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TRADE TRENDS AND POLICIES OF LATIN AMERICAN COUNTRIES

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1/ Studies of trade policies of several countries not included in this report are being prepared by the Secretariat and will be published later.

TRADE TRENDS AND POLICIES OF LATIN AMERICAN COUNTRIES

PART I

TRADE TRENDS

Introduction

Since the end of the war Latin America has been faced with two fundamental problems: one is how to restore its traditional trade with Europe and make itself less dependent on dollar resources: the other is how to correct the tendency toward persistent disequilibrium in the balance of payments of several of the largest trading countries of Latin America. With respect to the latter, the second part of this report gives a brief account of significant trends in the commercial policies of several Latin American countries, with particular reference to the problem of disequilibrium.

The first problem is closely related to the inability of European countries to finance through convertibility and credits their trade with Latin American countries on a multilateral basis. This has forced trade into the constraints of bilateral channels. But the problem goes beyond the confines of bilateral trading. On the European side, there have been changes in the structure and costs of production and in the geographic distribution of trade which influenced both exports and imports with Latin America. Europe, during the past four years, has become more dependent on North America for imports of food and raw materials and less on Latin America than heretofore; on the other hand, Europe has had some difficulty in competing with North American exports to Latin America — questions of specifications, technical service and delivery dates often being as important as prices. On the Latin American side, the terms of trade of most of these countries 1/ have improved *vis-a-vis* Europe as compared with the pre-war period, and they are attempting through trade policies and bilateral agreements to preserve this position. Furthermore, except for Cuban sugar and Venezuelan petroleum and some minor products, Latin American production for export has not expanded in response to higher

1/ Notable exceptions are Chile and Bolivia.

/prices and

prices and better markets during 1945-48. Latin America's exports of food in 1948/49 were only 2 per cent higher in volume than its annual average exports for 1934-38. If the large increase of sugar exports from Cuba is deducted, the post-war exports would be less than those of the pre-war period. Exports of fibres — wool, cotton, henequen, sisal, etc. — were the same in 1948/49 as in the pre-war period. 1/

Latin America had a trade surplus with Europe of 1,200 million dollars in 1947, 1,000 million in 1948 and almost 600 million dollars in 1949. This narrowing of the gap was achieved by increasing imports more than exports in 1948, but in 1949 both contracted though Latin American imports from Europe decreased much less than exports to Europe, which were reduced from 2,400 million to 1,900 million dollars. 2/ Latin American exports to Europe, at constant prices, were 28 per cent below those of 1938 and 35 per cent below 1928; imports from Europe were 22 per cent and 34 per cent below the corresponding years. 2/ Thus the targets of trade with Latin America announced by the O.E.E.C. countries late in 1948 are far from being realized. 3/ The implications of the European Recovery Programme and the planned programmes of the O.E.E.C. countries up to and after 1952-53 are discussed in the Economic Survey of Latin America 1948 4/ and a special report on Prospects for Trade Expansion 4/ presented to the Second Session at Havana, and do not need to be repeated here since the analysis and conclusions are still valid.

Emphasis has been made on the need for Latin America to expand trade with Europe, not with any intention to overlook trade with other areas, but rather because the best prospects would seem to lie in the direction of European-Latin American trade. If Europe's "dollar shortage" problem is not solved within the next few years it will almost certainly have to transfer some of its imports from North America to non-dollar areas after the termination of the European Recovery Programme. The Second Report of the O.E.E.C. makes it quite clear that Western Europe will have to find sources

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1/ The State of Food and Agriculture 1949, Food and Agriculture Organization.
2/ Excludes trade of European Overseas Territories in Latin America.
3/ See O.E.E.C. Interim Report of 1948; also Second Report of the O.E.E.C., February 1950.
4/ Economic Commission for Latin America, Economic Survey of Latin America 1948 (United Nations Publications Sales No.1949.II.G.1) and Prospects for Trade Expansion (Document E/CN.12/95).

of food and raw materials outside the dollar area. Since European countries are not willing to lose dollars to Latin America, except for European Recovery Programme purchases, it would seem inevitable that Latin American countries will have to import more from Europe in order to balance their trade with those countries.

Maintenance of a high level of trade with United States and other dollar countries is of great importance to Latin America, not only because it bulks so large in the total trade of most of these countries but also because the dollar is the only currency which gives them flexibility in their purchases. Latin America's "dollar shortage" reflects its great need for investment capital, much of which must come from North America.

