and associated local currency assistance.

These latter transactions involved a large number of different aid operations that are not readily grouped under a single heading. For simplicity of presentation, therefore, and in order to concentrate upon some of the more important development transactions, all such loans and grants are grouped in two broad categories. The first concerns some of the programmes of development agencies, which, after Eximbank, have played a key role in post-war United States foreign assistance activities and which have together accounted for a total of over 1,700 million dollars in financial assistance extended to Latin America since 1951. This category includes an item of 1,400 million dollars for loans and grants disbursed in the twenty countries by different agencies operating under programmes or legislative authority established by the Mutual Security Act and, after 1961, the Foreign Assistance Act (including the Alliance for Progress), plus 300 million dollars in the form of local currency assistance granted in accordance with the Agricultural Trade Development and Assistance Act (more commonly known as Public Law 480).⁷

(i) *Loans and grants under Mutual Security programmes and Foreign Assistance programmes (including the Alliance for Progress)*: Next to Eximbank loans, most of the United States post-war non-military aid has been given in the form of loans and grants under the Mutual Security programmes. The administration of these programmes has been entrusted to a number of different agencies, beginning with the European Co-operation Administration (1948) and followed by the Mutual Security Administration (1951), Foreign Operations Administration (1953), International Co-operation Administration (1955) and more recently the Agency of International Develop-

⁷ The bulk of this category totalling approximately 550 million dollars between 1951 and 1963 represented disbursements which, although appearing in the United States balance of payments as non-military public loans, were implicitly geared to strategic considerations (defence mobilization, the sale of military or transport and communications equipment, direct United States government investment to create or expand productive facilities for strategic materials and so forth). Most of these disbursements took place early in the fifties. The remaining transactions consisted of grants for emergency aid, or were of other non-programmed kinds.

Table 175. United States: main net flows of public capital (other than Eximbank credits) to Latin America, 1956-63

(Millions of dollars)

Year	Non-military grants under the Mutual Security Program and thereafter under American Aid Programs (including the Alliance for Progress)	Dollar loans under the Mutual Security Program and thereafter under American Aid Programs (including the Alliance for Progress)				Total	Local currency loans under the Agricultural Trade Development and Assistance Act (Public Law 480)
		SPTF ^a	AID ^b	ICA ^c	DLF ^d		
1956.	54.6	—	—	—	—	} -55.4	
1957.	72.3	—	—	—	—		
1958.	67.3	—	—	12.1	—	28.1	
1959.	79.2	—	—	4.8	20.2	46.0	
1960.	78.2	—	—	11.1	13.2	25.7	
1961.	121.4	0.9	—	70.3	70.1	77.7	
1962.	124.8	21.4	186.9	—	—	32.2	
1963.	135.0	64.9	217.4	—	—	33.6	
<i>Aggregate total:</i>							
1956-60	351.6	—	—	28.0	33.4	61.4	155.2
1961-63	381.2	87.2	404.3	70.3	70.1	631.9	143.5

SOURCE: United States Department of Commerce, *Foreign Grants and Credits*, various issues 1956-63.

a Social Progress Trust Fund.

b Agency for International Development.

c International Co-operation Administration.

d Development Loan Fund.

ment (1961). The varied and changing nature of the administrative operations of all these organizations makes it very difficult to analyse them in terms of a common policy or operational method. Indeed, "the number and complexity of the U.S. Government's loan and credit programmes in operation during the post-war period defy an analysis in terms of functional or other types of classification. Many of these credits were extended under temporary programmes and the terms, credits and objectives of particular agencies have changed from year to year with changes in Congressional authorizations and appropriations."⁸ Hence, given these problems of functional classification, non-military Mutual Security programmes and Foreign Assistance disbursements of Latin America will be examined in terms of their respective loan and grant components.

As regard *loan operations*, Latin America received about 700 million dollars from Mutual Security and Foreign Assistance programmes up to the end of 1961, all in the last few years (see table 175).

From 1957 to 1961 these operations were handled by two different agencies: the Development Loan Fund (DLF) and the International Co-operation Administration (ICA).⁹ The loans disbursed by DLF in Latin America totalled 104 million dollars¹⁰ (20 million dollars in 1959,

14 million dollars in 1960 and 70 million dollars in 1961). Nearly 75 per cent of this sum was disbursed in Brazil and Argentina, with small amounts going to Ecuador, Paraguay, Uruguay and Central America.¹¹ The principal uses to which such funds were put included some non-project financing (mainly in Brazil), plus a variety of specific projects, especially for transportation and housing,¹² and such others as aerial mapping, water supplies, a loan for the Central American Bank for Economic Integration, agricultural production and land settlement, and certain industrial activities.

The remaining MSP loans to Latin America during those years mainly involved those effected by the International Co-operation Administration between 1958 and 1961. These disbursements had two main features. One is that the bulk (two-thirds) was localized in a single country for a particular purpose namely, that of assisting in the reconstruction and rehabilitation of Chile after the extensive earthquake damage suffered by it in 1960. The second is that other ICA disbursements were concentrated within a few countries of relatively small popula-

¹¹ The respective totals in millions of dollars were Brazil (50.2), Argentina (24.6), Ecuador (6.6), Paraguay (6.0), Central America (4.5) and Uruguay (4.2).

¹² The DLF housing loans were of particular interest, not only because they mirrored the recent and growing interest in this form of social overhead investment, but also because of the ways in which the DLF utilized intermediary financing techniques. Thus, instead of extending loans solely or directly to finance new housing construction, the majority were provided to autonomous or semi-autonomous government agencies that would subsequently administer their allocation. A substantial amount of such financing was in turn earmarked for financing the capital structure of these public agencies so that they could support national savings systems and loan institutions, thereby indirectly stimulating local investment in house-building.

⁸ U.S. *Private and Government Investment Abroad*, op. cit. p. 287.

⁹ *Staff Memorandum on International Lending Agencies*, House Committee on Foreign Affairs, United States Government Printing Office, 29 May 1961, p. 5.

¹⁰ Latin America received a relatively small (14 per cent) share of all disbursements by DFL which, from its inception up to the end of 1961, totalled 727 million dollars. By far the major part (73 per cent) was allocated to countries in Asia.

Table 176. Latin America:^a Mutual Security and American Aid Program disbursements in the form of grants

(Millions of dollars)

Country	1951-55	1956-60	1961-62	1951-62
Total, Latin America . . .	89.0	351.6	246.2	686.8
<i>Main recipients</i>				
Bolivia	15.2	103.1	43.7	162.0
Brazil	9.2	24.5	30.4	64.1
Central America ^b . . .	22.3	80.6	42.2	145.1
Chile	4.8	4.4	41.4	50.6
Colombia	3.3	1.6	24.7	29.6
Ecuador	4.7	12.1	9.2	26.0
Haiti	4.9	26.6	17.0	48.5
Paraguay	5.0	7.5	5.7	18.2
Peru	7.2	11.1	9.5	27.8
<i>Recipient countries as a percentage of total . .</i>	<i>86.0</i>	<i>77.2</i>	<i>91.0</i>	<i>83.2</i>

SOURCE: Office of the Controller, *AID Country Financial Reports*, selected issues.

^a The figures in the present table differ from those for non-military grants in table 171, because they exclude all donations given under programmes other than Mutual Security and American Aid Programs.

^b Including Panama.

tion and low *per capita* income levels, i.e., Ecuador, Haiti, Costa Rica, Guatemala, Honduras and Panama.

From 1961 onwards all loan operations under the Foreign Assistance Act were entrusted to the Agency for International Development (AID) which, at the end of 1961, absorbed both DLF and ICA. From then on, net disbursements followed an upward trend, reaching 186.9 million dollars in 1962 and 217.4 million in 1963, with apparently no appreciable change in the principles that had been governing loan allocation up till then. In 1961 the United States Government also set up a special loan fund with highly flexible amortization terms and interest rates. This was the Social Progress Trust Fund (SPTF), whose administration was placed in the hands of the Inter-American Development Bank. The Fund's net disbursements amounted to 21.4 million dollars in 1962 and 64.9 million in 1963.

Non-military grants given under the Mutual Security and Foreign Assistance programme recorded a cumulative total of about 700 million dollars for the period 1951-62 (see table 176). However, it was not until after these programmes were administered by ICA and AID that they reached significant levels. In 1951-55 all these grants amounted to less than 90 million dollars, whereas in 1956-60 they climbed steeply to over 350 million dollars. The upward trend seems to be persisting, since they totalled 246 million dollars in 1961-62.

As has been shown before, the bulk of MSP, Foreign Assistance and Eximbank loans went to a few large countries already at advanced stages of industrialization and ranking among the highest in Latin America in terms of *per capita* income levels. Grants on the other hand contrasted sharply with this particular pattern of geographic distribution. For one thing they were distributed throughout the region, to all twenty countries.

In so far as geographical emphasis is concerned, most of the grants were disbursed in small countries fundamentally dependent upon primary production and exports, with foreign capital requirements which could not be readily or substantially met under the more traditional criteria utilized by other United States or international lending agencies. Bolivia and Central America, for example, received nearly half all the MSP grants disbursed between 1951 and 1962, while Haiti, Paraguay, Ecuador, Peru, Colombia and Chile received about a third. The share accruing to Argentina, Brazil and Mexico was only one-tenth.

The data available do not permit the many and specific end-uses to which MSP grants have been put to be accurately listed. However, they include outlays for agricultural and mineral resources, transportation facilities, social overhead needs such as health, sanitation, vocational training and education, and public administration and safety.

(ii) *Loans in local currency under Public Law 480.* A large amount of surplus agricultural commodities has been exported from the United States under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) and its subsequent amendments. Since the promulgation of this Act, such exports have totalled approximately 9,000 million dollars and accounted for about 27 per cent of all United States farm products shipped abroad during the same period.

Public Law 480 exports are sold or otherwise disposed of through four different types of transaction, namely (a) Title I, involving sales payable in the respective local currency of the recipient countries; (b) Title II, covering grants for famine and other emergency relief; (c) Title III, comprising various donation and barter arrangements; and (d) Title IV, providing for sales on a long-term dollar credit basis. However, the bulk of all such exports — nearly two-thirds of the total by the end of 1961 — have come into the category of Title I transactions. The local currency payments required by Title I transactions may be utilized by the United States in a variety of ways: they can be relented to the Government of the purchasing country for financing the local currency components of specific development projects; lent to private enterprises; or offered in the form of grants; or they may serve for a variety of uses such as embassy expenses, educational exchanges, agricultural marketing activities, and defence functions. Ever since the beginning of the programme, nearly half the foreign currency proceeds arising out of such sales agreements have, however, been earmarked for loans to Governments for economic development projects. Until recently, their administration has been entrusted to ICA and later AID, smaller amounts being handled by Eximbank. Most of these loans have been extended to countries in Asia and Europe. By the end of 1963, for example, countries in those two regions had received over four-fifths of all Public Law 480 development loan disbursements made to foreign Governments since the Act was first promulgated. Latin America's share in such disbursements, on the other hand, was only one-sixth.

By the end of 1963, exports of agricultural commodities from the United States to Latin America under Public

Law 480 totalled more than 1,000 million dollars in value, of which Title I sales alone accounted for about 70 per cent¹³ of the total or more than 700 million dollars. A fraction of this amount was utilized for United States purchases in the area, and hence does not appear in the capital account of the United States balance of payments. The bulk of the 700 million dollars, on the other hand, is included as part of the total flow of United States public capital to Latin America since 1954, and appears in the balance of payments in two different forms. One covers those local currencies arising out of Title I sales that were lent back to recipient Latin American Governments for specific development projects. These amount to the equivalent of approximately 260 million dollars and are included in the balance of payments as official United States loans. To date they have related chiefly to projects in mining and agriculture, four-fifths being directed to the latter sector. Smaller amounts have been lent back for transportation, health and sanitation, and educational projects. The remaining Title I transactions involving local currency obligations not utilized for United States purposes in the area nor lent back on a project basis totalled close to 440 million dollars. These have also appeared as capital transactions, being considered as a form of special local currency assistance granted for development purposes abroad. Public Law 480 aid in the form of loans or special assistance has been extended to all the Latin American countries, the principal recipients being Brazil and Chile (close to 60 per cent of the total) followed by Colombia, Uruguay, Peru and Argentina (around 30 per cent).

2. PRIVATE CAPITAL

The 6,900 million dollars of private United States capital which entered Latin America between 1951 and 1961 did so in two ways—the bulk as direct investment (5,800 million dollars) and the remainder through a variety of private portfolio transactions.

(a) *Portfolio transactions*

Taking the thirteen-year period as a whole, portfolio capital has made a relatively small contribution to the over-all receipt of private long-term capital—less than 15 per cent in all. It has, however, been increasing over the past few years; as a result, its share of total private inflows rose from only 11 per cent in 1951-55 to 17 per cent in 1956-61.

As will be seen from table 177, the net flow of portfolio lending to Latin America totalled 1,156 million dollars during the period under review. Of this sum, net security transactions accounted for 136 million dollars (280 million received by Latin America as a result of security issues floated or otherwise traded in the United States capital market, minus offsetting payments of 144 million dollars made to redeem these and earlier issues). Other portfolio operations therefore accounted for virtually all the increase in portfolio flows that took

¹³ Most of the balance (24 per cent) consisted of donations and barter operations under Title III. Exports under Title II amounted to only 5 per cent, and those under Title IV were negligible.

Table 177. United States: net flow of private portfolio capital to Latin America, 1951-63

(Millions of dollars)

Year	Security transactions			Other long-term (net)	Net total
	New issues	Redemptions	Balance		
1951	—	—11	—11	—19	—30
1952	—	—10	—10	—24	—34
1953	—	—9	—9	—19	—28
1954	—	—8	—8	111	103
1955	4	—9	—5	215	210
1956	—	—9	—9	63	54
1957	—	—10	—10	174	164
1958	14	—10	4	47	51
1959	—	—10	—10	154	144
1960	107	—12	95	159	254
1961	18	—14	4	126	130
1962	102	—14	88	61	149
1963	35	—18	17	—28	—11
TOTAL	280	—144	136	1,020	1,156
<i>Annual average:</i>					
1951-55	1	—9	—8	53	44
1956-60	24	—10	14	119	133
1961-63	52	—15	36	53	89
1951-63	21	—11	10	78	89

SOURCES: As for table 171.

place after 1951. From an annual average of only 53 million dollars in 1951-1955 these rose to 119 million dollars a year between 1956 and 1961 and included a number of widely differing financial operations. Among them might be mentioned minority—less than 25 per cent—equity investment purchases in business enterprises domiciled in Latin America; real estate purchases; loans and credits made available by United States commercial banks to private and public borrowers in Latin America; and export credits. Precise data of the proportion represented by each of these categories are not available, but it can be assumed on the basis of partial information that commercial bank loans—extended directly or in participation with other lending agencies such as the Export-Import Bank and IBRD—have probably accounted for about three-quarters of the total. In recent years, exporter credits with maturities of one year or more have also been increasing in importance.

(b) *Direct investments*¹⁴

Two main characteristics emerge from an examination of United States private direct investments in Latin America. One is the substantial growth rate that has been recorded during recent periods. Thus, the outstanding

¹⁴ This term, as utilized by the United States Department of Commerce, covers foreign enterprises in which United States investors or parent companies have a controlling interest. The latter term is defined as ownership of 25 per cent or more of the voting stock of foreign subsidiary companies or unincorporated foreign branches.

book value¹⁵ of such United States capital in Latin America was 2,700 million dollars in 1943, rising to 4,400 million dollars by 1950, and totalling 8,200 million dollars by the end of 1961: i.e., more than tripling over the level existing less than two decades earlier. Latin America has, as a result, ranked high among the areas of the world most favoured by United States direct investors as an outlet for their funds, typically absorbing a third or more of all United States private capital invested in this form since the Second World War. The second characteristic entails the relatively narrow pattern of country and sectoral distribution that has been evident during the post-war period. At the end of 1950, for instance, some 300 large United States companies, each having assets of 50 million dollars or more, owned over 90 per cent of all United States direct investments in Latin America. Their activities had long been centred mainly on primary extractive industries, especially petroleum, although manufacturing had been increasing in importance. As for geographical distribution, one-quarter of all the countries in Latin America held three-quarters of all direct investments domiciled in the area at the beginning of the 1950's. By that time, therefore the over-all direct investment pattern in Latin America had been clearly established — namely a concentration within a relatively few countries which, by virtue of their

natural resource endowment or their large internal markets, offered the most profitable outlets for a comparatively small number of heavily capitalized and technologically advanced foreign corporations. As will be seen, the inflow of funds between 1951 and 1961 did not change this pattern. On the contrary, it further consolidated the degree of concentration then existing.

The 5,700 million dollars of United States direct investment capital entering Latin America after 1951 did not do so at a steady pace. Rather, as shown in table 178, it increased rapidly between the first and second quinquennia of the fifties, from 1,750 million dollars in 1951-55 to 3,332 million dollars in 1956-1960. The trend seems to have changed drastically in the past few years, since in 1961-62 new direct investments amounted to only 682 million dollars. If this trend is maintained in the years following, the figure for 1961-65 will be much lower than for the previous five-year period.

The increase for 1956-60, which was virtually twice the figure for the preceding five-year period, was due mainly to an abnormally high inflow of direct investment capital entering Latin America in 1956 and 1957. During those two years, a total of 2,200 million dollars was invested in the area. If this amount is excluded, it will be seen that the inflows taking place during each of the periods were very similar in size. Secondly, the increase taking place after 1955 was due almost entirely to larger investments in Venezuela, Argentina, Panama and Cuba. Altogether these four countries recorded a combined inflow that rose from 661 million dollars in 1951-1955 to 2,201 million in 1956-1960, so that their combined share jumped sharply from 38 per cent to 66 per cent of the area total. For the rest of Latin America, on the

¹⁵ For a number of methodological reasons the difference between outstanding values at two different points in time need not be directly equal to the flow of capital taking place during the intervening period. This may be due to the local currency — dollar exchange rates used for conversion at the time of reporting; changing relationships between current and replacement asset costs; write-offs; and other statistical or accounting reasons.

