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TRADE COMMITTEE

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STATEMENT BY MR. JORGE DEL CANTO, OBSERVER FOR THE INTERNATIONAL MONETARY FUND, AT THE MEETING ON 14 MAY 1959

We of the International Monetary Fund have waited until the last minute to express our point of view for two reasons; firstly, in order to have the benefit of the ideas expressed here by the various delegations, and, secondly, because as we approach the topic of payments we feel more at home, since as the delegations know, payments problems constitute an important area of our institution's day-to-day work in close contact with the countries members of the International Monetary Fund.

At the International Monetary Fund we have a great direct interest in the discussion at the Trade Committee of ECLA. We have participated in all its meetings since the Committee was created in Bogotá, Colombia, in September 1955, as well as in the subsequent meetings of the Central Banks Working Group of this Committee, dealing with payments questions, where we believe we have made useful contributions.

We would like first to indicate that we have a genuine interest in the movement towards a regional market. The facts and arguments, as put forward by the ECLA secretariat, are self-evident and convincing. At present Latin America is not a well-defined economic region. It is fundamentally a geographic concept,

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a group of countries, isolated by natural land barriers, with economies often competitive rather than complementary, and with different stages of economic development and standards of living. However, the countries of the area share a common heritage and somewhat analogous cultural characteristics, and are bound by the same social and political objectives. There is, then, a basic foundation for closer regional economic co-operation, as suggested by ECLA.

Trade within the region is only 10 per cent of its total trade, and this trade is seriously obstructed by all types of barriers - not only natural but man-made. The basic objective of liberalizing trade within the region seems a sensible one if the growth of these countries in future years is to be co-ordinated in such a way as to enable each country to take full advantage of its natural advantages, reflected in cost differentials, and broaden the present rather restricted national markets. A great deal of actual basic work still remains to be done for a better understanding of this problem. ECLA is doing this work and is learning a great deal from the European experience.

The basic objective of the regional market once accepted, I would like to make some comments on the instruments that can be used to achieve this objective. We sincerely believe - and this not so much because we represent the International Monetary Fund, but rather because of our own convictions - that in applying stabilization programmes which will help these countries to put their internal finances in order, adopt realistic rates of exchange and liberalize their trade, many Latin American Governments are now making a most valuable contribution to the creation, in their respective countries, of the real bases for the success of this idea of a regional market. The recognition of this concept, expressed by several delegations, including those of Argentina and Chile - countries which are making a determined effort to achieve

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stabilization - is of basic importance, in our judgment. As the experience of Europe shows, without monetary stability, we have no solid foundation upon which a prosperous regional market can be expected to develop.

It has been suggested that a limited payments union might be another useful tool for implementing the idea of a regional market. We at the Fund are in agreement with the basic objective of a regional market and the need for closer financial and economic co-operation among the Latin American countries to be further stimulated. In this respect there is a great deal to be done. We doubt, however, whether regional trade can be expanded on a sound basis through a mechanism that might lead to the perpetuation of bilateralism, even though that might not be the intention of its authors. I am not referring to any possible temporary arrangements among those countries that are now moving away from bilateralism, but rather to the idea of a payments union as supplementary to the regional market.

The concept of a limited payments union is partly inspired by the experience of Europe in post-war years, but this experience is not necessarily applicable to Latin America. There are several reasons: (1) the trade at present conducted through bilateral channels in Latin America is not as great as it was in Europe soon after the war; (2) the problem of a stoppage of trade, associated with widespread unemployment, so common in Europe - because of the war - has not existed in Latin America; (3) the recent move toward full convertibility by countries like Argentina, Bolivia, Chile, Colombia, Paraguay and Peru - joining other countries where convertibility already existed - makes the need for bilateral agreements and the establishment of machinery for clearing balances unnecessary or of a very limited scope; (4) the credit facilities available through the present bilateral agreements can be replaced by direct inter-central

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bank and other credit facilities, without the need of formal bilateral agreements that would distort trade.

It is interesting to observe that, in fact, the European countries, in moving towards convertibility, eliminated the European Payments Union. In its place there has been instituted the European Monetary Agreement, with its system of special credits for debtor countries, which in essence duplicates the technique that the International Monetary Fund uses in Latin America in support of economic stabilization programmes.

In condemning in principle bilateralism or any instrument that might tend to perpetuate bilateralism, we do not mean to ignore the specific problems that might arise, at all events temporarily, for particular domestic industries if bilateralism were eliminated. From a national and regional point of view, however, it is evident that bilateralism presents serious drawbacks, particularly for the economically weaker countries.

I think the Latin American countries can be proud of their efforts in the direction of convertibility, in spite of the difficulties that their raw material exports are confronting today. The move toward external convertibility - dramatically announced by the European countries on 27 December 1958 - had been initiated much earlier in Latin America. Mexico, Cuba, Central America, Venezuela, Peru, and, in practice, Colombia and Ecuador, have had convertible currencies for many years. Chile adopted convertibility in April 1956, Bolivia in December 1956, Paraguay in June 1957, and finally - as part of a courageous stabilization programme - Argentina in December 1958. If any, if not in most, of these cases, this move toward convertibility has constituted a part - an important part, however - of a major comprehensive stabilization programme, supported financially by the International Monetary

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Fund. Furthermore, the technical and financial participation of the Fund has made it possible for other financial institutions, and in many cases private banks, to participate in these efforts. However, I do not wish to elaborate on this at the present juncture, since the plenary session of ECLA might be a more proper forum in which to explain our operations. I would like to focus attention on those matters of direct concern to the Trade Committee. If I may, I would like to repeat that our observations attempt, with a constructive purpose, to point to the technical limitations of a possible payments union, and not to cast doubt on the idea of a regional market.