Trade trends within the region are shown in tables in the corresponding section of this report. The principal factors which continue to restrict intra-regional trade are the unwillingness of certain countries to settle large balances in dollars and the tendency to follow policies of self-sufficiency with respect to food crops and agricultural raw materials for which a particular country does not have a natural advantage as compared to other countries in the region.

Changes in Exports and Imports

The total value of exports of the Latin American countries fell to 5,500 million dollars in 1949 from 6,500 million dollars in 1948; the value of imports declined from 6,100 million dollars to 4,800 million dollars. Nevertheless, the value of exports and imports was three times as large as in 1938 and almost twice as large as in 1928.

Argentina accounted for more than 70 per cent of the gross decrease in value of exports in 1949; Cuba for 12 per cent; Brazil 7 per cent; and Venezuela 4 per cent. Uruguay accounted for 30 per cent of the gross increase of exports; El Salvador 25 per cent; and Colombia 15 per cent. 1/ Tables 2 and 3 show values at current prices of exports and imports for each country for 1928, 1938, 1948 and 1949; table 4 gives exports and imports at constant prices for 1928, 1938 and 1948.

1/ The gross decrease in exports is equal to the total of those countries which experienced a decrease in their exports, and the gross increase in exports is the total of the countries which experienced an increase in their exports.

/Table 1.

Table 1. Trade of the Latin American Countries, Selected Years

(In millions of dollars at current and constant (1938) prices)

	1928	1938	1948	1949
(At current prices)				
Exports (f.o.b.)				
Value	2,972	1,651	6,534	5,526
Index	180	100	396	335
Imports (c.i.f.)				
Value	2,453	1,597	6,136	4,829
Index	154	100	384	302
Trade Deficit or Surplus	+ 519	+ 54	+ 398	+ 697
(At 1938 prices)				
Exports (f.o.b.)				
Value	1,755	1,651	2,159	n.a.
Index	106	100	131	
Imports (c.i.f.)				
Value	1,880	1,597	2,632	n.a.
Index	118	100	165	

Argentine exports fell off during 1949 because of both lower prices and smaller volume. The decrease in volume of exports reflects reduced acreage and production of grains and marketing difficulties for linseed oil. 1/ Exports of wheat in 1949 were 1,830,000 tons as compared with 2,150,000 tons in 1948; corn exports were 1,080,000 tons, as against 2,500,000 tons in 1948. Wool exports were only a little over 50 per cent of 1948 because market conditions were not favourable at sellers' prices until the latter part of the year. Exports of meat, hides, and linseed oil were somewhat higher than in 1948. During the first part of 1949 the price of wheat, expressed in domestic currency, was reduced by approximately 40 per cent; the price of corn by 37 per cent; and that of barley by 45 per cent as compared with the highest prices obtained abroad during 1948. Toward the end of 1949 prices of these products were again reduced to foreign purchasers: 24 per cent for wheat, 18 per cent for corn, and 12 per cent for barley.

1/ For a more detailed discussion of the factors contributing to the decrease of exports of Argentine agricultural products see pages 61-67 of this report.

/Grain stocks

Grain stocks which had been held over from previous years were reduced to a minimum. The increase in wool prices during the second half of the year helped to some extent to offset the decline in grain prices.

Cuban exports were reduced 17 per cent due to a loss of markets in Europe, where production of sugar had largely recovered its pre-war level. There was also a 10 per cent reduction in tobacco, which manifested itself in smaller exports of this product. Export prices for both sugar and tobacco were slightly higher than in 1948.

Brazilian exports of textiles, raw cotton, cacao, sugar, rice, oilseeds, and other agricultural products fell off sharply both in volume and value during 1949. The losses in value from these exports were largely offset by an increase of prices and exports of coffee. Toward the end of the year Brazil was experiencing some difficulty in exporting certain minor export products to the non-convertible currency countries because of an inability to meet price competition resulting from the devaluation of the sterling and other currencies.

Exports of minerals — particularly tin, copper and lead — declined both in volume and value. The sharp decreases in prices of copper and tin had a strong impact on the balance of payments of Bolivia and Chile, although the full force of the decline in tin prices from 99 cents to 73 cents per pound was not felt by Bolivia until the latter part of the year. Chile was able to make up part of the loss of copper sales to the dollar area by increased exports of nitrates to the non-dollar area. However, the most important effect on her balance of payments position was the failure of exports to reach the amount anticipated in the foreign exchange budget which necessitated stringent restrictions during the latter half of 1949 in order to reduce imports, which otherwise would have exceeded the amount originally budgeted. 1/ The decline of the price of metals also accounts for a slight reduction of Mexico's exports.