Table 178. United States: net flow of private direct ^a investment capital to Latin America, by principal countries, 1951-62
(Cumulative totals)

Groups of countries	1951-55		1956-60		1961-62		1951-62	
	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage
A. Total for Latin America	1,751	100	3,332	100	682	100	5,765	100
B. Countries recording the largest increments after 1955								
Argentina	81		196		300		577	
Cuba	92		279		—		371	
Panama	56		276		158		490	
Venezuela	432		1,450		-128		1,754	
Subtotal	661	38	2,201	66	330	48	3,192	55
(Annual average)	(132)		(440)		(110)		(245)	
C. Other countries								
Brazil	463		422		127		1,012	
Chile	113		141		27		281	
Mexico	206		238		108		552	
Peru	95		165		33		293	
All others	213		165		57		435	
Subtotal	1,090	62	1,131	34	352	52	2,573	45
(Annual average)	(218)		(226)		(117)		(198)	

SOURCES: As for table 171.

^a Including reinvested earnings of subsidiaries.

Table 179. United States: net flow of private direct ^a investment capital to Latin America, by principal sectors, 1951-62

(Cumulative totals)

Industrial sector	1951-55		1956-60		1961-62		1951-62	
	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage	Millions of dollars	Percentage
Total	1,751	100	3,398	100	616	100	5,765	100
Petroleum	348	20	1,571	46	-7	-1	1,912	33
Mining and smelting	339	19	301	9	46	7	686	12
Manufacturing	613	35	791	23	370	60	1,774	31
Trade and miscellaneous	451	26	735	22	207	34	1,393	24

SOURCES: As for table 171.

^a Including reinvested earnings of subsidiaries.

other hand, direct investments remained stationary, in terms of annual averages, since the sixteen remaining countries accounted for only 218 million dollars a year in 1951-55 and 226 million in 1956-60 (see again table 178). It might be added in this connexion that the factors leading to such a narrow concentration upon four countries in 1956-1961 were largely of a special and temporary nature,¹⁶ as proved by the figures for the subsequent years. The political development in Cuba put an end to investment in that country while Venezuela's position was marked by a steady repatriation of capital. With regard to the changing pattern of investment end-uses, it should be noted that the exceptionally high level of

private inflow recorded in 1955-60 was narrowly allocated to only a few sectors. Petroleum alone, for instance, accounted for 1,200 million of the 1,650 million dollar increase between 1951-55 and 1956-61; and as a result its share of Latin America's total inflow rose from 20 per cent to 46 per cent during these two periods respectively. In absolute terms an increase took place for manufacturing although, as noted in table 179, its share of the total inflow fell from 35 per cent to 23 per cent; i.e., although the level of capital entering Latin America's manufacturing sector in 1951-55 was quite close to that entering the petroleum and combined mining and smelting sectors, it accounted for less than half of the latter total during the rest of the period ending in 1960.

¹⁶ In Venezuela's case, nearly all the post-1956 inflows went to the petroleum sector and were largely induced by two temporary factors: the Suez crisis and the opening of new reserve areas under leasing arrangements. The subsequent disappearance of these investment stimuli, the imposition of United States import quotas, and the substantial upsurge in world crude oil output have, since 1959, led to a net United States disinvestment in Venezuela's petroleum sector. The increase recorded by Panama is less directly traceable but is presumed to have mainly resulted from the transfers of nominal ownership of United States tankers and other merchant craft to Panamanian corporate subsidiaries. The entire growth trend recorded by Cuba took place prior to 1960, and largely entailed existing investment outlets in agriculture and petroleum. In Argentina, manufacturing and petroleum largely accounted for the expansion taking place after 1955.

Looking back at the eleven years as a whole, it will be noted that only two countries (Venezuela and Brazil) received approximately one-half of the entire direct investment inflows, and similarly that only two sectors (petroleum, mining and smelting) accounted for virtually the same proportion of United States private capital in this form. Such developments, together with the fact that the post-1955 investment upsurge was largely due to special factors not likely to recur in the near future, serve to highlight the uneven and narrowly concentrated pattern so characteristic of the years under review.

C. SERVICING OF THE INVESTMENT

Between 1951 and 1963, the cumulative movement of net investment income from Latin America to the United States totalled 12,500 million dollars. As might be expected from the pattern of past capital inflows generating such incomes, this substantial transfer of resources was fundamentally determined by the need to service private United States capital. Thus, as shown in table 180, 11,900 million dollars (95 per cent of the total) represented interest and dividends accruing to private United States firms or individuals.

Of the 11,900 million dollars, only a small component — 600 million dollars — covered net Latin American payments to the United States for private portfolio transactions. Thus, by far the bulk of all private servicing transfers — 11,300 million dollars in all — took the form

of profits from United States private direct investments in Latin America.¹⁷ In view of the substantial proportion of such investments placed in foreign petroleum enterprises, it follows that the latter accounted for an equally high proportion of the resulting income flows. As shown

¹⁷ Including reinvested subsidiary earnings. In the United States balance of payments, reinvested branch earnings appear as a movement of private direct investment *capital* from the United States to Latin America, and also as a return movement of private direct investment *income* back to the United States from Latin America. Reinvested subsidiary earnings, although not included in the balance of payments, are published separately by the United States Department of Commerce and in view of their analogous origin and impact, they have been treated identically with reinvested branch earnings for the purposes of the present study.

Table 180. United States: net investment income from Latin America, 1951-63

	Total (Thousand million dollars) 1951-63	Annual average (Millions of dollars)		
		1951-55	1956-60	1961-63
<i>Private and public: total</i>	12.5	822	978	1,185
<i>Private: subtotal</i>	11.9	802	936	1,080
Portfolio	0.6	10	32	135
Direct ^a	11.3	792	903	944
<i>Public: subtotal</i>	0.6	20	42	105

SOURCES: As for table 171.

^a Including reinvested earnings of subsidiaries, except in 1963.

Table 181. United States: income transfers ^a on private direct investment in Latin America, 1951-62

(Millions of dollars)

Country and sector	1951-62	1951-55	1956-60	1961-62
<i>By principal countries</i>				
Venezuela	5,296	1,761	2,563	972
Brazil	1,056	565	334	157
Chile	758	273	361	124
Mexico	699	286	299	114
Panama	608	145	251	212
Cuba	458	228	230	—
Peru	448	157	178	113
Argentina	435	138	117	180
All others	734	408	206	120
TOTAL, LATIN AMERICA	10,492	3,691	4,539	1,992
<i>By principal sectors</i>				
Petroleum	5,074	1,913	2,235	926
Manufacturing	1,641	696	626	319
Mining and smelting	1,336	410	638	288
All others	2,441	942	1,040	459
TOTAL, LATIN AMERICA	10,492	3,961	4,539	1,992

SOURCES: As for table 171.

^a Including reinvested earnings of subsidiaries.

in table 181, almost one-half of the 1951-62 profits on direct investments holdings were generated by this single factor. Similarly a relatively small number of countries comprised the principal geographical sources of these earnings. Venezuela and Brazil alone accounted for three-fifths of the Latin American total.

In the aggregate, 600 million dollars, or 4.8 per cent of Latin America's total transfers, comprised net income payments made to the United States Government.

In examining changes in the flow of investment income, two points may be noted. The first is that private remittances, although declining as a proportion of the total, were none the less the major factor in the changes of the final magnitudes registered during the thirteen years under review. Thus, whereas aggregate remittances rose from an annual average of 822 million dollars in 1951-55 to 978 million dollars in 1956-60 and 1,185 million

in 1961-63, those destined for private firms or individuals rose from 802 million to 936 million dollars and to 1,080 million during the same periods and hence accounted for 97, 95 and 91 per cent of the respective totals. The second point is that changes in the level of income remittances from Latin America were much less pronounced after 1955 than had been the case for net capital flows to the area, which more than doubled between 1951-55 and 1956-60, whereas the former rose by less than one-quarter.

This latter development — of sharply divergent trends in capital as against income flows since 1955 — merits further attention in view of its future significance for Latin America's transfer problem. An examination of the balance-of-payments impact of foreign capital would, if treated in a broad context, entail the direct and indirect repercussions of a number of economic variables. In particular it would include the extent to which foreign capital helped to initiate a greater degree of export expansion, import substitution, labour absorption, fiscal revenue generation, and technological assimilation than would have taken place without such capital. The problem will be examined here from two narrower points of view. First the immediate and direct foreign exchange transactions balance resulting from the merging of net United States long-term capital inflows to Latin America and the return flows of income required for the investment servicing will be measured. Secondly, an attempt will be made to determine the portion of Latin American foreign exchange earnings from the United States used for service payments on the United States capital invested in the region.

In connexion with the first aspect, the data presented separately in previous sections are combined in the table 182, in order to show the interaction between net United States long-term capital flows to Latin America and return flows of income.

Table 182. United States: net balance on capital and investment income transactions in Latin America, 1951-63

	Annual average (Millions of dollars)			Cumulative total (Thousand million dollars) 1951-63
	1951-55	1956-60	1961-63	
<i>Net capital flows to Latin America: total</i>				
Private	541	1,081	990	10.8
Public	394	789	338	6.9
Public	147	292	652	3.9
<i>Net income transfers from Latin America: total</i>				
Private	-822	-978	-1,185	12.5
Private	-802	-936	-1,080	11.9
Public	-20	-42	-105	0.6
<i>Net balance on transactions:</i>				
total	-281	103	-195	-1.7
Private	-408	-147	-742	-5.0
Public	127	250	547	3.3

SOURCES: Tables 171, 172 and 180.

Three general comments may be made on the above table:

1. The balance of new United States private investment, minus the income therefrom, has consistently been negative for Latin America. For the period 1951-63 as a whole this new investment totalled some 6,900 million dollars, as against earnings of 11,900 million dollars, accruing from said investment, for a debit balance of some 5,000 million dollars in respect of Latin America, which is attributable mainly to direct investment enterprises.

2. Latin America has a credit balance of some 3,300 million dollars for the period 1951-63 in respect of net United States public capital inflow minus the earnings derived therefrom.

3. However, the surplus on public capital was less than the deficit on private capital. As a result, there was a net transfer from Latin America to the United States of some 1,700 million dollars for the period 1951-63. The position changes substantially from period to period. In fact, it improved in favour of Latin America from the first to the second half of the fifties. The balance of United States capital inflow, less outflow of earnings therefrom, which had shown a negative annual average of 281 million dollars in 1951-55, became favourable to the extent of an annual average of 103 million dollars in 1956-60 as a result of the sharp increase in net United States private and public capital inflow into Latin America. The position changed in 1961-63 when the balance of net United States capital inflow minus the earnings therefrom became negative again to the extent of an annual average of some 195 million dollars. This was due to the sharp

decline in private capital inflow—particularly in the form of new direct investment—the effect of which was counteracted by the increase in the movement of public capital.

Thus the movement of United States capital over the long term seems to have had a negative rather than a positive effect on Latin America's balance of payments. This conclusion is based solely on the direct effect of said movement, which can be easily gauged from the data recorded in the balance of payments. However, consideration should also be given to its indirect effect, which may have improved Latin America's balance of payments by contributing to an increase in exports or to a more rapid import substitution process.

With regard to the second object, table 183 shows the proportions of total Latin American current account earnings from the United States, which represent respectively income payments on United States investments and all servicing expenditure (i.e., investment income plus capital refunds) on United States capital.

Several interesting points may be noted from this table, including the following:

1. The table shows that, at present, one dollar out of every four earned by Latin American exports of goods and services to the United States market must be utilized for servicing obligations to the United States (i.e., for earnings remittances plus capital refunds).

2. By comparing 1951 with 1963, it will be seen that this over-all coefficient increased by almost one-half (from 17.8 to 27.1 percentage points). This in turn has resulted from the composite of two divergent trends—

Table 183. United States: ratio of investment income and capital servicing to total receipts on current account in respect of Latin America, 1951-63

(Millions of dollars)

Year	Investment income				Capital repayments			Receipts on current account		
	United States income from investment in Latin America				Selected United States capital receipts from Latin America			Total United States imports of Latin American goods and services (8)	Ratios ^a	
	Direct (1)	Other private (2)	Government (3)	Total (4)	Private ^b (5)	Public ^c (6)	Total (7)		(4) (9)	(4) + (7) (10)
1951	630	17	16	663	11	52	63	4,068	16.3	17.8
1952	569	20	18	607	10	58	68	4,160	14.6	16.2
1953	561	17	24	602	9	61	70	4,182	14.4	16.1
1954	579	23	32	634	8	83	91	4,046	15.7	17.9
1955	729	33	34	796	9	115	124	4,153	19.2	22.2
1956	800	44	34	878	9	126	135	4,553	19.3	22.2
1957	880	60	40	980	10	155	165	4,776	20.5	24.0
1958	641	67	47	755	10	145	155	4,635	16.3	19.6
1959	600	70	72	742	10	189	199	4,611	16.1	20.4
1960	641	102	79	822	12	199	211	4,568	18.0	22.6
1961	730	121	77	928	14	164	178	4,201	22.1	26.3
1962	762	135	112	1,009	14	179	193	4,393	23.0	27.4
1963	799	151	126	1,076	18	130	148	4,524	23.8	27.1

SOURCES: As for table 171.

^a The ratio of (4) to (8) represents the proportion of total Latin American receipts on current account from the United States that was absorbed by investment income payments. The ratio of (4)+(7) to (8) represents the proportion absorbed by all capital service expenditure, i.e., investment income plus capital repayments.

^b Latin American redemptions of security issues on the United States private capital market.

^c Latin American amortization payments on loans extended by United States public agencies.

a persistent rise in servicing payments on the one hand, and a decline (since 1957) in current account earnings on the other. It may be assumed that given Latin America's high and growing level of external indebtedness, the servicing coefficient will show even further increases beyond its 1963 level unless exports rise sharply.

3. Finally, in terms of absolute figures, it will be noted that private (especially direct) investment payments have accounted for the bulk of the aggregate transfer burden since 1951. However, the amortization of public loan capital has recorded an exceptionally rapid growth — it tripled in just over a decade.

D. SOME COMMENTS ON THE CHARACTERISTICS AND ROLE OF PRIVATE UNITED STATES DIRECT INVESTMENTS

1. THE SIZE OF PRIVATE CAPITAL INVESTMENT

At the beginning of the 1950's, as indeed throughout the entire twentieth century, the United States continued to believe that private capital was the form of foreign investment best designed to promote the growth of less developed countries. This was obvious in Latin America from 1951 to 1960 when private investments accounted for the majority (5,900 million dollars) of all capital (8,200 million dollars) moving from the United States to Latin America. As has been mentioned earlier, most (5,080 million dollars) of the private flows originated in response to decisions taken by a comparatively small number of large firms that owned or controlled nearly all the United States private direct investments in Latin America.¹⁸ Such firms were therefore to play an inordinately important role in determining the over-all investment pattern that was finally recorded during the period under review.

2. FOUR BASIC CHARACTERISTICS OF LOANS

Generalizations are difficult to make about the characteristics of decisions on private investment, since the conditions governing specific projects change sharply in response to a variety of financial, technical and political factors. None the less, the main features undoubtedly include the following:

(a) *Emphasis on a few sectors*

First of all, the substantial increase in United States direct investments in Latin America mainly involved the development of primary extractive resources and (to a lesser extent) the expansion of manufacturing plant. The reasons for concentrating upon these two sectors were the same as those underlying the pattern recorded by United States private investments throughout the rest of the world after the Second World War. Thus, the heavy expenditure in extractive activities reflected the spectacular growth in international demand and prices for primary materials, so pronounced in international markets for more than a decade after 1946. In the case of manufacturing, the rationale involved a desire to benefit from the growth of domestic demand in countries

¹⁸ Slightly more than 300 firms owned 91 per cent of all United States direct investments in Latin America (exclusive of shipping, insurance and export-import firms) in 1950.

where population and *per capita* income levels were rising rapidly after the war, and where preferential tariff treatment was often accorded to the industrial sector.

(b) *Concentration in a few areas*

Thus, stimulated by buoyant international and internal demand, a growing volume of private United States capital moved to Latin America after the war. As such funds sought out their respective destinations, the second basic post-war investment characteristic became evident — namely concentration within a relatively few countries. For these funds were directed largely to regions that happened to contain certain preferred natural resources (especially metallic and non-metallic mineral deposits) or where large domestic markets and extensive ancillary facilities (such as power and transport networks) were already available.

(c) *Financial and technological scale of plant*

The third characteristic had to do with the size and ability of the relatively few foreign firms that accounted for such a large proportion of all United States private investments in Latin America. Having built up financial, technical and managerial skills and resources from their own past activities in given lines of endeavour, these firms inevitably sought outlets in analogous enterprises where extensive liquidity, complex technology, and advanced administrative and managerial skills were particularly suited to their own specifications and resources. Often this brought them into positions of considerable importance within the economy of the host country, especially where local entrepreneurs were unable to compete on a directly comparable basis.

(d) *Remittance channels*

Fourthly, by concentrating upon the production of primary extractive goods for export (where profits could be deducted directly from the proceeds of such exports) and similarly by locating their manufacturing investments within the larger and more advanced countries of the region (where conditions favourable to a so-called "investment climate" were most likely to be found) these firms sought to minimize the restrictions upon their ability to remit profits abroad. In turn, as noted elsewhere, this enabled a very substantial volume of income remittances to take place between 1951 and 1963.

Part IV

**UNITED STATES AND INTERNATIONAL PUBLIC
LENDING AGENCIES**

Chapter XI

UNITED STATES AND INTERNATIONAL PUBLIC LENDING AGENCIES: STRUCTURE, ACTIVITIES AND POLICIES

A. GENERAL SURVEY

This chapter is of a descriptive nature, designed to review certain aspects of those United States and international public financial agencies that were operational in the Latin American area between 1951 and 1961.

Sections B and C of the chapter cover the organizational, operational, and lending characteristics of each of the agencies involved. Section A is more general; it is in two parts, the first of which describes some of the principal lending criteria of the Export-Import Bank (Eximbank) and the International Bank for Reconstruction and Development (IBRD) in broad functional terms. The reason why these two particular banks are examined first, and in conjunction, is because they have accounted for a high proportion of all the external public capital entering Latin America since 1951,¹ and also because the loan criteria of each have in many basic respects been identical in the past. Sub-section 2 describes more briefly the emergence, during the latter half of the fifties, of certain new public capital-supplying bodies (United States and international) whose lending policies introduced some changes in the more traditional and orthodox approaches that had existed previously.