When I place Latin America historically ahead of Europe in its determination to move towards convertibility and the liberalization of trade and exchange systems, obviously I do not wish to under-estimate the tremendous significance of the convertibility step taken by Europe. The first implication of the European move is that the line of demarcation between the "dollar area" and the "soft currency area" has disappeared; de facto, the European countries have "joined the dollar area". The Latin American countries have accordingly acquired greater capacity to increase their dollar export earnings.

Let me describe more fully the substance of the move toward convertibility.

In the first place, each country made its currency "externally convertible". Another phrase which has been used is that each established "non-resident convertibility". (In this connexion I might explain that the word "non-resident" refers to anyone outside the currency area concerned - that is, for example, anyone outside the sterling area, or French franc area, or Belgian franc area, as the case might be). Each of the countries involved agreed that it would in the future permit any non-resident who acquired its currency to convert it into any other currency at his option, at official rates of exchange. For example,

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it was established that the United Kingdom would convert Japan's sterling holdings in London into dollars. In this illustrative case, instead of a Japanese bank's maintaining two separate accounts, one in convertible sterling or dollars and the other in non-convertible sterling, the two could be amalgamated in a single account, at the will of the interested party.

In the second place, these countries disbanded the European Payments Union, and replaced it by the mechanisms of the European Monetary Agreement. By doing this, they abandoned the system of settling their intra-European accounts on a basis of 75 per cent dollars and 25 per cent credit, and moved on to a basis of settling 100 per cent in dollars. This move placed West European payments on a hard currency basis.

In the third place, each of the countries involved established margins - for the most part about three-quarters of one per cent (0.75 per cent) above and below par - within which they would convert their own currency into dollars and vice versa for non-residents. This move pegged each currency to the dollar within narrow limits which would not affect the free flow of trade in natural channels.

The net effect of these three related moves was that for normal trade transactions the currencies of the Western European countries became virtually indistinguishable from the dollar, both inside of Europe, and for countries outside of Europe.

Essentially, these moves go very far indeed toward removing the financial basis for discrimination in world trade and payments, both for countries inside Western Europe, and for other countries throughout the world. To be more specific, they permit countries to concentrate their attention upon their over-all

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external financial position, rather than having to be concerned with the currency segments of their balance of payments. This is because, to all intents and purposes, their external financial transactions can now take place in currencies which are indistinguishable one from another.

The effects which this will have on the countries here represented may be stated quite briefly. Member countries of ECLA will receive payment for their exports in currencies that can be used for <u>imports</u> from any country in the world. To a greater extent than in the recent past, ECLA countries will be able to buy in the most advantageous markets, regardless of whether the import desired comes from a "hard currency country" or a "soft currency country"; almost all of the major currencies of the world are now equally hard or soft.

By the same token, a member country of ECLA will be in a position to sell its <u>exports</u> in the market that offers the highest prices, regardless of the currency in which payment will be made, since in all probability it will be convertible into dollars. To this extent, therefore, the ECLA countries have also been, so to speak, "brought into the dollar area". What impact, if any, this will have on the trade of the individual countries here represented, and the particular commodities they export, is something which the distinguished delegations will probably be able to assess better than I could.

All experts agree that the European convertibility and the end of the United States recession will bring, in the period ahead, increased world trade, associated with an increased demand for raw materials on the part of the industrial countries. Latin America should be prepared to take advantage of these new opportunities. I suggest, therefore, that ECLA continues its studies

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on the regional market in the light of these new trends, with particular reference to the effects of the recent convertibility on Latin America and the means by which the region could reap the benefits of this broader market on competitive bases.

Forgive me, Mr. Chairman, if I have dwelt unduly long on the implications of the recent European convertibility, but if I have done so, it is to stress the importance that the Fund attributes to these trends.

The problems confronting Latin America today are somewhat different from those that Europe faced in the immediate post-war years. Our problems are closely connected with our desire for progress and the urgent need to expedite development. They are difficulties inherent in the growth of these young countries, in their need for industrialization, in their urgent need, so graphically described by ECLA, to increase the "capacity to import", and, concurrently, to broaden the region's market.

It is natural that ECLA in its work stresses the regional nature of these problems. We, the observers of the Fund, have aimed, in these brief remarks, at broadening this perspective to show how - without contravening the noble objectives that inspire the work of ECLA - it is important to project trends that prevail throughout the world today in Latin America's own interests. In this respect, I would like to repeat, the improvement in the economic and financial position of Europe, reflected in the recent move towards convertibility, and the short duration of the recession in the United States, point to the fact that the demand for Latin American products will be increasing, and one of our basic preoccupations in Latin America must be to prepare ourselves to take advantage of this expansion, gaining new markets, without under-estimating, however, those efforts that must be made simultaneously in order to increase intra-regional trade.

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At the same time, the fact that the danger of a widespread recession has disappeared will make it possible for many Latin American countries to face with greater confidence and courage the problems of the internal stabilization of their economies, the strengthening of their currencies and the establishment of realistic exchange rates, a basic prerequisite for the success of these ideas of a regional market.

The International Monetary Fund has played a decisive role, in terms of both financial and technical assistance, in this struggle for stabilization. With the increase of the Fund's quotas by 50 per cent - as recommended by our Governors to their respective Governments - we hope to intensify these efforts in the future. By doing this, we hope - I repeat - to help to establish the bases of what will ultimately be a prosperous regional market.