The coffee producing countries other than Brazil increased the total value of their exports almost entirely as a result of the rise in coffee prices beginning October 1949.

1/ See pages 117-122 of this report for further discussion of Chile's trade position in 1949.

/Chile,

Chile, Costa Rica, Guatemala and Paraguay were the only countries which increased their imports over 1948. The gross reduction in imports was accounted for largely by Argentina (57 per cent), Cuba (9 per cent), Mexico (8 per cent), Venezuela (7 per cent) and Colombia (5 per cent). Most of the Latin American countries tightened their import controls during the year in order to adjust imports to exports. Argentina virtually suspended import permits for a time, beginning May 1949, and set aside 20 per cent of its dollar earnings for payment of backlog of overdue commercial debts which had accumulated during 1948. Brazil, as well as Chile and Argentina, had to apply more stringent controls to reduce imports of durable consumer goods and other items from the dollar area during the second semester of the year in order to adjust the imports to a slightly lower level of exports. Peru devaluated its currency and abolished quantitative controls, except to retain a list of prohibited imports. Mexico, Argentina, Chile, Paraguay and Uruguay devaluated currencies in varying degrees. Mexico and Peru, however, were the only countries to devaluate their currencies at a unified rate.

Despite the decline in trade in 1949, all Latin American countries exported more at current dollar values than in 1938, and except for Argentina more than in 1928; every country imported more at current values than in 1938 and 1928. Preliminary calculations of 1949 exports and imports at constant prices (1938) indicate that all countries except Argentina, Colombia and Peru exported more at constant prices than in 1938, and except Argentina, Peru and Uruguay more than in 1928; all countries except Argentina and Bolivia imported more than in 1938 at constant prices, and more than in 1928 except Argentina, Bolivia, Uruguay, Dominican Republic and Nicaragua. Several countries — Chile, Peru, Colombia, and El Salvador — imported about the same at constant value as in 1928.

Geographic Distribution of Trade

Before the war Latin American exports to Europe averaged from 50 to 55 per cent of Latin America's total exports; imports from Europe were from 40 to 45 per cent of the total. Although the volume of exports in 1948 was slightly above the pre-war average, it made up only 37 per

/cent of

cent of the total value of Latin American exports. The percentage of total Latin American exports in value at current prices to Europe dropped to 25 per cent in 1949, while imports from Europe were 34 per cent of Latin America's total. The value of exports to Europe in 1949 was about 1,900 million dollars as compared with 2,400 million in 1948; imports declined from 1,400 million dollars in 1948 to 1,200 million in 1949. Latin America also experienced a decrease in its trade with the United States and Canada. Although complete data are not available, it is estimated that Latin America's exports to North America totalled some 2,400 million dollars in 1949, 1/ as compared with 2,600 million dollars in 1948; and imports were 2,800 million dollars in 1949 as against 3,600 million in 1948. 2/ Thus the trade deficit with the United States was reduced by 60 per cent.

Distribution of trade varies greatly among the Latin American countries. Certain countries, such as Cuba, Chile and Peru, usually have a trade surplus both with Europe and North America. Other countries, such as Brazil, Colombia, Venezuela, Paraguay, El Salvador, Guatemala, Honduras and Panama have as a rule trade surpluses with the United States and deficits with Europe. Finally, the third group made up of Argentina, Uruguay, Bolivia, Costa Rica, Haiti, Mexico, Nicaragua and the Dominican Republic generally have surpluses with Europe and deficits with the United States and Canada.

The trade surpluses of Peru and Chile with Europe were approximately the same for all of the years under review — 1928, 1938, 1948 and 1949. Cuba is not a large importer of European products largely because of its proximity to the United States and the preferential tariff arrangements it has with that country.

Venezuela had a large surplus with Europe in 1949 as compared with deficits in previous years and would seem to offer a fairly good market for European goods. 3/ The relatively large pre-war deficits of Brazil

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1/ The value of exports of the countries for which complete data are available amounted to 2,191 million dollars.
2/ The value of imports of the countries for which complete data are available amounted to 2,710 million dollars.
3/ Exports from Venezuela to European Overseas Territories (Aruba and Curaçao) are included under "Others".