1. LENDING POLICIES OF THE EXPORT-IMPORT BANK AND IBRD

(a) *Basic policy criteria and their rationale*

Although there are certain exceptions to the statements that follow, they none the less represent in broad outline the lending policies followed by Eximbank and IBRD.²

¹ That is, the aggregate flow of long-term non-military capital disbursed in Latin America by all United States public loan and grant agencies, plus IBRD, its two affiliates, and the Inter-American Development Bank (IDB). Eximbank and IBRD together (3,119 million dollars and 1,190 million dollars respectively) accounted for nearly three-quarters of the gross total involved (5,336 million dollars).

² For additional details about each of these two Banks, and for comparisons between them, see the excellent account given by W. Krause in his book *Economic Development*, Wadsworth Publishing Co., 1961, chapters 18-19. Other useful sources include *United States Private and Government Investment Abroad*, ed. R. Mikesell, University of Oregon Press, 1962, chapters 4 and 16; R. Asher, *Grants, Loans and Local Currencies*, Brookings Institution, 1961, chapters 3-5; B. Higgins, *United Nations and United States Foreign Economic Policy*, Richard Irwin Inc., 1962, chapters 3 and 4; *Financing of Economic Development in Latin America*, Pan American Union, Washington, D.C., 1958, chapter IV; *Study of the Eximbank and World Bank*, United States Senate Committee on Banking and Currency, Washington, D.C., 1954; and the various annual reports published by the two banks themselves.

(i) *Project-by-project approach*

A feature of long standing is the emphasis both banks place upon a project-by-project approach in their lending operations. Thus funds have been granted for specific projects after detailed examination of extensive engineering, economic and legal studies relating to the loan requests concerned. So long as each project taken by itself was technically feasible, and was considered to make a direct and measurable contribution to increased income and production, it was favourably considered, without any over-riding importance being attached to its current or foreseeable inter-relationships with the country's general pattern of investment resources and requirements. The principal exceptions to this policy were general-purpose or balance-of payments loans designed to repay or consolidate outstanding short-term commercial debts, to strengthen the recipient's foreign exchange position, or increase the capacity to finance imports of United States merchandise. Such balance-of-payments loans have been contracted almost entirely with Eximbank, and were granted to countries where special and urgent United States political interests, were served at the same time as the financial needs of the borrower. The granting of general purpose loans to developing countries is of relatively recent origin, and although it relates mainly to the Latin American area, the bulk of all Eximbank and IBRD lending is still confined to single-purpose loans. The argument usually advanced is that the two banks wish to add their technical resources to those of the borrowers in the pre-investment research and studies needed to locate, prepare and carry out individual projects, and wish to facilitate closer accounting control over the distribution of the loan funds. In addition the banks believed that single-project loans have the advantage of linking foreign funds directly with a visible and measurable addition to the borrower's stock of fixed investment, whereas general-purpose loans might tend to be used to increase the volume of imported consumer goods, or to effect a temporary reduction in balance-of payments deficits, without necessarily increasing the recipient's total new domestic capital formation.³ Lastly, the project approach has often been defended on the grounds that it is more "action-prone" in the short run, that is, it permits some investments to be made during the period when general plans are prepared and subsequently negotiated.

³ See *Financing of Economic Development in Latin America*, op. cit., pp. 119-120.

(ii) *Import-component financing*

Of equally long standing is the priority given by Eximbank and IBRD to import-component financing. The two banks have held that local currency outlays incurred under externally financed projects should be defrayed from internal services, and that contributions from the banks should be confined to the foreign exchange required. The essence of this approach is that it offers the obvious advantage of requiring a domestic savings effort from the recipient country for each new external loan revised. This type of loan has also been defended on the grounds that control over successive drawings by the borrower, and end-use supervision of the project itself, are more readily effected when disbursements are made for internationally-traded goods.

(iii) *Economic infrastructure*

Eximbank and IBRD have long tried to avoid making loans that would compete with private foreign capital.⁴ This has led to a lending pattern concentrating largely on infrastructural⁵ rather than industrial end-uses; i.e., based on the thesis that private enterprise views the latter as a preferred area of activity, whereas the reverse is true for overhead investments, given their large and "lumpy" capital requirements and the rates of return they bring.⁶ Hence the bulk of the loans to underdeveloped countries from the two banks have traditionally been granted in the fields of transportation and power. But, within this general policy, a separate but related lending criterion should be noted, the lack of emphasis on social as compared with economic overhead facilities. The basic rationale here is the assumption that project loans should make a quantitatively measurable contribution to the income and productive capacity of the borrower, and be self-liquidating in some specific revenue-producing sense. Cost-benefit analyses relating to social overhead facilities are considered to be less directly assessable, since they repay their original investment through a generally increased output in the form of higher social product rather than in a profit-making or income-producing context.

(iv) *Particular legal or administrative prerequisites*

In addition to the broad policy criteria mentioned above, the two banks have also established certain legal

⁴ Two main reasons have been given: (a) they have not wished to interfere with, or in any way inhibit, the financial, technological and managerial skills that are assumed to be combined within a single "private investment package"; and (b) both banks must look for new lending resources to United States Congressional appropriations, and in the case of IBRD, to bond floatations in the United States private capital market as well. In both instances it is considered that the reception will be more favourable if the banks are not considered as direct intruders upon the traditional sphere of private investors.

⁵ And certain others, such as state-owned petroleum enterprises: see for instance Roberto Campos, *US-Latin American Relations*, paper presented at the Conference on Tensions in Development in the Western Hemisphere, held at Salvador, Brazil, in August 1962.

⁶ "It is no accident that so large a percentage of... [Eximbank and IBRD] lending is for transportation, power and irrigation projects... which generally require far too large aggregates of capital to be handled by local private enterprise. Furthermore they are fields into which foreign private enterprise has shown even greater reluctance to go": *Study of the Eximbank and the World Bank*, op. cit., part 2.

or administrative requirements that must be accepted before a new loan can be authorized. One IBRD legal limitation is that all its loans require a guarantee by the Government of the recipient country. Such guarantees may also be requested by Eximbank, but they are not mandatory. Eximbank requirements are that all its loans be denominated in dollars, be repaid in dollars, and be tied exclusively to United States merchandise. IBRD loans on the other hand can be made in such currencies as it may hold; they are repayable in the currency extended or in convertible exchange; and they are not necessarily tied to the products of any one country. Some limitations are common to both the banks: e.g., their funds are extended for debt but not for equity capital; although their loans are preceded by various technical surveys, they do not engage in loans for pre-investment survey purposes alone; and the interest rates they charge must approximate to the cost of borrowing long-term funds in analogous United States capital markets.

(v) *Creditworthiness criteria*

Assuming that an incoming loan application has satisfied all the requirements noted in the four preceding sub-sections, its final approval still depends on one key policy criterion — how far the borrowing country measures up to certain creditworthiness criteria. The latter do not necessarily entail a single set of questions and answers to be applied uniformly over time, or in an unvarying manner to all applicants. Rather they encompass certain value judgements and other more quantitative factors bearing upon the circumstances affecting each borrowing country. Among them, the following may be noted:⁷

(1) *The foreign-investment record and climate.* In this regard the borrowers' record is studied for defaults on past obligations, including for instance the country's debt-default pattern over past decades and its performance regarding prompt and full payment on loans acquired during more recent years. Similarly, legislative and administrative factors specifically affecting foreign investment may be considered: e.g. restrictions on the transfer of interest and principal, or other practices (tax deterrents, preferential exchange rate mechanisms, etc.) that might be viewed as directly and unduly inhibiting the role of external capital.

(2) *General political and institutional considerations.* Here judgements may be made in a broader context, including the degree of existing and foreseeable internal political stability; the performance of the public administration system, and the monetary and fiscal policies followed. Similarly (overlapping in part with point (i) above), the functions and achievements of State-owned enterprises may be assessed, as also the extent to which investment priorities in the public and private sectors have been established and implemented.

(3) *Debt servicing, and exchange earning or saving.* Under this heading, quantitative estimates may be made of past, present and future levels of investment transfers

⁷ For additional details, see also *Financing of Economic Development*, op. cit., pp. 123-128 and 135-139.

in relation to the country's current account earnings. For instance, this can take the form of projecting long-term trends and shorter run fluctuations in earnings, based on the existing and anticipated pattern of export items and the international demand-price outlook confronting them. Similarly, short and long run import requirements may be calculated, taking into account potential import-substitution measures, in order to indicate the amounts of foreign exchange that will be available, and the amounts that will be required. The balance between the two indicates the residual margin of current earnings available for servicing debt obligations over and above those already existing.

(b) *Some limitations*

In the course of their activities Eximbank and IBRD have contributed in many important respects to Latin America's external financial requirements. Since the early fifties not only have they supplied by far the largest share of all public funds flowing into the area, but in addition the technical skills made available, and the thoroughness of their operational procedures, have had undoubted benefits. Yet for a number of reasons the approaches they have followed, jointly or separately, could be regarded as having certain drawbacks. Thus, some of their lending conditions have set quantitative limits to the potential flow of funds they could have provided, and other policies have raised more far-reaching qualitative questions about the impact that their resources have had upon the Latin American growth processes.

The requirement that only import-component financing may be provided, for instance, has been criticized on the grounds that many projects — especially in the realm of infrastructure — have a direct import component representing only a minor proportion of the total investment involved. In these cases the scope of external lending action is, by definition, held to that small fraction. Furthermore, the indirect income repercussions of given lending activities may generate far greater pressures upon a country's foreign exchange availabilities, through higher levels of import demand, than were involved in the initial external financing itself. Also, the very existence of this particular policy may mean that it is impractical in terms of time and cost to prepare a loan request unless substantial quantities of foreign exchange are needed. Thus small and medium-scale projects may be placed at a disadvantage: similarly, incentives may unwittingly be given to capital-intensive as against labour-intensive projects.

Secondly, there are certain limitations inherent in a lending policy that concentrates mainly on economic overhead. Admittedly such investments merit special attention in many under-developed countries. However, the use of a "directly-productive" investment classification, while easier to apply in terms of precise lending standards, can and generally does imply only a minimum attention to social infrastructure. Obviously, however, balanced growth requires a progressive expansion in many forms of infrastructure, and due importance should be given to the idea of increasing the social product as a whole, rather than solely to projects that are revenue-producing

in a measurable or commercial sense.⁸ Moreover, the past emphasis on overhead investment was due mainly to the belief that external financing for industrial projects should be left mainly to private capital: thus here again a problem of investment-balance is posed.

Thirdly, the project-by-project approach need not necessarily link the capital requirements and productive contributions of any one loan to the total pattern of investment needs and resources of a borrowing country. While individual project selection is of the utmost importance, there should also be due regard for the future effect of each project on all others within an integrated investment programme. Otherwise the ability to programme a system of priorities for both domestic and external financing is seriously limited, and the effect may even be to reduce the total number of foreign investment projects themselves.⁹

Fourthly, the legal requirements involving tied loans and government guarantees, while explainable in terms of the structure and purposes of the banks involved, may clearly serve to limit the demand for external funds; for example, if the borrowers do not wish to associate their operational activities with the particular obligations that a government guarantee might involve, or if they feel that the materials required could be obtained on more competitive terms from areas other than those to which a given loan is tied.¹⁰

Lastly, the creditworthiness criteria utilized in the past merit special attention; for, during recent years, at least two circumstances have been leading to a steadily increasing pressure upon the credit-rating position of many primary exporting countries, including those of Latin America. On the one hand, the initial expansive trend of their post-war export earnings and hence of their debt-payments capacity came to an end about 1957 and has stagnated during the past half decade. More to the point is the fact that there is little prospect of

⁸ "This... new money is needed for the most part not for revenue-producing activities (which can readily be financed through 'bankable' loans) but for public facilities and services which can repay their investment only through the generally increased output of the entire economy": see Paul G. Hoffman, *One Hundred Countries, One and One Quarter Billion People*, Lasker Foundation Report, Washington, D.C., 1960, p. 12.

⁹ "One argument advanced in support of [the project] approach (e.g. by the International Bank) holds that linkage of loan capital with a specific project is more likely to assure utilization of funds for productive purposes... Unfortunately, individual projects frequently appear to hold less economic justification when viewed in isolation than when viewed as one segment of a larger development effort. Thus there is reason to believe that appraisal in isolation is likely to hold down the number of projects able to qualify for external financing." See *Economic Development*, op. cit., p. 257. For an interesting discussion on the importance of programming to the process of investment priority rating, see also G. F. Popanek, *Framing a Development Programme*, Carnegie Endowment for International Peace, March, 1960.

¹⁰ "The tying process is likely to raise the total cost of aid programmes over what they would be if purchases were made in the cheapest market... [moreover] in the receiving countries, tied aid inevitably complicates the business of matching requirements with availabilities... In the US, tied aid is difficult to reconcile with our long standing policy of promoting maximum competition in international markets." See *Grants, Loans and Local Currencies*, op. cit., p. 43.

any change in this situation in the mid-sixties. Meanwhile the need to sustain imports in the face of a weakened export sector has led to a steady and substantial growth in accumulated external debt, and therefore in the corresponding annual servicing obligations. Undoubtedly, therefore, the creditworthiness standards relevant to the sixties will be more difficult to sustain than those applied in the fifties, when the relationship of debt-servicing to exchange earnings was more manageable.¹¹

2. SOME NEW AGENCIES AND THEIR LENDING APPROACHES

To summarize the points made thus far, Eximbank and IBRD have together been the major suppliers of new public capital for Latin America for over a decade, and have succeeded in fulfilling the aims and priorities underlying their respective lending policies. It is not surprising that their operations have been subject to certain limitations, given the complex and difficult task of providing development assistance at once broad in scale and acceptable to a large group of countries with widely diverse investment needs, resources and preferences. Partly as a result of this diversity, the second half of the fifties was marked by a search for new international lending approaches.

One aspect of this was mirrored in the operational patterns recorded by Eximbank and IBRD themselves. Both banks, for instance, expanded the volume of their new disbursements in Latin America between 1951-55 and 1956-61 — IBRD by 26 per cent and Eximbank by 71 per cent — and during the latter period an increasing number of countries received Eximbank general-purpose or balance-of-payments loans. At the same time, moreover, a number of new United States Government lending agencies and related foreign aid programmes were inaugurated, as well as others organized under international or regional auspices, all designed to expand the pace of lending to under-developed areas,¹² including Latin America, and to apply new lending terms and conditions. Attention is drawn in particular to the various aid programmes initiated under the United States Mutual Security Program, administered by government agencies whose names and structure changed several times during the period, and to the work done by the Inter-American Development Bank, and two affiliates of IBRD, the International Finance Corporation (IFC) and the International Development Association (IDA).

¹¹ "The mountain of indebtedness to foreign investors piles up at a frightening pace once a country gets seriously involved in rapid industrialization. Beyond a certain point — and this is a point that lies immediately ahead for several Latin American countries — it becomes extremely difficult for a poor country to approach . . . institutions which apply commercial criteria, and obtain a public loan. . . The net effect is that countries which were able to borrow easily in the 1950's will be able to borrow less or not at all in the 1960's. . . Of course if one could foresee an early increase in the export earnings of under-developed countries the prospects would be that much improved but. . . this is unlikely. . . within the critical period of the next 10 years or so." See A. Shonfield, *Attack on World Poverty*, Random House, 1960, pp. 96-98.

¹² See *International Flow of Long-Term Capital and Official Donations, 1951-1959*, United Nations publication, Sales No.: 62.II.D.1, p. 10.

In several respects these bodies followed lending policies that enabled them to supplement and complement those of Eximbank and IBRD.¹³ In particular their criteria broadened the scope of international public lending to include end uses other than economic infrastructure; they endeavoured to relax existing creditworthiness criteria and permit more liberalized repayment terms, in view of the mounting balance-of-payments pressures on so many primary exporting countries; they sought some shift in the former emphasis upon project as against programme financing;¹⁴ they aimed at modifying certain of the previous legal and administrative loan conditions, such as the need for government guarantees, and at enabling the total flow of new investment funds to rise above the levels of the first post-war period.

The specific policies and actions followed by the newer bodies are discussed separately and in some detail elsewhere in this chapter, but two key aspects of their operation should be noted at this point. One is their contribution to the increased flow of new international public capital, including the share moving to Latin America. The other is the variety of criteria and techniques involved in their respective operations. Thus several of them have tried to ease the borrowers' servicing burden¹⁵ through such means as local-currency repayments, reduced interest-rate charges, longer grace periods and extended maturity-schedules for principal amortization. Others have moved increasingly towards the linking of creditworthiness criteria to the borrowing country as a whole rather than to any specific project being considered for financing. In several instances investment end-uses other than economic infrastructure (including social overhead facilities) have been accorded higher priorities. The mandatory condition of a government guarantee has been waived for most of the new bodies. In the case of one agency, the provision of risk capital

¹³ "In the evolution of these international institutions, it is of interest to note the changes that have occurred in order to facilitate an accommodation with the arising needs in the flow of capital. With limited flexibility permitted in its charter, the IBRD — primarily an institution designed to be run on strictly banking principles — had to create affiliated institutions. . . in the form of IDA [International Development Association] and IFC [International Finance Corporation]." *Financing of economic development*, E/3665/Rev.1, 23 July 1962, p. 13.

¹⁴ "From the experience of Colombia we can deduce that, from a pragmatic point of view, there is no conflict between the concept of the evaluation of over-all national programmes and the financing of individual projects. We are sure that with the development of planning techniques. . . and experts capable of carrying out projects and maintaining a sustained long-run criterion in their relations with international organizations, the answer to a problem that might appear as an apparent contradiction will have been found." Speech by Mr. Felipe Herrera, President of the Inter-American Development Bank, at the IA-ECOSOC meeting in Mexico, 23 October, 1962.

¹⁵ "The credits that the IDA makes available, as well as the long-term development credits that the US is providing under its assistance, are designed to minimize the debt-servicing burden on the recipient countries. If. . . we are to make it possible for the less advanced countries to do serious planning, more of the economically advanced countries must provide credits on longer term and with reduced interest rates." Statement by Mr. Ball, the Under-Secretary of State, at the 1962 IBRD-IMF Annual Meeting, Press Release 563, dated 18 September, 1962.

for private enterprises was a principal objective. Although project-lending continued to be a basic underlying policy for all the bodies concerned a broader orientation has been sought by expanded borrower-lender efforts aimed at programme preparations.¹⁶ Related in part to the latter point are such techniques as expanded indirect-

lending, i.e., the provision of funds to domestic development corporations for re-use by groups of projects in the public and private sectors, and the availability of loans and grants extended directly for technical assistance in various pre-investment programme or project surveys.¹⁷

¹⁶ "A virtue of IDA is that it is not required to confine its loans to support of specific projects but may extend its support to plans and programmes." (Hoffman, *op. cit.*, p. 51) "In theory at least, IDA assistance is intended to finance that essential part of a country programme that cannot be carried on with the resources otherwise available." Asher, *op. cit.*, p. 70.

¹⁷ In the latter context, separate mention should be made of another relatively new body — the United Nations Special Fund — that provides funds for pre-investment feasibility studies. By the end of 1961, such studies had represented a total cost of over 400 million dollars, of which the Special Fund's contribution was approximately two-fifths, the balance being met by recipient Governments.

B. INTERNATIONAL LENDING INSTITUTIONS

1. THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Towards the end of the Second World War, the situation of the devastated countries and the need for a stimulus to economic development made it clear that a programme of technical and financial assistance through international organizations was needed. Thus, in 1944, at the Monetary and Financial Conference in Bretton Woods, New Hampshire, financial experts of the Allied Nations drafted the articles of agreement for the International Monetary Fund and the International Bank for Reconstruction and Development.

The latter was officially created on 27 December, 1945, when twenty-eight countries signed the Articles of Agreement, and it began operations in Washington on 25 June, 1946, as a specialized agency of the United Nations.

(a) Objectives and structure

As its official title indicates, the World Bank is concerned mainly with the reconstruction and development of its member countries. In article I of the charter the purposes guiding the Bank in its decisions are stated, namely the recovery of economies destroyed during the war; stimulus to the development of productive resources in less developed regions; and the promotion of foreign private investments.

Because the immense task outlined in this article required large amounts of capital and high risks that could not be undertaken by private capital alone, the conference of Bretton Woods devised an organism to provide loans for productive reconstruction and development projects, with capital from governmental subscriptions plus funds acquired through the mobilization of private capital. Thus the financial structure is such that the risks involved in these investments are shared by member countries according to their economic strength.

During the years immediately following the Second World War, the World Bank undertook the urgent problems of European reconstruction. Fairly soon it recognized that long-term capital requirements, for this purpose exceeded the resources of the Bank and were, in fact, far greater than the amount which the countries of Western Europe could afford to borrow with reasonable

assurance of repayment. When the United States Government was considering the European Recovery Programme, the World Bank gave it its full endorsement, and once the programme was begun, in 1948, the Bank began to concentrate its activities in the less developed areas of the world.

World Bank loans disbursed until 1950 amounted to 641.9 million dollars. Of this total, Denmark, France, Luxembourg, Belgium, Finland and the Netherlands received 530 million dollars.¹⁸ Since 1950, loans from the International Bank for Reconstruction and Development have been a substantial source of development capital for the emerging economies of member countries in Asia, Africa, and Latin America.

Until 1959 the authorized capital stock of the Bank was 10,000 million dollars, divided into 100,000 shares each with a value of 100,000 dollars. Every member country is required to pay 20 per cent of its subscription as follows: 2 per cent in gold or United States dollars and 18 per cent in its national currency. The remaining 80 per cent is subject to call only if needed to meet the Bank's obligations.

The uncalled capital is actually "a guarantee of the Banks' obligations by the Bank's members, with the members sharing proportionately in the risks of the Bank's loans and each member putting its own credit behind Bank obligations to the extent of the uncalled portion of its own capital subscription."¹⁹ This financial structure has enabled the Bank to acquire large sums in the capital markets of the world.

Taking into consideration the future needs of the Bank, especially in relation to transactions in world capital markets, in 1959 the Board of Governors decided to increase the authorized capital stock of the Bank to 21,000 million dollars. The purpose of this increase was to reinforce the resources of guarantee of the Bank and thereby to strengthen its borrowing power. For this reason there was no need to call for the increase of the

¹⁸ International Monetary Fund, *International Financial Statistics*, vol. VI, No. 3; March, 1953, Washington, D.C., p. 9.

¹⁹ *The World Bank, IFC and IDA, Policies and Operations*, prepared by the International Bank for Reconstruction and Development, Washington, D.C., April 1962, p. 24.

members' subscription. That will be done only if necessary to meet the obligations of the Bank.

The Bank thus has several sources of financing at its disposal. In brief, they are :

(i) *Capital subscription.* By 30 June, 1963, the member countries had paid 207 million dollars in gold or United States dollars, and the equivalent of 1,866 million dollars in their national currencies.

(ii) *Borrowed funds.* The Bank can acquire additional lending funds through the sale of its own obligations.

(iii) *Repayments on loans* and net earnings on operations can also be used for new loans.

The Articles of Agreement of the Bank entrust the highest authority to a Board of Governors composed of one Governor and one alternate appointed by each member. The Board of Governors meets every year to review the Bank's operations. The Board of Governors may and does delegate most of its powers to the Executive Directors.²⁰ There were eighteen Executive Directors at the end of 1961, of whom five represented the five largest contributors and thirteen were elected by the other countries. The President selected by the Executive Directors acts as Chairman and conducts the ordinary operations of the Bank.²¹

The number of countries members of the Bank has been increasing lately. On 30 June, 1962, it had seventy-five members. Voting power of the members is in proportion to capital subscriptions.²²

(b) *Operational policies*

Article III, Section 4, of the Articles of Agreement stipulates the conditions under which the Bank makes loans. Borrowers may be Governments, government agencies, development banks or private firms. Loans are made for high priority economic development projects, provided that capital, in the Bank's judgement, is not available from other sources on reasonable terms. Government guarantees are essential prerequisites to lending authorizations.

More than 85 per cent of World Bank loans have been made to finance specific projects. Loans made in the early post-war years for European reconstruction covered such a wide variety of imported goods—from raw materials to finished products—that they can be considered as general-purpose loans. In recent years the Bank has been giving more attention to the authorization of loans to development banks, for reasons that will be discussed later in this chapter.

Interest rates are uniform for all borrowers at any given time. Long-term rates have varied between 3 and 6 per cent, and are determined mainly by three factors : (1) the rates in the capital markets where the Bank sells

its bonds; (2) a charge of 1 per cent commission on all loans, and (3) a charge of 0.25 per cent for administrative expenses.

As a general rule, the Bank makes loans on a long-term basis. The maturity of the loans varies according to the type of project being financed, and special consideration is given to the estimated useful life of the equipment involved. In general the maturity periods have ranged between seven and twenty-five years.

Loans are made in currencies needed to obtain imported goods for specific projects. Currencies other than United States dollars are gaining importance in these transactions; they accounted for 82 per cent of disbursements made by the Bank in the fiscal year 1960-61. When the Bank does not possess the currencies needed by the borrower, it may buy them with the currencies it does hold. The loan is repayable in the latter.

The Bank does not require the member to spend the proceeds of the loans in a particular country. The first loans made after the Second World War were used for purchases in the United States, but as the productive capacity of the world increased, moneys loaned by the Bank have been spent in an increasing number of capital-equipment producer countries.²³

One of the Bank's basic criteria in making loans is creditworthiness. "In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor will be in a position to meet its obligations under the loan."²⁴ No doubt the main reason is that the Bank should obtain a substantial amount of its lending capital in international capital markets, and in the view of Bank officials a few defaults could endanger the ability of the Bank to sell its bonds. There is no formula for assessing the repayment prospects in making a loan. A number of complex factors, all of them closely inter-related, account for creditworthiness. These factors could be reduced to the following categories :²⁵

(1) The economic burden of the current and prospective service payments on foreign obligations;

(2) The balance of payments outlook as determined by prospective earnings from major exports and minimum import requirements, after taking account of the future impact of investment programmes;

(3) Political factors which determine the willingness and the ability of the Government to take appropriate measures for economic stability, and its willingness to honour its international obligations, even at the political and social cost of restricting imports to minimum levels.

Most World Bank loans have been made for specific projects. However, a number of criticisms have been levelled at the specific project approach, especially on the grounds that a particular project is examined in isolation without due consideration of its relation to a general development programme for the borrowing

²⁰ Article V, section 2 (b) of the Articles of Agreement.

²¹ For more details on the organization of the Bank's staff, see *The World Bank, IFC and IDA: Policies and Operations*, op. cit., pp. 17-22.

²² See the statement of subscriptions to capital stock and voting power, in the International Bank for Reconstruction and Development's *Eighteenth Annual Report, 1962-1963*, pp. 44-45.

²³ For a distribution of expenditure under the Bank's loans see : *World Bank, IFC and IDA*, etc., op. cit., p. 59.

²⁴ See the Articles of Agreement of IBRD, article III, Section 4.

²⁵ Raymond F. Mikesell (ed.), *U.S. Private and Government Investment Abroad*, op. cit., p. 324.

country. The bank claims that this has not been the case. It has given technical assistance to several countries to draw up long-term plans of economic development;²⁶ on the basis of these programmes the Bank can determine which projects have the highest priority in terms of their contribution to the development of the entire programme.

The Bank also makes certain that its resources are strictly used to achieve the purpose of the loan, and sees to it that "the technical, financial and administrative plans for the project are satisfactory".²⁷ This condition necessitates a careful preparation of the project, often requiring the consultation of engineers and other experts by the borrowing country or enterprise. Also, when adequate local management is not available for the administration of the project, the Bank may, upon request, co-operate in looking for qualified personnel abroad.

Since World Bank loans require a government guarantee, more than three-fourths of authorized loans have been made to the public sector of member countries. As a general rule, the Bank does not finance the total cost of a project; its loans cover only the expenses necessary to import goods and services for the execution of the programme. The Bank believes that this is a practical way of ensuring not only that its funds are used for the most productive projects, but also that the borrowing country, by utilizing its own resources to finance a substantial part of the project, does not exhaust its limited external creditworthiness.

In some cases the Bank finds that the economic policies of a borrowing country are adversely affecting its financial and monetary stability. In order to authorize the loan, it requires concrete evidence that the country is taking the necessary steps to restore economic stability. This policy not infrequently creates difficult situations. The constitutive charter of the Bank expressly states that "the Bank and its officers shall not interfere in the political affairs of any member . . . (and) only economic considerations shall be relevant to their decisions . . .",²⁸ but changes in economic policies of a country have political and social implications. The Bank also adopts a similar position with countries that have not settled their previous foreign obligations.

Close contact is maintained with the progress of borrowing countries to ensure that the services of the Bank are not endangered by the emergence of unexpected circumstances, and also to assist the countries with any unforeseen problems that may arise in the execution of a project.

(c) *Lending activities*

The total of loans authorized by the Bank as of 31 December, 1961, amounted to 7,624 million dollars,²⁹ of which 5,727 million dollars had been disbursed. The World Bank has concentrated on loans for transportation, electric power, agriculture and industry. The Bank

believes that better service is offered to member countries by authorizing loans in these fields, especially in power and transportation, since their high cost and low returns make them unattractive to private investment.

Loans for transportation and power have accounted for the great bulk of all IBRD lending activities, i.e. 5,031 million dollars, or nearly two-thirds of the Bank's total authorizations, had been directed to these two sectors by the end of 1961. Loans for transportation facilities totalled 2,451 million dollars (1,100 million for railroad projects, 750 million for roads, and the balance for airlines, ports and waterways, etc.), while power loans totalling 2,579 million dollars were made to thirty-five countries.

World Bank loans for industry totalled 1,141 million dollars, made direct to Governments, to private firms with government guarantees, and to development banks.

The Bank has been giving increasing attention to development banks. Its loans to such institutions are a source of foreign exchange for financing new industrial projects in developing countries. It recognizes that development banks are important instruments for economic development, especially in the private sector, where they provide both a means of finance and a stimulus for mobilizing savings and promoting skills for productive enterprises. The World Bank has published two studies on the structure and operation of development banks³⁰ in an effort to provide guidance to interested countries. It has helped to organize development banks in Austria, Ceylon, China (Taiwan), India, Iran, Malaya, Pakistan, Thailand and Turkey.

Countries of Asia have been the major borrowers for industrial development, having received 48 per cent of the total loans made by the Bank for this purpose. Industrial loans have included the financing of projects in the steel, paper and mining sectors. Agricultural loans amounted to 505 million dollars. Most of them have been for irrigation, flood control, farm equipment, and grain storage.

The geographical distribution of loan authorizations by the end of 1961 was as follows: Asia and the Middle East 2,558 million dollars (33.6 per cent); Europe 1,713 million dollars (22.5 per cent); the Western Hemisphere 2,002 million dollars (26.3 per cent); Africa 925 million dollars (12.1 per cent); and Australia 417 million dollars (5.5 per cent).

Approximately 73 per cent of the loans authorized to the Latin American countries³¹ (1,100 million dollars) were for electric power and transportation. Brazil, Mexico, Colombia, Chile and Peru received more than 70 per cent of total loans authorized under these two headings. Most of the projects financed include installations for additional distribution of electrical power, and for the construction and maintenance of roads and railroads.

Loans for agricultural and industrial development in Latin America are relatively small, accounting for only

²⁶ See *The World Bank, IFC and IDA*, etc., op. cit., pp. 63-78.

²⁷ *Ibid.*, p. 36.

²⁸ See the Articles of Agreement of IBRD, article IV, section 10.

²⁹ *Facts about the World Bank and the International Development Association*, 31 December 1963.

³⁰ William Diamond, *Development Banks*, October 1957; and Shirley Boskey, *Problems and Practices of Development Banks*, 1960.

³¹ All Latin American countries except Cuba (which withdrew from membership in November 1960) are members of IBRD.

6.2 per cent and 4.1 per cent respectively of the total. These loans have financed such items as imports of farm machinery, irrigation projects, storage facilities and livestock development in eight Latin American countries.

IBRD loans have constituted one of the main sources of autonomous long-term capital inflow into the region, but they have been concentrated mainly in three countries, Brazil, Mexico and Colombia which had received more than three-fifths of the gross disbursements by the end of 1961. As for the other countries, Chile, Peru, Uruguay and Ecuador received 22.5 per cent, and the rest 19.4 per cent. Net disbursements were in nearly the same proportions.

2. THE INTERNATIONAL FINANCE CORPORATION (IFC)

Despite the growing demand from the private sector for loans for a wide range of industrial projects, the World Bank had to limit its activities in the field of private investment because a governmental guarantee is required for all its loans. It often happens that Governments hesitate, for one reason or another to guarantee certain loans. Private enterprises, on their side, fear that government guarantees may lead to official interference with their activities. In view of these difficulties financial experts proposed the creation of a new agency for direct investment, without guarantee, in productive private enterprises in developing countries. The proposal was endorsed by the United Nations General Assembly in 1954, and the International Finance Corporation was legally established on 24 July 1956 as an affiliate of IBRD.

(a) *Organization and resources*

The International Finance Corporation (IFC) is a separate legal entity functioning as a subsidiary of the World Bank, and authorized to use the facilities and services of the Bank in many ways. The Executive Directors and the President of the Bank serve as Directors and President of IFC. Only members of the World Bank can apply for membership in the Corporation. By the end of 1961, sixty-three members had joined IFC with voting rights proportionate to capital subscription.³² Each member country is represented by the same Governor in both organizations. The Charter vests all corporate powers in the Board of Governors, which may delegate authority to the Board of Directors except for certain major actions specified in article IV.

The total authorized capital stock of IFC is 100 million United States dollars, of which 98.0 million had been subscribed by its members by 31 May 1963.³³ All subscriptions are payable in gold or in United States dollars.

(b) *Purposes and operating principles*

The Articles of Agreement state that "the purpose of the Corporation is to further economic development

³² For a statement of the voting power and subscriptions of member countries of IFC, see *The World Bank, IFC and IDA*, etc., op. cit., appendix C.

³³ See International Bank for Reconstruction and Development, *El Banco Mundial y sus filiales en las Américas*, Washington, D.C., June 1963.

by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas..."³⁴ Thus IFC supplements the activities of the World Bank by providing investments to private enterprises without requiring a government guarantee.

Originally, according to the provisions of its charter, IFC could make investments on similar terms and conditions to those obtained by private investors. Therefore most of the investments made by the Corporation were in the form of interest-bearing loans with certain rights of participation in the profits and growth of the business.

In order to increase its funds for additional investments, the Corporation may sell the equity features of its investments to private investors, providing it can do so on reasonable terms. But originally IFC was not allowed to invest in capital stocks or shares. During the first years of operations, IFC officials found that this restriction limited their opportunities for action in promoting private investment. Consequently the President of the Corporation proposed an amendment to the charter at the fourth IFC annual meeting in 1960. This change, permitting the Corporation to make investments in capital stocks, was authorized by the members in 1961. "With its new authority, IFC offers, in association with private investors, long-term financing through equity or loans as may be appropriate to building sound capital structures. IFC is able to assist the growth of local capital markets of member countries by underwriting the subscription of issues of shares or securities prior to public sale, or by standby arrangements. IFC also can underwrite such issues in international capital markets."³⁵

The Corporation does not have uniform interest rates for its loans or standard charges applicable to borrowers at any one time. Interest rates are negotiated in each case according to the particular circumstances, such as the risk involved, the amount of equity, and the prospective returns of the entire investment. The rates have fluctuated from 5 to 7 per cent.

Investments are usually made in terms of United States dollars, but as IFC can invest funds in capital stock, other currencies may be involved in its transactions. Maturity of loans ranges from seven to fifteen years and amortization payments begin after the business financed has come into profitable operation.

(c) *Investment criteria*

The Corporation finances only private enterprises; there is no objection to a combination of investment from local and foreign sources. The Articles of Agreement prevent IFC from financing undertakings owned by a Government or in which there is significant government participation. It cannot finance a project to which the host Government objects, and its financing cannot exceed half the total cost of any project. The Corporation considers only projects for which, in its opinion, funds are not otherwise available on reasonable terms.

³⁴ See the Articles of Agreement of the International Finance Corporation, article I.

³⁵ *The World Bank, IFC and IDA*, etc., op. cit., p. 98.

Activities such as real estate development, land reclamation or direct financing of exports or imports, are not the concern of IFC operations, and IFC can exercise voting rights of stock it holds only for compelling reasons stipulated in the charter.

The Corporation had disbursed 68.1 million dollars by the end of 1961. Of this total, ten Latin American countries received 66.2 per cent, or 45.1 million dollars. The countries and disbursements (in millions of dollars) were as follows: Argentina 5.2, Brazil 10.1, Chile 5.8, Colombia 8.2, Costa Rica 0.2, El Salvador 0.1, Guatemala 0.2, Mexico 4.6, Peru 6.9 and Venezuela 3.2. Activities of the Corporation in these countries represent investments in manufacturing, processing, and mining enterprises, including the production of automotive or engineering products, building materials, electrical equipment food products, pulp and paper, steel products and textiles.

The financing of specific industrial projects is the major IFC activity. In addition to this, the Corporation in promoting private capital investment in less developed countries "believes that one of its more useful supplementary functions has been, and is, the investigation of projects and advising investors on those which it considers reasonably sound".³⁶ Also the Corporation frequently acts as a catalytic agent for channelling venture capital into private industrial enterprises, by bringing together local skills and knowledge with foreign technology and capital for investment in joint enterprises.

In view of the important role now played by development banks, IFC has recently created a new department to help in the establishment or expansion of industrial development banks. In this field the Corporation is acting not only on its own behalf, but also on that of the World Bank and the International Development Association.

3. INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

The growth of economic activity after the Second World War, and the increasing need to accelerate the process of economic development in under-developed regions of the world, brought about a higher demand for development capital. Less developed countries faced a continuing need for outside capital, a need often exceeding their ability to repay loans made on conventional terms. Also, the credit capacity of newly independent countries was often not sufficient to obtain loans in the amounts required. Therefore a new agency was established to provide international funds on other than conventional terms.

(a) Organization and resources

The United States National Advisory Council on International Monetary and Financial Problems considered the possibility of creating an International Development Association as early as 1958, and in 1959 the Executive Directors of the World Bank were asked, in resolution No. 136 (originally proposed by the United States), to draft Articles of Agreement for IDA. The Association was legally established on 24 September

1960, as a separate entity from the World Bank but operating as its subsidiary.

The Articles of Agreement of IDA state that only the countries members of IBRD are eligible for membership. The member countries of IDA are divided into two groups whose subscriptions are paid on a different basis. The countries listed in part I of schedule A in the Articles of Agreement, which are the economically more advanced countries, pay 90 per cent of their subscription in five equal annual instalments in gold or freely convertible currency, and the Association uses these funds for development credits. The countries listed in part II, which are economically less developed, also pay 90 per cent in instalments in the same way, but in their national currencies, and these funds are used by IDA only with the consent of the member. In all cases the remaining ten per cent of the member's subscription is payable in gold or freely convertible currency. Of the total number of member countries of the World Bank at the time of the founding of IDA, seventeen countries were classified in part I and fifty-one in part II.³⁷ Of the eighty-five countries now listed in both parts of schedule A, seventy-six had joined IDA by 30 June 1963, for a total capital subscription of 969 million dollars.³⁸

The administrative body of the World Bank, including the Governors and their alternates, Executive Directors, the President, and the officers and staff, serve in the same capacity for IDA without additional remuneration.

(b) Purpose and operations

The purposes of the International Development Association, in the words of its charter, are "to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world included within the Association's membership, in particular by providing finance to meet their important developmental requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of the International Bank for Reconstruction and Development... and supplementing its activities."³⁹ The Association makes loans mainly for specific projects and on the basis of "high developmental priority", provided that, in the opinion of the organization, capital from other sources is not available on reasonable terms.

The Articles of Agreement give great flexibility to the Association in its lending activities. "IDA loans may be repayable in foreign exchange with long maturities or long period of grace, or both, or repayable wholly or partly in local currency, or the loans may be made free of interest or at a low rate of interest, or they may incorporate some combination of these terms."⁴⁰ Lending

³⁷ For a statement of initial subscriptions, see *The World Bank, IFC and IDA*, etc., op. cit., p. 105.

³⁸ *Normas y operaciones del Banco Mundial, la CFI y la AIF*, prepared by the staff of IBRD in April 1962, but with figures brought up to date to 30 June 1963; Washington, D.C., p. 113.

³⁹ See the Articles of Agreement of the International Development Association, article I.

⁴⁰ Mikesell, Raymond F. (ed.), *U.S. Private and Government Investment Abroad*, op. cit., p. 302.

³⁶ *The World Bank, IFC and IDA*, etc., op. cit., p. 101.

policies of the Association also differ from those of the World Bank by reason of their broader range of purposes. IDA loans may finance projects that are not "directly productive", including social overhead capital projects. The Association applies the same criteria as the World Bank in the administration of its funds, especially as to the observance of "sound" financial and economic policies by borrowing countries and the careful selection and preparation of projects which may be financed. Under article III, section 1 of the charter, IDA is to review the adequacy of its resources at intervals of five years. Increases in the subscriptions of member countries may be authorized at any time.

The Association began operations on 8 November 1960. By 31 March 1964 it had extended loans in the amount of 604.3 million dollars in twenty countries.⁴¹ Eight of the loans were to Latin America; credits for highway projects were granted as follows (in millions of dollars): Chile 19, Colombia 19.5, Costa Rica 5.5, El Salvador 8, Honduras 9, Nicaragua 3 and Paraguay 6 (plus a loan of 3.6 million dollars for livestock development).

4. THE INTER-AMERICAN DEVELOPMENT BANK (IDB)

The establishment of a regional financial institution for Latin America has been a long-standing ambition among Latin Americans. The trend of social and economic events in Latin America in the fifties, and their increasingly adverse effects, impressed on the Governments of the American republics the need to take steps to accelerate the region's economic development, especially through the creation of a regional bank.

(a) *Creation, purpose and organization*

In 1958 the Inter-American Economic and Social Council convened a special committee of government representatives to study the setting up of an inter-American financial institution. The committee met in Washington from January to April 1959, and drafted the agreement establishing the Inter-American Development Bank. By 30 December 1959 the required number of countries had accepted or ratified the agreement. The first meeting of the Board of Governors was held at San Salvador in February 1960, and the Bank formally began operations in October 1960.

The main purpose of the Bank is to accelerate the economic development of Latin America by financing specific development projects, encouraging private investment, and providing technical assistance in the formulation of development plans and projects.

Only members of the Organization of American States are eligible for membership in IDB. All the American republics are members except Cuba.

The charter entrusts all the powers of the Bank to a Board of Governors composed of a principal and alternate appointed by each country. The Board of Governors may delegate its powers to the Executive Directors, except for those specified in the Articles of Agreement.⁴²

⁴¹ International Development Association, *Estado de Créditos de Fomento* (Statement of Development Credits), 31 March 1964.

⁴² See article VIII, section 2 (b).

There are seven Executive Directors responsible for the operations of the Institution. The President is elected by the Board of Governors for a term of five years; he conducts the ordinary business of the Bank, and is chief of its staff.

(b) *Operational principles*

The operations of the Bank cover three different spheres of activity:

(i) *Ordinary operations.* Through its ordinary operations the Bank makes loans on a long-term basis and for specific projects contributing to the economic development of member countries. Borrowers may be public agencies, development banks, and private enterprises. A government guarantee is not a necessary requirement. Loans from ordinary resources bear an annual interest rate of 5½ per cent, including 1 per cent commission for the Bank's special reserve. These loans are repayable in the currency lent.

(ii) *Loans for special operations.* In the words of the Articles of Agreement, loans made through the Fund for Special Operations are "on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects".⁴³ These loans are usually made for projects that are not "directly productive" or for financing social overhead projects. The terms and conditions of payment of these loans are more flexible, and their maturity is usually longer than the loans made out of ordinary resources.

(iii) *Social Progress Trust Fund.* In June 1961, in an agreement between the United States Government and the Inter-American Development Bank, the Bank was designated as administrator of the Social Progress Trust Fund. The resources of the Fund (394 million dollars) are part of 500 million dollars appropriated by the United States Congress. Loans made out of the Social Progress Trust Fund are for land settlement and improved land use, housing for low-income groups, community water supply and sanitation facilities, and advanced education and training. They are long-term loans payable in local currency; the annual interest rate is generally 2.75 per cent, with a service charge of 0.75 per cent.

The Bank has no fixed rule with regard to the periods of amortization. In general, for loans to the private sector the period is eight to twelve years, while for loans made for economic infrastructure it is up to twenty years. The type and scope of guarantees are determined in each case according to the nature of the project.

(c) *Financial structure*

Under the Articles of Agreement the authorized capital stock for ordinary resources amount to 850 million dollars, 400 million paid-in and 450 million subject to call.⁴⁴

⁴³ Article IV, section 1.

⁴⁴ Since Cuba did not become a member of the Bank, the ordinary resources amount to 381.6 million dollars in paid-in capital, and 431.6 million in callable capital.

"The callable capital serves as security for obligations the Bank may sell on private capital markets and for such guarantees as the Bank may extend".⁴⁵

In addition to ordinary capital, the initial authorized resources for the Bank's Fund for Special Operations amounted to 150 million dollars.⁴⁶ Thus the total resources authorized by the Articles of Agreement amount to 1,000 million dollars. The Agreement also provides that half of the paid-in capital shall be in gold or United States dollars and the other half in the currency of the member country. The paid-in portion of capital was payable in three instalments, the last due by late 1962.

These financial resources of the Bank were modified at the Fourth Meeting of the Board of Governors (Caracas, April 1963), when the following increase was authorized in the ordinary capital resources and in the Fund for Special Operations:

(a) The authorized capital was increased by 300 million dollars in order to permit the admission of new members. Of this capital 75 million dollars is paid-in capital and the other 225 million dollars callable capital.

(b) The authorized paid-in capital was increased by 1,000 million dollars. Every member country was to subscribe the first half of the increase in its contribution by 31 December 1964, and the second half by 31 December 1965.⁴⁷

The above measures will bring the Bank's total authorized capital to 2,150 million dollars, of which 475 million will be paid-in capital and 1,675 million callable capital.

(c) The authorized resources of the Fund for Special Operations were increased by 73,158,000 dollars, through an increase of 50 per cent in the original quotas, which brings the total to 223,158,000 dollars.

⁴⁵ Inter-American Development Bank, *Second Annual Report, 1961*, p. 2.

⁴⁶ Since Cuba did not become a member of the Bank, the resources for the Fund for Special Operations amounted to 146.3 million dollars.

⁴⁷ Inter-American Development Bank, *Fourth Annual Report, 1963*.

(d) As administrator of the Social Progress Trust Fund, the Bank originally had additional resources of 394 million dollars. These resources were increased by 131 million dollars by the United States, under a protocol signed between that country and the Bank on 17 February 1964. Consequently, the Social Progress Trust Fund will have resources of 525 million dollars.

(d) *Lending activities*

By 31 December 1961 a combined total of 192 loans amounting to 875.1 million dollars had been authorized by the Bank from its three separate loan "windows"⁴⁸ as follows:

(i) Eighty-two loans from ordinary capital resources, in the amount of 385.7 million dollars;⁴⁹

(ii) Thirty-six loans from the resources of the Fund for Special Operations, for a total of 121.7 million dollars;⁵⁰

(iii) Seventy-three loans from the Social Progress Trust Fund, in the amount of 367.6 million dollars.⁵¹

Both the Bank's charter and the Agreement of the Social Progress Trust Fund authorize the Bank to provide technical assistance to member Governments, public agencies and private enterprises. The expenses involved in these programmes of technical assistance may or may not be reimbursed by the recipient, as determined in each case by agreement.

Technical assistance furnished by the Bank during 1961 was in the form of advisory services in specific fields, preparation of surveys and studies of particular aspects of development, and training of personnel.

⁴⁸ For a statement of authorized loans, see *Fourth Annual Report, 1963*.

⁴⁹ *Ibid.*

⁵⁰ *Ibid.*

⁵¹ For detailed information about the nature and operations of the Social Progress Trust Fund, see *Social Progress Trust Fund, First Annual Report, 1961*, Inter-American Development Bank, Washington, D.C.

C. UNITED STATES GOVERNMENT LENDING AGENCIES

1. THE EXPORT-IMPORT BANK OF WASHINGTON (EXIMBANK)

(a) *Structure and objectives*⁵²

The Export-Import Bank of Washington (Eximbank) was created by Executive Order in 1934, specifically to promote and stimulate United States foreign trade activities. Administratively it is an independent agency of the Government. Management is vested in a five-man Board of Directors appointed by the President of the United States with the consent of the Senate. The Chairman of the Board (President of the Bank) forms part of the

⁵² For additional data on structure and objectives, see *Staff Memorandum on International Lending Agencies*, printed for use by the House Committee on Foreign Affairs, US Government Printing Office, 29 May 1961.

National Advisory Committee on International Monetary and Financial Problems, which in turn was created in 1945 to review and co-ordinate all lending policies and operations of United States government agencies, and includes participants from IBRD, IMF and IDB.

Originally Eximbank's lending authority was only 200 million dollars, but this has been considerably augmented by subsequent Congressional appropriations. At the outset of the Second World War, for instance, it was raised to 700 million dollars, and at the termination of hostilities to 3,500 million dollars, the latter primarily in recognition of the need for substantial reconstruction loans in Europe and Asia, and also for economic development financing. In 1954, under Congressional approval, the authority was increased again to 5,000 million dollars, and in 1958 to 7,000 million dollars. On 20 August 1963

new legislation extended the Bank's life to 30 June 1968 and again increased its lending authority, to 9,000 million dollars. In addition its guarantee and insurance authority, subject to a 25 per cent reserve, was increased to 2,000 million dollars.⁵³ Thus the total amount that the Bank is authorized to have outstanding in the form of loans, insurance and guarantees is a maximum of 10,500 million dollars.

The Bank's basic role is to make loans so as to "aid in financing and to facilitate exports and imports and the exchange of commodities between the United States... and any foreign country or the agencies or nationals thereof".⁵⁴ In addition to making loans from its own funds, Eximbank also guarantees loans or credits advanced by other institutions; provides insurance for export risks of both a commercial and political nature; administers loans to private firms abroad from funds obtained through sales of United States surplus agricultural commodities, finances the import, and expansion of capacity or production abroad, of strategic or other essential commodities; and acts as agent for various United States government bodies, where required, in their lending activities.

(b) *Lending policies and criteria*

Given its over-all terms of reference, Eximbank loans are designed to finance the export of United States commodities, the basic item being capital goods. Borrowers may be Governments, their agencies, banks, or other private firms and individuals. Government guarantees can be requested but are not an essential prerequisite to lending authorizations. Loans are intended to supplement and encourage private capital, but not directly to compete with it. Eximbank expenditure may be advanced to finance individual portions of a given export transaction, or may provide funds for all equipment and services needed for broadly-based government loans. Lending operations are basically oriented towards individual projects, although additional functions are also pursued by the Bank: i.e., outlays for general support or balance-of-payments purposes, for strategic commodity objectives, for currency stabilization, etc. Repayment is to be effected in United States dollars, and loans are tied to United States goods, largely entailing the financing of dollar import requirements for given project requests. There must be reasonable assurance of repayment. In determining the interest rate to be applied, the Bank will consider the nature of the loan and the extent of credit risks to be assumed under it, as well as prevailing commercial and government interest rate patterns: the latter are in any event co-ordinated with recommendations of the National Advisory Council.⁵⁵ Maturities range in duration (from a few months, on short-period export credits, to twenty years) depending on the type of project involved and on other criteria.

⁵³ Export-Import Bank of Washington, *Report to the Congress for the six months ended December 31, 1963*, p. 2.

⁵⁴ Export-Import Bank Act of 1945, as amended, section 2 (a).

⁵⁵ "The current interest rate charged on exporter credits is 6 per cent; to governments, and with government guarantees, it is $5\frac{1}{4}$ - $5\frac{3}{4}$ per cent; and special consideration is given to lower rates for short-term commodity credits". See *Staff Memorandum*, op. cit., comparative chart, p. 40.A.

In the progressive evolution of its operations, the following lending objectives have therefore been considered as basic for the Eximbank: to promote United States foreign trade; to complement but not supplant private capital; to ensure reasonable repayment possibilities; and to further the national interest of the United States.⁵⁶ As new loan applications are received, specific policy criteria are brought to bear within this broad framework of objectives, namely:

(i) The administrative requirements mentioned in the preceding paragraph must be considered, i.e. that loans should be tied to United States goods, that alternative availabilities of private money should be ascertained, and so forth. The Bank's enabling authority emphasizes that loans "shall generally be for specific purposes",⁵⁷ and hence project loans have long comprised the largest single component of Eximbank operations.

(ii) Technical criteria of an economic, financial and engineering nature must be applied. These include studies regarding feasibility from an engineering point of view; how far individual projects are or will be integrated with ancillary facilities; production cost and market outlook characteristics; priorities in relation to alternative investment outlets; the contribution that the project makes to the national product; and the like. Though not specifically precluded from projects in the field of social overhead, the Bank has concentrated very heavily upon what are termed "directly productive" investments, where cost and benefit relationships are presumed to be calculable in financial terms.

(iii) Creditworthiness considerations are assessed, on the basis of such factors as past and projected foreign exchange earnings and their relationship to import and debt-servicing needs; the country's over-all economic viability; government policies in force or under consideration; and the prospects for political and economic stability. In the latter context, it has been pointed out that "In contrast with the IMF or IBRD, the Export-Import Bank is reluctant to obtain guarantees from foreign Governments regarding their financial and monetary policies. On the other hand the Bank's staff does make informal recommendations to Governments regarding their over-all financial policies. This has been especially true where the Bank has made balance of payments loans.⁵⁸ For these loans the Bank has in recent years acted in association with other national and international agencies on the basis of assurances that certain policy changes or reforms will be carried out."⁵⁹

⁵⁶ As based on a memorandum prepared by the Export-Import Bank for presentation to a Senate Committee, and reproduced in *U.S. Private and Government Investment Abroad*, R. F. Mikesell (ed.), op. cit., p. 477.

⁵⁷ Export-Import Bank Act of 1945, as amended, section 2 (b).

⁵⁸ See *U.S. Private and Government Investment Abroad*, op. cit., p. 481.

⁵⁹ "The general purpose or balance of payments category has been assuming increasing importance lately, and consists mainly of loans to Latin American countries, including Argentina, Brazil, Chile, Colombia, Peru, Guatemala, Nicaragua and Mexico. Most of these were... to maintain essential imports or increase confidence in their currencies while instituting monetary reforms, frequently on advice from the IMF". *Ibid.*, p. 469.

(iv) It must be recognized that, in addition to the basic administrative, technical, and creditworthiness criteria listed above, "political considerations play a very heavy role in deciding upon loan requests, or even the encouragement that is given to initial or informal approaches by foreign borrowers".⁶⁰ Clearly therefore, Eximbank must be considered as a basic arm of United States foreign policy in the broadest sense, responsive to the manifold political as well as financial and commercial interests that come within the jurisdiction of the National Advisory Council. Since Eximbank loans are tied, it follows by definition that they fulfil the Bank's stated policy of promoting the sale of United States exports. "On the other hand, the timing of loans and the kinds of exports financed do not indicate that the promotion of exports is a major objective in most loans other than exporter credits... It is true, of course, that the Bank itself has final jurisdiction over whether it does or does not make a loan, and in this it is especially concerned in seeing that its loans and guarantees meet the conditions laid down by Congress... nevertheless the Bank is fundamentally an instrument of US policy".⁶¹

2. OTHER UNITED STATES GOVERNMENT BODIES

As already indicated, next in importance to the Eximbank transactions as a source of United States non-military public funds for Latin America between 1951 and 1963 were the operations of the Mutual Security Program (MSP). The administration of MSP funds has been vested in several different government agencies whose legislative authority, objectives and operational characteristics varied substantially from year to year in response to changing economic and political considerations in both the United States and abroad. The programme had its origin in the establishment of the Economic Cooperation Administration, set up in 1948 to administer Marshall Plan aid for European reconstruction. Subsequently, under terms of the Mutual Security Act of 1951 and its various amendments, successor agencies were created to provide United States government assistance for foreign countries in the form of loans, grants and technical assistance: the Mutual Security Agency (1951), the Foreign Operations Administration (1953), and the International Cooperation Administration (1955). These agencies, together with the Development Loan Fund established in 1957, comprised the main operational arms of the Mutual Security Program until late 1961, when their respective functions were absorbed within the newly-created Agency for International Development. Because of the wide diversity in criteria and activities resulting from the successive evolution of these different bodies, attention is concentrated here on DLF, ICA and AID, which in any event were the principal instruments of MSP operations in Latin America during the period under review. In addition activities under public law 480 are referred to.

(a) *Development Loan Fund (DLF)*

This Fund was created in 1957 as an organ operating within the framework of ICA. Shortly afterwards it was

incorporated as an independent government corporation, utilizing funds authorized under the Mutual Security Act and operating under the policy direction of the State Department. In 1961 it was terminated and its functions absorbed by AID. DLF was managed by a Board of Directors that included a Managing Director appointed by the President of the United States, and senior representatives from the United States Government, IBRD and IMF. As with Eximbank, co-ordination of its policies and action took place through the National Advisory Council.

The general objective of DLF was to "assist, on a basis of self help and mutual co-operation, the efforts of free peoples to develop their economic resources and institutions".⁶² To that end, DLF was empowered to provide loans, credits or guarantees. Since one reason for its initial establishment had been to shift the emphasis in United States foreign assistance away from grants and towards a more liberalized form of loan operations,⁶³ DLF was specifically precluded from extending grant aid. Borrowers could be nations, organizations, persons or other entities.

Government guarantees were not required. Project lending — for manufacturing, extractive or infrastructural end uses — was stressed, although some general support loans were also made. Interest rates were negotiated for each individual loan and tended to range downwards from about 5½ per cent for so-called "directly productive" projects to some 3½ per cent for infrastructural end-uses.⁶⁴ Although DLF did not originally tie its loans to United States goods, this became the rule after 1959. Preference was given to financing the dollar cost of the import components of investment projects abroad, and local currency requirements were to be obtained from other sources.

Among the economic, financial and engineering criteria applied to loan applications were that there must be reasonable assurance of repayment; the loan was to make a clear contribution to the long-range economic development and growth of recipient countries; such countries were to demonstrate their willingness to undertake effective "self-help" measures; and the investment

⁶² Title II, section 201, Mutual Security Act of 1957, as amended.

⁶³ "By 1957... the ICA, the country's designated foreign aid agency, was becoming the object of widespread criticism on a number of scores; particularly that its operations, heavily geared toward grant aid, added up to a gigantic 'giveaway'. On the other hand, the Export-Import Bank, the country's principal international lending agency, dealt in loans but its policy was characterized by conservatism and 'toughness' — to an extent, many felt, that barred servicing from this source of the great bulk of the external-capital requirements of the under-developed world. Accordingly, the notion arose that the US Government needed a new approach standing somewhere between the ICA emphasis on grants and the EIB emphasis upon tough loans." Walter Krause, *Economic Development*, Wadsworth Publishing Company, 1961, p. 341.

⁶⁴ "If the activity is classed as economic overhead, a rate is used approximating the current cost of money to the US Government. Currently the rate for this type of project is 3½ per cent. For profit-making types of projects, the DLF normally charges a rate comparable to that charged by the Eximbank. At present this rate is about 5½ per cent." *Fiscal Year 1960 Estimates*, DLF, 1961, p. 15.

⁶⁰ *Ibid.*, p. 482.

⁶¹ *Ibid.*, pp. 462 and 477.

was to be in the national interest of the United States. The Fund had to take into account whether alternative financing was available, and it was specifically requested to refrain from competition with private capital, with Eximbank or with IBRD. Principal and interest payments on DLF loans could be made either in dollars or in such other currencies as were specified in each individual agreement.

The general lending policies followed by DLF were in several respects the same as those of Eximbank, i.e., grants were excluded; project loans were stressed; most of the latter were for economic sectors considered important by Eximbank;⁶⁵ DLF operations generally concentrated on the low-income regions of the world; and after 1959 DLF loans were tied. On the other hand, however, certain differences should also be noted, including the DLF emphasis on long-term objectives rather than export-promotion *per se*; the stress on domestic self-help measures; the attention to social as well as economic overhead investments; the increased use of intermediary financing through national development banks and credit institutions in the recipient country; and, of special importance, the liberal arrangements regarding interest rate and currency of repayment. Approximately three-quarters of all DLF commitments involved repayment in local currencies.⁶⁶ A final point of difference was that whereas Latin America accounted for a very substantial proportion of total Eximbank disbursements in recent years, its share of DLF expenditure far smaller.⁶⁷

(b) *International Co-operation Administration (ICA)*

From its inception in 1955 ICA granted very few loans apart from those made by DLF,⁶⁸ but it provided an increasing number of grants. ICA's total expenditure on grants in 1956-61 represented an annual average of over 100 million dollars, as against an annual average for MSP grant disbursements in 1951-55 of less than 20 million.

Among the principal characteristics of the pattern of ICA grant aid extended to Latin America, three merit special attention. First, about three-quarters of all loans extended by both Eximbank and DLF during the fifties were in Argentina, Brazil and Mexico. On the other hand, grants from ICA during the same period were

⁶⁵ Another point of similarity was that within Latin America the pattern of distribution among countries was much the same. Thus, over 70 per cent of all Eximbank disbursements during the fifties were in Mexico, Brazil and Argentina, and about 75 per cent of all DLF disbursements were to Brazil and Argentina.

⁶⁶ "DLF loan terms are easier than those of other major lending institutions, e.g. easier than those of the EIB, the IBRD and the IFC. . . a major feature is the possibility of soft currency repayment which permits for all practical purposes the circumvention of balance-of-payments obstacles to the acceptance of external capital": W. Krause, *Economic Development*, op. cit., p. 352.

⁶⁷ Latin America has accounted for only one-seventh of all DLF disbursements since 1957, whereas its share of total Eximbank expenditure during the same period was closer to half.

⁶⁸ Prior to 1957 virtually no MSP loans were made to Latin America. Between 1957 and 1961 DLF loan disbursements to the region amounted to 104 million dollars, and ICA loans to 62 million, but two-thirds of the latter were used only for reconstruction after the Chilean earthquakes.

not only widely distributed throughout the region, but directed principally to countries with small populations and low *per capita* income levels. Thus Argentina, Brazil and Mexico received less than 10 per cent of all ICA grants in Latin America, whereas Bolivia, Peru, Ecuador, Paraguay, Haiti and the six countries in the Central American Isthmus accounted for over 70 per cent. This orientation towards smaller and poorer countries heavily dependent upon primary production and exports, and the sharp increase in grants to such countries after 1955, indicates the emphasis in ICA grant aid on regions whose balance-of-payments situation made the servicing of foreign loans on orthodox repayment terms increasingly difficult the past half decade. Secondly, whereas external financial assistance in the form of public loans had traditionally been little concerned with social overhead, ICA grants were used for projects in such fields as health, sanitation, training, education, public administration and housing. Thirdly, ICA assistance was less bound to the project-by-project lending approach so characteristic of Eximbank and DLF operations. Rather, "only one of the numerous American and international agencies, the ICA, claims to be programme oriented—the ICA provides both project assistance and non-project assistance, the latter being the basket of commodities required to help meet the general import requirements of the areas being aided".⁶⁹

(c) *Agency for International Development (AID)*

The activities of the Agency for International Development (AID) in Latin America have been carried out under the Alliance for Progress programme announced by President Kennedy in March 1961, and officially proclaimed by the members of the Organization of American States in the Charter of Punta del Este in August 1961.

On 1 August 1962 the United States Congress declared that "the Alliance for Progress offers great hope for the advancement of the welfare of the peoples of the Americas and the strengthening of the relationships among them", and included in the Foreign Assistance Act of 1961 a new section on the Alliance. Congress also authorized the appropriation of funds to be devoted solely to promote Latin America's development. Thus the Alliance for Progress marks a new phase of United States participation in the economic and social development of Latin America, the administrative responsibility for this participation resting with AID.

AID was established as a State Department agency, and took over the functions of ICA and DLA. The agency is under the direction of a central administrator, and is organized into a number of regional offices. The regional director for Latin America was at one time the Co-ordinator of the Alliance for Progress. The Latin American regional office is now undergoing reorganization.

In accordance with the Foreign Assistance Act of 1961 and the section later added to it, the rules governing AID are based on the principles set forth in the Charter of Punta del Este, and in particular the agency must take account of the following factors in its work: (a) that the country or region asking for aid is adopting effective

⁶⁹ Robert E. Asher, *Grants, Loans and Local Currencies*, the Brookings Institution, 1961, pp. 67 and 70.

self-help measures; (b) that the proposed project is compatible with the long-term programmes; (c) that the activities to be financed are economically and technically sound; (d) the possible effect of the proposed aid on the economy of the United States; and (e) whether or not there are alternative sources of financing that could provide the aid requested, on reasonable terms.

The above stimulations were substantially modified by a number of provisions added during the fiscal year ending 30 June 1963. These new provisions include one prohibiting assistance, provided that the President does not consider it contrary to the National security, "to the Government of any country which is indebted to any United States citizen or person for goods or services furnished or ordered where (i) such citizen or person has exhausted all available legal remedies, which shall include arbitration, or (ii) the debt is not denied or contested by such Government, or (iii) such indebtedness arises under an unconditional guaranty of payment given by such Government, or any predecessor Government, directly or indirectly, through any controlled entity".⁷⁰

In addition to loans, AID is authorized to furnish technical or other assistance in the field of land reform. The funds provided by the United States for Alliance for Progress programmes must be appropriated each year by Congress.

The geographical distribution of the loans granted by AID is similar to the pattern followed earlier by DLF. Four countries, Argentina, Brazil, Chile and Colombia, received about three-quarters of all loans granted by AID during 1962 and 1963. Although the grants made by AID were more widely distributed geographically, five countries, Bolivia, Brazil, Chile, Colombia and Mexico, received about two-thirds of all grants in 1962.

AID's activities have been directed mainly to social overhead projects in the fields of transport, labour, health, education, housing, etc.

(d) *The Agricultural Trade Development and Assistance Act (Public Law 480)*

In addition to financial assistance provided by Eximbank and the various MSP agencies mentioned above, the United States has also been extending an increasing volume of foreign aid since 1954 in the form of surplus agricultural commodities exported under the terms of the Agricultural Trade and Development Assistance Act, better known as Public Law 480. In general, such surpluses have moved abroad through a number of different Title authorities. Title I shipments, for instance, provide for sales with repayment in local currencies; Titles II and III involve exports under various grant, donation or barter arrangements; and Title IV transactions entail dollar servicing obligations. In fact, however, the great bulk of all PL 480 transactions have taken the form of Title I authorizations.⁷¹ Because of the preponderance

⁷⁰ Report to the Inter-American Economic and Social Council presented by the Government of the United States of America, 1963, Washington, D.C., September 1963, p. 80.

⁷¹ For the world as a whole, the ratio of Title I shipments to all PL 480 disposals by 1961 was 66 per cent; for Latin America only it was 70 per cent.

of sales for local currencies, a steadily growing quantity of the latter has been accumulating abroad, credited to the account of the United States Government and at its disposal. Such funds can be disposed of in a number of ways. Some of the local currencies have been devoted for purely United States uses in the area. Others, under terms of the 1957 "Cooley Amendment" have been allocated for loans to private (largely United States) firms in the borrowing country. Most, however, have been earmarked for re-use on mutual defence outlays (mainly in the form of grants), or reloaned to the national Governments to finance domestic costs of specific economic development projects in the country involved.⁷² Such loans usually carry interest charges of 3-4 per cent, grace periods of around three years, and maturities of up to forty years.⁷³

The growing volume of PL 480 transactions in recent years has brought with it the merging of some new and unconventional forms of aid into the traditional pattern of United States foreign assistance. Thus, the initial exports of PL 480 commodities themselves have been interpreted by some as a disguised or soft form of aid-in-kind, since they have largely excluded dollar settlement and since the local currency debt obligations may not require future servicing in convertible funds under a fixed repayment schedule. Similarly, although the re-use of currencies generated by Title I transactions has involved lending terms comparable in many respects with other standard types of loan agreement, even here repayment involving an explicit balance-of-payments servicing burden may in fact not be required.

A substantial body of literature has evolved in recent years around the respective advantages and limitations inherent in the large and growing volume of PL 480 aid operations. The writers have commented not only on the financial and aid aspects of the operations, but also on their effect on the world market and on trade flows. However, an analysis of these views goes beyond the scope of the present study.⁷⁴ Suffice it to note here that the policies followed in the relending of PL 480 local currencies cannot be considered as originating from the terms of the Law itself. Rather, the basic criteria used through 1961 were those followed by the different agencies administering such currencies. In short, the ICA, DLF and Export-Import Bank policies mentioned earlier are those directly applicable to the analogous PL 480 loan operations.⁷⁵

⁷² In Latin America, approximately one-half of all local currency holdings generated by PL 480 operations had, by the end of 1961, been reloaned to Governments for specific economic development projects.

⁷³ See W. Krause, *Economic Development*, op. cit., p. 451.

⁷⁴ For a review of the arguments on both sides, see W. Krause, *Economic Development*, op. cit., pp. 444-466.

⁷⁵ Cooley Amendment loans have been effected through Eximbank, whereas ICA and (to a lesser extent) DLF have administered economic development loans to Governments. Most of the latter, it has been noted, "... fall into the projects loan category [entailing] considerably less review and supervision of the use of local currency funds than in the case of Export-Import Bank dollar loans. The major fields for which loans have been made are industry, mining, agriculture, transportation, health, sanitation, education and community development." *U.S. Private and Government Investment Abroad*, op. cit., p. 294.

Annexes

GENERAL METHODOLOGICAL NOTE

I. Sources

For the period 1960-62, International Monetary Fund, *Balance of Payments Yearbook*, volumes 1, 2, 3, 4, 5, 6, 8, 12, 13, 14 and 15.

II. Rearrangement of data proceeding from various issues of the IMF *Balance of Payments Yearbook* in order to get homogeneous series for the whole post-war period

The presentation of the standard balance has been substantially modified in the third edition of the IMF *Balance of Payments Manual* in 1960. However, the series were retroactively revised from 1956 onward in volume 13 of the *Balance of Payments Yearbook* in which the new presentation was used for the first time. Consequently, the figures covering the international transactions of the Latin American countries for 1946-55 are treated according to the definitions adopted in the first and second editions of the *Balance of Payments Manual* and those for 1956-62 according to the definitions used in the third edition of the same *Manual*.

The main discrepancies which have had to be eliminated are as follows:

1. Private donations

For 1946-55 this item covers transfer payments between residents of the reporting country other than official institutions and private individuals in foreign countries. For 1956-62 it covers transfer payments between residents of the reporting country "other than the central Government" and "all foreigners including official institutions".

2. Official donations

For 1946-55 this item covers transfer payments extended by the reporting country's official institutions (debit side) and transfer payments received from foreign official institutions (credit side). For 1956-62 it covers transfer payments between the reporting country's "central Government" and "all foreigners including official institutions".

3. Private long-term liabilities other than direct investment

For 1946-55, this item covers all those transactions, between private individuals or non-banking institutions in the reporting country and foreigners, that involve increases or decreases in long-term liabilities other than direct investment. For 1956-62 it includes, in addition, loans received or extended under the guarantee of the compiling country's Government.

4. Long-term liabilities of official and banking institutions

For 1946-55 this item covers all those transactions between official and banking institutions in the compiling country and foreigners that involve increases or decreases in long-term liabilities, including loans received or extended by private individuals or non-banking institutions under the guarantee of the reporting country's Government. These loans are excluded for 1956-62.

As far as possible these discrepancies have been eliminated in order to obtain consistent series for the whole of the period 1946-62. In particular, the entries corresponding to loans received or extended under the guarantee of the compiling country's Government for 1956-62 have been transferred from the private to the official account.

III. Definitions

A. GOODS, SERVICES AND PRIVATE DONATIONS

1. Goods and services

1.1 Merchandise (f.o.b.). This item corresponds to item 1 of the "Global Balance of Payments Summary" as defined by the IMF in the *Balance of Payments Manual* (third edition, Washington 1961), pp. 20-22 (table A, parts 1, 2 and 3). It covers all merchandise transactions as defined by the IMF, op. cit., paras. 116 to 157. The imports registered on a c.i.f. basis in the IMF *Balance of Payments Yearbook* for six countries (Argentina, Chile, El Salvador, Haiti, Mexico and Uruguay) have been re-estimated on a f.o.b. basis, using the following ratios between the freight and insurance and the c.i.f. value of the imports: ^a

FREIGHT AND INSURANCE AS A PERCENTAGE OF THE C.I.F. VALUE OF IMPORTS

Year	Argen- tina	Chile	El Salvador	Haiti	Mexico	Uruguay
1946	15.0	9.0	9.0	9.0	5.0	10.0
1947	14.0	8.0	8.0	8.0	4.5	9.0
1948	14.0	8.0	8.0	8.0	4.5	9.0
1949	12.0	7.0	7.0	7.0	4.0	8.0
1950	12.0	7.0	7.0	7.0	4.0	8.0
1951	15.0	10.0	8.0	8.0	4.5	9.0
1952	20.0	9.0	8.0	7.5	4.0	10.0
1953	13.0	9.0	8.0	8.0	3.5	8.0
1954	14.0	9.0	8.0	8.0	4.0	9.0
1955	18.0	10.0	10.0	12.0	5.0	12.0
1956	20.0	14.0	11.0	13.0	6.0	13.0
1957	18.0	11.0	10.0	10.0	5.0	12.0
1958	11.0	8.0	6.0	7.0	3.0	7.0
1959	12.0	8.0	7.0	7.0	3.5	8.0
1960	12.0	8.0	7.0	7.0	3.5	8.0
1961	13.0	9.0	8.0	8.0	3.5	9.0
1962	13.0	9.0	8.0	8.0	3.5	9.0

1.2 Non-monetary gold. This item corresponds to item 2 of the "Global Balance of Payments Summary". It covers the transaction of non-monetary gold as defined in IMF, ed. cit., paras. 158 to 191.

1.3 Freight, insurance and other transportation. This item corresponds to items 3 and 4 of the "Global Balance of Payments Summary". It covers freight, insurance and other transportation as defined by the IMF, ed. cit., paras. 192 to 243. The debit on freight and insurance registered on a c.i.f. basis in the IMF *Balance of Payments Yearbook* has been re-estimated on a f.o.b. basis for six countries (Argentina, Chile, El Salvador, Haiti, Mexico and Uruguay).

^a See Herman Felix Karreman, *Methods for Improving World Transportation Accounts, Applied to 1950-1953*, New York, National Bureau of Economic Research, 1961.

1.4 Travel. This item corresponds to item 5 of the "Global Balance of Payments Summary". It covers all the travel transactions as defined by IMF, ed. cit., table V and paras. 244 to 246.

1.5 Investment income. This item corresponds to item 6 of the "Global Balance of Payments Summary". The credit entries cover residents' income from financial investments abroad and the debit entries the income of foreigners from financial investment in Latin America. According to the IMF definitions, a broad distinction has been made between the income from direct investment enterprises and from other investment.

1.6 Other services. This item corresponds to items 7 and 8 of the "Global Balance of Payments Summary". It covers all the transactions defined by the IMF, ed. cit., paras. 262 to 312, as "Government transactions not included elsewhere and other services".

2. Private donations

This item corresponds to item 9 of the "Global Balance of Payments Summary". It covers all the transactions defined by the IMF, ed. cit., paras. 313 to 321 as private transfer payments, e.g., all the transfer payments without *quid pro quo* between the private sectors of the Latin American countries and the foreign countries.

B. OFFICIAL DONATIONS AND NON-COMPENSATORY CAPITAL

1. Official donations

This item corresponds to item 10 of the "Global Balance of Payments Summary". It covers all the transactions defined by the IMF, ed. cit., pp. 322 to 335, as central governments transfer payments, i.e., the transfer payments with *quid pro quo* between the governmental sectors of the Latin American countries and the foreign countries.

2. Private long-term capital

2.1 Private long-term liabilities

2.11 Direct investment. This item corresponds to liabilities entries of item 11.1 of the "Global Balance of Payments Summary". It covers changes in long-term capital invested in direct investment enterprises (i.e., enterprises in which non-residents maintain some degree of managerial control) in Latin America by non-residents.

2.12 Other long-term liabilities. This item corresponds to part of the liabilities entries of items 11.2 through 11.7 of the "Global Balance of Payments Summary". It covers all the changes in the long-term liabilities of the private sectors (i.e., resident individuals and non-governmental enterprises and institutions, other than monetary institutions) in Latin America, excluding the direct investment enterprises, whose changes in long-term liabilities are reported under item B. 2.11. It must be noted that changes in the outstanding amount of loans obtained by the private sector of a Latin American country but guaranteed by the recipient country's Government, which are reported by the IMF as changes in the long-term liabilities of the private sector, have been considered as far as possible in the present study as changes in the long-term liabilities of the official sector.

2.2 Private long-term assets

This item corresponds to the assets entries of items 11 through 11.7 of the "Global Balance of Payments Summary". It covers all the changes in the long-term assets held abroad by the Latin American private sector.

3. Official long-term capital

3.1 Official long-term liabilities other than balance-of-payments loans. This item corresponds to part of the liabilities entries of

items 11.2 through 11.7, 13.1 through 13.3, 14.1, 14.2, 14.4 and 14.5 of the "Global Balance of Payments Summary". It covers all the changes in the long-term liabilities other than balance-of-payments loans of the local and central governments in Latin America, excluding the central monetary authorities but including the other monetary institutions. As explained above, the changes in the outstanding amounts of the long-term loans granted to the private sector of a Latin American country and guaranteed by the recipient country's Government, which are reported by the IMF as changes in the long-term liabilities of the private sector, have been considered in the present study as changes in the long-term liabilities of the official sector. Furthermore, changes in the outstanding amounts of long-term loans granted to monetary other than central institutions (deposit money banks, savings banks and similar institutions) have been included in the changes in the long-term liabilities of the official sector.

3.2 Official long-term assets. This item corresponds to the assets entries of items 13.1 through 13.3, 14.1, 14.2, 14.4 and 14.5 of the "Global Balance of Payments Summary". It covers all the changes in the assets held abroad by the local and central governments of the Latin American countries, excluding the central monetary authorities.

4. Short-term capital

This item corresponds to part of item 12, to items 14.3, 14.6, 16.1, 16.2, 16.4, 16.5 and to part of item 16.3 of the "Global Balance of Payments Summary". It covers all the short-term transactions of the private sector, the local and central governments and the monetary institutions, excluding the central monetary authorities. The transactions corresponding to deferred import payments are excluded.

E. COMPENSATORY FINANCING

1. Deferred import payments

This item corresponds to parts of the liabilities entries of item 12 of the "Global Balance of Payments Summary". Credit entries cover increases in import arrears and debit entries decreases in import arrears. The only figures actually recorded are for Brazil and Colombia.

2. Balance-of-payments loans

This item corresponds to part of the liabilities entries of items 14.4 and 15.4 of the "Global Balance of Payments Summary". It essentially covers withdrawals and repayments with respect to long-term loans granted to central monetary authorities and defined as dollar exchange credits, credits for refinancing purchases abroad, or even credits for financing essential imports provided that these are not granted for the financing of specific development projects. It may include loans which have the same purposes but are granted to the central Government rather than to the central monetary authorities.

3. Foreign exchange reserves

3.1 Liabilities. This item corresponds to the liabilities entries of items 15.2, 15.3 and 15.5, and to part of the liabilities entries of item 15.4 of the "Global Balance of Payments Summary". It covers all changes in the short-term liabilities of central monetary authorities to foreign monetary authorities or to private foreigners. Hence it includes changes in liabilities to private firms arising from swap transactions.

3.2 Assets (increase). This item corresponds to the assets entries of items 15.2, 15.3, 15.4 and 15.5 of the "Global Balance of Payments Summary". It covers all changes in liquid foreign assets of the central monetary authorities.

3.3 *Net IMF position.* This item corresponds to item 15.1 of the "Global Balance of Payments Summary". It covers all changes in the net IMF position of the Latin American countries. According to the IMF definition, the net IMF position is equal to the member's gold subscription, plus its repurchases of currency subscription, minus its net drawings or plus the Fund's sales of its currency, plus or minus the Fund's administrative and operational expenditures or receipts in its currency. Debit entries under this item cover increases in the resources that the member provides to the Fund;

credit entries cover increases in the resources that the Fund provides to the member.

4. *Official monetary gold (increase)*

This item corresponds to item 15.6 of the "Global Balance of Payments Summary". It covers changes in the gold reserve of the central monetary authorities, but excludes changes in the gold reserve of the commercial banks, which are included under item B.4.

ex I

LATIN AMERICA: INTERNATIONAL TRANSACTIONS ON CURRENT ACCOUNT

Table A

LATIN AMERICA: INTERNATIONAL TRANSACTIONS ON CURRENT ACCOUNT (GOODS, SERVICES AND PRIVATE DONATIONS), 1946-60

(Millions of dollars)

Year	1. Goods and services											Total goods, services and private donations
	Total	1.1 Merchandise f.o.b.	1.2 Non-monetary gold	Subtotal (1.1+1.2)	1.3 Freight, insurance and other transportation	1.4 Travel	Total	1.5 Investment income		1.6 Other	2. Private donations	
							1.5.1 Direct investment	1.5.2 Other investment				
1946												
Credit	5,201.9	4,697.5	37.6	4,735.1	101.9	237.6	4.3	0.6	3.7	123.0	4.4	5,206.3
Debit	4,593.6	3,334.4	0.6	3,335.0	447.2	148.8	557.5	391.8	165.7	105.1	30.4	4,624.0
Balance	+608.3	+1,363.1	+37.0	+1,400.1	-345.3	+88.8	-553.2	-391.2	-162.0	+17.9	-26.0	+582.3
1947												
Credit	6,664.3	6,046.2	57.1	6,103.3	146.8	244.4	8.8	0.7	8.1	161.0	17.1	6,681.4
Debit	7,465.4	5,602.5	0.2	5,602.7	760.8	199.6	736.6	600.9	135.7	165.7	63.3	7,528.7
Balance	-801.1	+443.7	+56.9	+500.6	-614.0	+44.8	-727.8	-600.2	-127.6	-4.7	-46.2	-847.3
1948												
Credit	7,300.8	6,634.5	42.2	6,676.7	147.6	294.3	9.0	0.7	8.3	173.2	11.1	7,311.9
Debit	7,537.1	5,482.0	1.4	5,483.4	-799.1	192.7	879.3	810.5	68.8	182.6	49.0	7,586.1
Balance	-236.3	+1,152.5	+40.8	+1,193.3	-651.5	+101.6	-870.3	-809.8	-60.5	-9.4	-37.9	-274.2
1949												
Credit	6,136.2	5,494.1	43.3	5,537.4	146.2	281.6	8.9	0.6	8.3	162.1	9.3	6,145.5
Debit	6,519.8	4,872.6	0.4	4,873.0	631.3	145.2	619.2	547.0	72.2	251.1	42.8	6,562.6
Balance	-383.6	+621.5	+42.9	+664.4	-485.1	+136.4	-610.3	-564.4	-63.9	-89.0	-33.5	-417.1
1950												
Credit	7,320.0	6,655.6	54.3	6,709.9	104.4	336.0	10.1	1.1	9.0	159.6	8.1	7,328.1
Debit	6,981.4	4,993.5	2.0	4,995.5	627.9	219.1	853.5	782.7	70.8	285.4	36.9	7,018.3
Balance	+338.6	+1,662.1	52.3	+1,714.4	-523.5	+116.9	-843.4	-781.6	-61.8	-125.8	-28.8	+309.8
1951												
Credit	8,680.2	7,823.1	74.4	7,897.5	168.6	357.3	17.1	3.4	13.7	239.7	24.5	8,704.7
Debit	9,728.8	7,056.8	0.6	7,057.4	1,011.9	253.2	1,021.8	947.7	74.1	384.5	52.4	9,781.2
Balance	-1,048.6	+766.3	+73.8	+840.1	-843.3	+104.1	-1,004.7	-944.3	-60.4	-144.8	-27.9	-1,076.5
1952												
Credit	7,979.0	7,075.4	41.2	7,116.6	229.3	365.1	23.2	7.4	15.8	244.8	11.8	7,990.8
Debit	9,369.7	6,839.9	0.5	6,840.5	1,019.6	261.6	943.2	865.0	78.2	304.9	57.3	9,427.0
Balance	-1,390.7	+235.5	+40.7	+276.2	-790.3	+103.5	-920.0	-857.6	-62.4	-60.1	-45.5	-1,436.2

<i>1953</i>													
Credit	8,593.4	7,609.1	52.3	7,661.4	200.9	397.4	25.0	8.2	16.8	308.7	16.6	8,610.0	
Debit	8,392.1	5,961.8	2.9	5,964.8	792.0	308.2	925.0	814.0	111.0	402.1	95.8	8,487.9	
Balance	+201.3	+1,647.2	+49.4	+1,696.6	-591.1	+89.2	-900.0	-805.8	-94.2	-93.4	-79.2	+122.1	
<i>1954</i>													
Credit	8,943.3	7,921.1	40.4	7,961.5	210.3	449.1	29.9	8.4	21.5	292.5	23.2	8,966.5	
Debit	9,319.9	6,723.0	5.1	6,728.1	892.0	343.1	940.7	819.4	121.3	416.0	105.2	9,425.1	
Balance	-376.6	+1,198.1	+35.3	+1,233.4	-681.7	+106.0	-910.8	-811.0	-99.8	-123.5	-82.0	-458.6	
<i>1955</i>													
Credit	9,323.5	8,065.0	94.4	8,159.4	252.8	558.2	32.3	11.0	21.3	320.8	-27.0	-9,350.5	
Debit	9,781.9	6,726.1	2.7	6,728.8	1,020.0	365.6	1,092.8	972.6	120.2	514.7	106.2	9,828.1	
Balance	-398.4	+1,338.9	+91.7	+1,430.6	-767.2	+192.6	-1,060.5	-961.6	-98.9	-193.9	-79.2	-477.6	
<i>1956</i>													
Credit	10,158.2	8,766.8	39.2	8,806.0	250.0	640.4	134.1	12.2	21.9	427.7	32.3	10,190.5	
Debit	10,682.0	7,138.4	0.4	7,138.8	1,066.1	448.1	1,367.7	1,221.4	146.3	661.3	86.8	10,768.8	
Balance	-523.8	+1,628.4	+38.8	+1,667.2	-816.1	+192.3	-1,333.6	-1,209.2	-124.4	233.6	-54.5	-578.3	
<i>1957</i>													
Credit	10,697.5	9,132.0	27.1	9,159.1	257.2	737.1	56.3	27.5	28.8	487.8	36.2	10,733.7	
Debit	12,542.5	8,495.3	5.3	8,500.6	1,186.1	579.9	1,584.1	1,423.3	160.8	691.8	135.8	12,678.3	
Balance	-1,845.0	+636.7	+21.8	+658.5	-928.9	+157.2	1,527.8	1,395.8	-132.0	-204.0	-99.6	1,944.6	
<i>1958</i>													
Credit	10,010.5	8,516.1	26.4	8,542.5	215.1	738.4	48.0	19.4	28.6	466.5	51.4	10,061.9	
Debit	11,293.4	7,932.1	19.9	7,952.0	949.7	526.8	1,213.1	1,035.6	177.5	651.8	140.1	11,433.5	
Balance	-1,282.9	+584.0	+6.5	+590.5	-734.6	+211.6	-1,165.1	-1,016.2	-148.9	-185.3	-88.7	1,371.6	
<i>1959</i>													
Credit	10,065.6	8,413.8	27.0	8,440.8	234.6	841.1	59.9	32.9	27.0	489.2	49.5	10,115.1	
Debit	10,730.7	7,365.7	15.2	7,380.9	915.7	580.5	1,179.9	929.9	250.0	673.7	158.4	10,889.1	
Balance	-665.1	+1,048.1	+11.8	+1,059.9	-681.1	+260.6	-1,120.0	-897.0	-223.0	-184.5	-108.9	774.0	

Table B

LATIN AMERICA (EXCLUDING CUBA): INTERNATIONAL TRANSACTIONS ON CURRENT ACCOUNT (GOODS, SERVICES AND PRIVATE DONATIONS), 1946-60

(Millions of dollars)

Year	1. Goods and services							1.5 Investment income			2. Private donations	Total goods, services and private donations
	Total	1.1 Merchandise f.o.b.	1.2 Non-monetary gold	Subtotal (1.1+1.2)	1.3 Freight insurance and other transportation	1.4 Travel	Total	1.5.1 Direct investment	1.5.2 Other investment	1.6 Other		
1946												
Credit	4,636.4	4,162.9	37.6	4,800.5	100.1	221.3	2.7	0.3	2.4	111.8	2.2	4,638.6
Debit	4,182.6	3,034.6	—	3,034.6	419.8	114.5	515.6	357.1	158.5	98.1	20.0	4,202.6
Balance	+453.8	+1,128.3	+37.6	+1,165.9	-319.7	+106.8	-512.9	-356.8	-156.1	+13.7	-17.8	+436.0
1947												
Credit	5,844.0	5,273.5	57.1	5,330.6	145.7	222.5	7.7	0.5	7.2	137.5	15.4	5,859.4
Debit	6,772.6	5,082.8	—	5,082.8	722.8	146.4	661.6	536.6	125.0	159.0	52.3	6,824.9
Balance	-928.6	+190.7	+57.1	+247.8	-577.1	+76.1	-653.9	-536.1	-117.8	-21.5	-36.9	-965.5
1948												
Credit	6,516.1	5,910.4	42.2	5,952.6	145.4	271.2	7.7	0.5	7.2	139.2	10.0	6,526.1
Debit	6,845.8	4,954.6	1.3	4,955.9	750.6	136.5	826.5	765.8	60.7	176.3	39.8	6,885.6
Balance	-329.7	+955.8	+40.9	+996.7	-605.2	+134.7	-818.8	-765.3	-53.5	-37.1	-29.8	-359.5
1949												
Credit	5,491.9	4,900.9	43.3	4,944.2	144.0	262.0	8.1	0.5	7.6	133.6	8.4	5,500.3
Debit	5,958.6	4,481.6	—	4,421.6	586.8	113.6	588.0	520.9	67.1	248.6	36.2	5,994.8
Balance	-466.7	+479.3	+43.3	+522.6	-442.8	+148.4	-579.9	-520.4	-59.5	-115.0	-27.8	-494.5
1950												
Credit	6,606.4	5,988.2	54.3	6,042.5	99.8	318.9	9.7	1.1	8.6	135.5	7.3	6,613.7
Debit	6,259.2	4,430.6	2.0	4,432.6	569.4	187.5	787.0	721.7	65.3	282.7	32.5	6,291.7
Balance	+347.2	+1,557.6	+52.3	+1,609.9	-469.6	+131.4	-777.3	-720.6	-56.7	-147.2	-25.2	+322.0
1951												
Credit	7,828.7	7,020.9	74.4	7,095.3	163.1	338.1	14.5	3.4	11.1	217.7	23.6	7,852.3
Debit	8,855.8	6,359.0	0.6	6,359.6	940.1	223.8	951.0	881.8	69.2	381.3	48.7	8,904.5
Balance	-1,027.1	+661.9	+73.8	+735.7	-777.0	+114.3	-936.5	-878.4	-58.1	-163.6	-25.1	-1,052.2
1952												
Credit	7,249.0	6,387.2	41.2	6,428.4	225.5	345.9	19.1	7.4	11.7	230.1	10.9	7,259.9
Debit	8,815.6	6,149.9	0.5	6,150.4	946.4	229.4	886.6	811.1	75.5	302.8	54.9	8,570.5
Balance	-1,266.6	+237.3	+40.7	+278.0	-720.9	+116.5	-867.5	-803.7	-63.8	-72.7	-44.0	-1,310.6
1953												
Credit	7,878.2	6,940.2	52.3	6,992.5	197.0	377.8	19.0	8.2	10.8	291.9	15.1	7,893.3
Debit	7,716.6	5,415.2	2.9	5,418.1	733.7	277.4	891.3	784.0	107.3	396.1	91.2	7,807.8
Balance	+161.6	+1,525.0	+49.4	+1,574.4	-536.7	+100.4	-872.3	-775.8	-96.5	-104.2	-76.1	+85.5

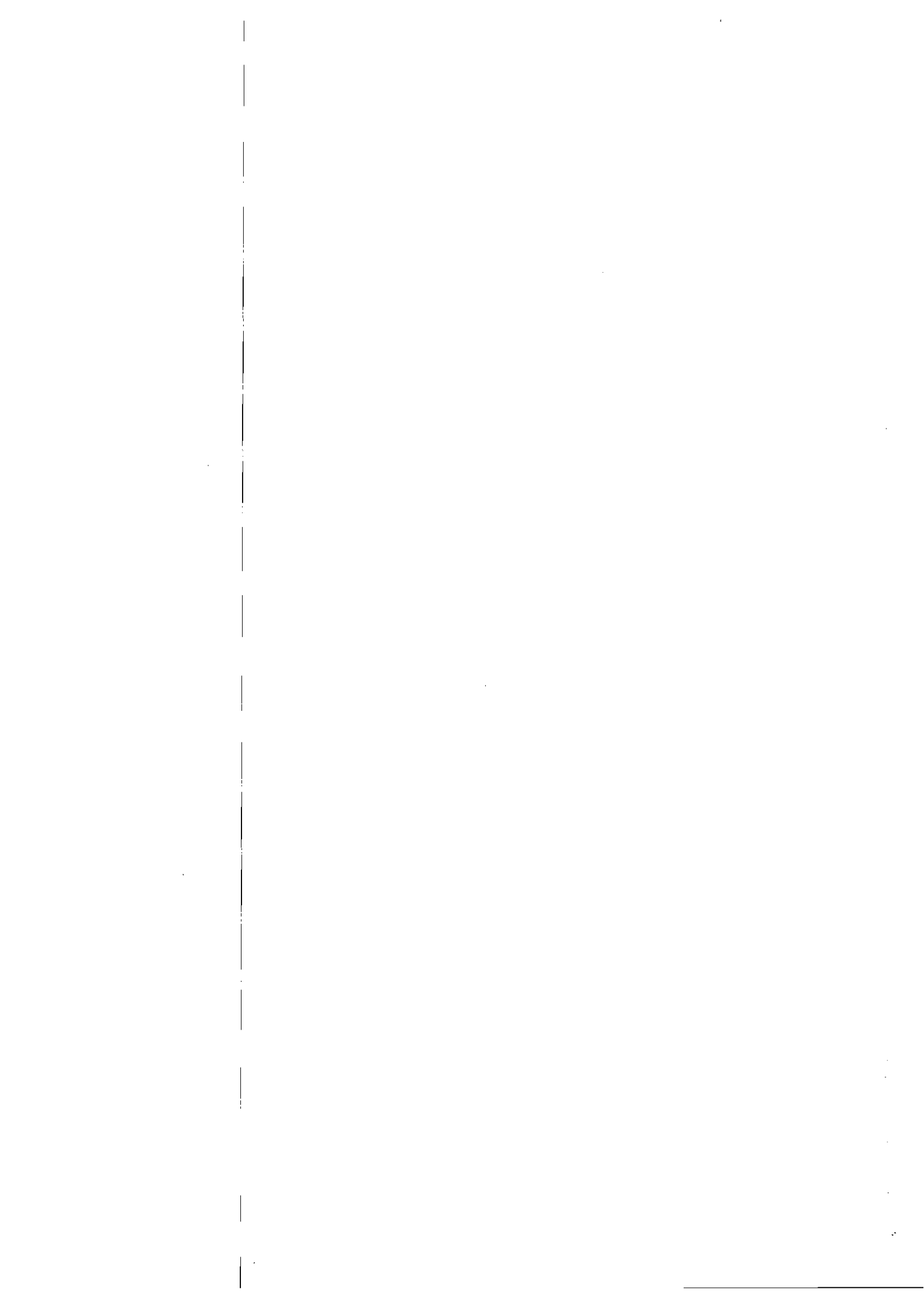
<i>1954</i>												
Credit	8,329.2	7,363.5	40.4	7,403.9	206.8	425.1	24.1	8.4	15.7	269.3	20.7	8,349.9
Debit	8,632.5	6,168.1	5.1	6,173.2	834.1	311.5	902.7	783.2	119.5	411.0	101.5	8,734.0
Balance	-303.3	+1,195.4	+35.3	+1,230.7	-627.3	+113.6	-878.6	-774.8	-103.8	-141.7	-80.8	-384.1
<i>1955</i>												
Credit	8,646.0	7,454.2	94.4	7,548.6	245.8	530.4	25.3	11.0	14.3	295.9	24.5	8,670.5
Debit	8,993.5	6,150.6	2.7	6,153.3	955.6	334.8	1,044.1	930.3	113.8	505.7	103.5	9,097.0
Balance	-347.5	+1,303.6	+91.7	+1,395.3	-709.8	+195.6	-1,018.8	-919.3	-99.5	-209.8	-79.0	-426.5
<i>1956</i>												
Credit	9,377.9	8,072.3	39.2	8,111.5	238.0	602.3	25.2	12.2	13.0	400.9	28.4	9,406.3
Debit	9,859.2	6,489.4	0.4	6,489.8	993.9	414.3	1,307.5	1,170.0	137.5	653.7	81.7	9,940.9
Balance	-481.3	+1,582.9	+38.8	+1,621.7	-755.9	+188.0	-1,282.3	-1,157.8	-124.5	-252.8	-53.3	-534.6
<i>1957</i>												
Credit	9,750.1	8,287.3	27.1	8,314.4	243.7	675.0	47.0	27.5	19.5	470.0	34.5	9,784.6
Debit	11,516.8	7,682.1	5.3	7,687.4	1,101.8	543.7	1,497.3	1,345.3	152.0	686.6	128.4	11,645.2
Balance	-1,766.7	+605.2	+21.8	+627.0	-858.1	+131.3	-1,450.3	-1,317.8	-132.5	-216.6	-93.9	-1,860.6
<i>1958</i>												
Credit	9,142.0	7,752.9	26.4	7,779.3	203.6	681.5	37.4	19.4	18.0	440.2	48.5	9,190.5
Debit	10,292.1	7,124.6	19.9	7,144.5	866.5	489.3	1,149.5	983.6	165.9	642.3	129.5	10,421.6
Balance	-1,150.1	+628.3	+6.5	+634.8	-662.9	+192.2	-1,112.1	-964.2	-147.9	-202.1	-81.0	-1,231.1
<i>1959</i>												
Credit	9,301.4	7,738.5	27.0	7,765.5	224.5	795.7	48.5	32.9	15.6	467.2	46.4	9,347.8
Debit	9,890.6	6,692.5	15.2	6,707.7	846.4	554.0	1,120.7	882.5	238.2	661.8	151.6	10,042.2
Balance	-589.2	+1,046.0	+11.8	+1,057.8	-621.9	+241.7	-1,072.2	-849.6	-222.6	-194.6	-105.2	-694.4
<i>1960</i>												
Credit	9,789.2	8,077.2	29.3	8,106.5	285.1	875.5	58.3	42.6	15.7	463.8	56.9	9,846.1
Debit	10,663.1	7,181.1	10.9	7,192.0	898.9	642.3	1,227.9	954.6	273.3	702.0	169.3	10,832.4
Balance	-873.9	+896.1	+18.4	+914.5	-613.8	+233.2	-1,169.6	-912.0	-257.6	-238.2	-112.4	-986.3

LATIN AMERICA (EXCLUDING CUBA AND VENEZUELA): INTERNATIONAL TRANSACTION ON CURRENT ACCOUNT (GOODS, SERVICES AND PRIVATE DONATIONS), 1946-60

(Millions of dollars)

Year	1. Goods and services						1.5 Investment income			2. Private donations	Total goods, services and private donations	
	Total	1.1 Merchandise f.o.b.	1.2 Non-monetary gold	Subtotal (1.1+1.2)	1.3 Freight, insurance and other transportation	1.4 Travel	Total	1.5.1 Direct investment	1.5.2 Other investment			1.6 Other
<i>1946</i>												
Credit	4,107.1	3,648.1	36.9	3,685.0	98.9	215.9	2.7	0.3	2.4	104.6	2.2	4,109.3
Debit	3,648.2	2,720.0	—	2,720.0	379.4	101.1	354.3	195.8	158.5	93.4	8.1	3,656.3
Balance	+452.9	+928.1	+36.9	+965.0	-280.5	+114.8	-351.6	-195.5	-156.1	+11.2	-5.9	+453.0
<i>1947</i>												
Credit	5,128.9	4,579.2	57.0	4,636.2	144.2	217.5	7.4	0.5	6.9	123.6	15.4	5,144.3
Debit	5,836.0	4,511.9	—	4,511.9	646.2	141.2	382.9	257.9	125.0	153.8	37.0	5,873.0
Balance	-707.1	+67.3	+57.0	+124.3	-502.0	+76.3	-375.5	-257.4	-118.1	-30.2	-21.6	-728.7
<i>1948</i>												
Credit	5,389.8	4,804.6	41.8	4,846.4	141.8	271.2	7.7	0.5	7.2	122.7	10.0	5,399.8
Debit	5,606.7	4,253.7	1.3	4,255.0	657.4	136.5	389.8	329.1	60.7	168.0	23.7	5,630.4
Balance	-216.9	+550.9	+40.5	+591.4	-515.6	+134.7	-382.1	-328.6	-53.5	-45.3	-13.7	-230.6
<i>1949</i>												
Credit	4,494.7	3,947.6	43.1	3,990.7	129.4	255.0	8.1	0.5	7.6	111.5	8.4	4,503.1
Debit	4,843.2	3,735.5	—	3,735.5	494.5	90.7	328.4	261.3	67.1	194.1	19.5	4,862.7
Balance	-348.5	+212.1	+43.1	+255.2	-365.1	+164.3	-320.3	-260.8	-59.5	-82.6	-11.1	-359.6
<i>1950</i>												
Credit	5,408.0	4,824.1	53.2	4,877.3	85.5	318.9	9.4	0.8	8.6	116.9	7.3	5,415.3
Debit	5,088.0	3,820.2	2.0	3,822.2	485.0	154.0	394.3	329.1	65.2	232.5	17.0	5,105.0
Balance	+320.0	+1,003.9	+51.2	+1,055.1	-399.5	+164.9	-384.9	-328.3	-56.6	-115.6	-9.7	+310.3
<i>1951</i>												
Credit	6,442.7	5,674.1	74.3	5,748.4	146.8	338.1	14.0	2.9	11.1	195.4	23.6	6,466.3
Debit	7,542.3	5,660.6	0.6	5,661.2	842.7	182.6	527.1	458.0	69.1	328.7	30.6	7,572.9
Balance	-1,099.6	+13.5	+73.7	+87.2	-695.9	+155.5	-513.1	-455.1	-58.0	-133.3	-7.0	-1,106.6
<i>1952</i>												
Credit	5,747.9	4,935.0	41.2	4,976.2	208.0	345.9	15.5	1.8	11.7	204.3	10.9	5,758.8
Debit	7,073.9	5,369.1	0.5	5,369.6	843.5	187.0	434.4	359.2	75.2	239.4	35.7	7,109.6
Balance	-1,326.0	-434.1	+40.7	-393.4	-635.5	+158.9	-420.9	-357.4	-63.5	-35.1	-24.8	-1,350.8
<i>1953</i>												
Credit	6,305.0	5,425.7	52.3	5,478.0	180.2	376.0	11.5	0.7	10.8	259.3	15.1	6,320.1
Debit	6,165.7	4,555.7	0.3	4,556.0	609.2	241.2	445.0	338.2	106.8	314.3	45.3	6,211.0
Balance	+139.3	+870.0	+52.0	+922.0	-429.0	+134.8	-433.5	-337.5	-96.0	-55.0	-30.2	+109.1

<i>1954</i>												
Credit	6,598.9	5,690.9	40.4	5,731.3	189.9	423.4	16.5	0.8	15.7	237.8	20.7	6,619.6
Debit	6,909.2	5,216.2	2.8	5,219.0	690.7	268.4	408.9	290.2	118.7	322.2	51.7	6,960.9
Balance	-310.3	+474.7	+37.6	+512.3	-500.8	+155.0	-392.4	-289.4	-103.0	-84.4	-31.0	-341.3
<i>1955</i>												
Credit	6,673.3	5,550.6	94.4	5,645.0	225.0	527.8	17.5	3.2	14.3	258.0	24.5	6,697.8
Debit	7,082.7	5,164.5	0.5	5,165.0	804.4	284.2	451.2	337.9	113.3	377.9	51.1	7,133.8
Balance	-409.4	+386.1	+93.9	+480.0	-579.4	+243.6	-433.7	-334.7	-99.0	-119.9	-26.6	-436.0
<i>1956</i>												
Credit	7,069.6	5,853.7	37.2	5,890.9	218.9	602.3	13.3	0.3	13.0	344.2	28.4	7,098.0
Debit	7,505.8	5,319.6	0.4	5,320.0	844.2	350.2	534.2	397.3	136.9	457.2	57.3	7,563.1
Balance	-436.2	+534.1	+36.8	+570.9	-625.3	+252.1	-520.9	-397.0	-123.9	-113.0	-28.9	-465.1
<i>1957</i>												
Credit	6,866.7	5,524.4	25.8	5,550.2	218.7	671.7	29.5	14.8	14.7	396.6	34.5	6,901.2
Debit	8,128.9	5,907.2	5.3	5,912.5	858.8	406.2	503.2	354.4	148.8	448.2	64.4	8,193.3
Balance	-1,262.2	-382.8	+20.5	-362.3	-640.1	+265.5	-473.7	-339.6	-134.1	-51.6	-29.9	-1,192.1
<i>1958</i>												
Credit	6,511.5	5,234.1	26.4	5,260.5	181.8	677.9	21.7	11.1	10.6	369.6	48.5	6,560.0
Debit	7,578.8	5,591.2	14.6	5,605.8	650.4	390.2	532.3	369.4	162.9	400.1	58.7	7,637.5
Balance	-1,067.3	-357.1	+11.8	-345.3	-468.6	+287.7	-510.6	-358.3	-152.3	-30.5	-10.2	-1,077.5
<i>1959</i>												
Credit	6,766.6	5,345.0	27.0	5,372.0	200.3	791.9	33.2	21.0	12.2	369.2	46.4	6,813.0
Debit	7,314.7	5,166.2	8.3	9,174.5	627.2	465.2	593.1	361.5	231.6	454.7	64.1	7,378.8
Balance	-548.1	+178.8	+18.7	+197.5	-426.9	+326.7	-559.9	-340.5	-219.4	-85.5	-17.7	-565.8
<i>1960</i>												
Credit	7,203.8	5,623.7	29.3	5,653.0	265.8	871.8	47.0	31.4	15.6	366.2	56.9	7,260.7
Debit	8,556.1	6,029.7	5.8	6,035.5	726.1	566.4	704.3	441.1	263.2	523.8	81.6	8,637.7
Balance	-1,352.3	-406.0	+23.5	-382.5	-460.3	+305.4	-657.3	-409.7	-247.6	-157.6	-24.7	-1,377.0



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