/with Europe

with Europe became surpluses after the war. However, during the second half of 1949 Brazil had a surplus with North America and a small deficit with Europe. The need to restrict imports from the dollar area and to find markets for commodities other than coffee outside the dollar area, may cause both Colombia and Brazil to increase their imports from Europe. Although Brazil's trade in 1939 showed a definite trend toward a return to its traditional pattern of a surplus with United States and a deficit with Europe, the amounts were very small as compared to pre-war years; the deficit with Europe was accompanied by an 11 per cent decline of exports to Europe over 1948. Exports to the United Kingdom declined by 16 per cent but imports from that country increased by 26 per cent; Brazil's exports to other European countries decreased by 8 per cent and imports were higher by 8 per cent than in 1948. One of the most significant changes in Brazil's trade — as well as in that of other Latin American countries such as Chile, Argentina and Uruguay — has been the loss of the German market. In 1949 Brazil's exports to Germany were less than 2 per cent and its imports less than one per cent; yet in 1938 Brazilian imports from Germany made up 25 per cent of its total imports, while its exports to that country were 19 per cent of the total. On the other hand, United States and Canada took 52 per cent of Brazil's total exports in 1949 as compared with 35 per cent in 1938. 1/ It should be noted that Brazil's trade with Argentina also declined in 1949 — this was due in part to lower prices for imports of wheat.

The trade pattern of the third group of countries has not changed except that surpluses with Europe are larger than they were in the pre-war period. Mexico, the Dominican Republic and Central America are dollar countries as far as Europe is concerned and therefore face difficulties unless they are able to increase their imports from Europe. The same is true for Chilean copper and Peruvian sugar and copper exports, which are also dollar commodities. Argentina has the most serious problem with respect to inconvertible currencies since approximately 80 per cent of

1/ See Table 31, page 99, on details of distribution of Brazil's trade; Table 30, page 98, on composition of exports; and Table 25, page 87, on trade with Germany.

/its trade

its trade comes under compensatory agreements, which makes it very difficult for it to finance essential dollar imports 1/ and service dollar investment income. Argentine exports during 1946-48 to certain countries were financed in part by credits granted by Argentina; since these credits have run out Argentina may have to more evenly balance its imports and exports with these countries. A much larger share of Bolivia's exports now go to the United States. Bolivia's current balance of payments problem arises not out of dealings with soft currency countries, but rather, as indicated above, by the decline in prices of metals as well as in volume of exports. Uruguay has also benefited in terms of dollars by increased wool exports to the United States.

Because of British disinvestments in Argentina and the inconvertability of sterling, trade between Argentina and the United Kingdom is more likely to be in approximate balance. The bilateral agreement signed between these two countries in June 1949 set up targets which called for 129 million pounds sterling of Argentine exports to the United Kingdom and 121.5 million pounds sterling of imports from the United Kingdom. As may be seen from its trade balances in 1949, there is a definite tendency for Argentine imports to equal exports to the Continental European countries, as was the case in 1928 and 1938.

Intra-regional Trade

In 1949 the dollar value of exports within the area fell to an estimate of 450 million dollars as compared to 600 million in 1948. However, intra-regional exports expressed in current dollar values were still almost four times as much as in 1933 and 1928.

The expansion of trade within the area has been largely a matter of price movements. Upon the basis of available data, it is estimated that at constant (1938) prices exports in 1949 were approximately 25 per cent below 1948 but approximately 30 per cent above 1938. Nevertheless,

1/ For example, Argentina allocated the equivalent of 27 million dollars of foreign exchange for imports of farm machinery in 1950, of which 20 million of its very scarce dollars had to be set aside for imports from the United States and Canada since these are the only countries which can satisfy certain requirements for farm machinery.

/intra-regional

intra-regional trade at constant prices appears to have increased faster than trade with countries outside the region. While the total value of exports at 1938 prices rose in 1948 to 30 per cent above 1938, the value of intra-regional exports increased by an estimated 60 per cent. Intra-regional exports in 1949 at current prices fell considerably more than total exports, but at constant prices the difference in the relative decline of intra-regional and total exports was much less. This is probably due to the fact that the bulk of intra-regional trade is in food and raw materials, the prices of which declined more than did prices of imports — mostly manufactures — from outside the region.

The importance of the area as a market for exports is quite different for the Latin American countries taken individually. As measured by the proportion of exports sold in the area, it appears to be of great importance for Ecuador, Paraguay and Peru, and of less importance relative to total exports for Argentina, Brazil, Chile, El Salvador and Uruguay. The great bulk of intra-regional trade is carried on among the southern South American countries: Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay accounted for 88 per cent of exports within the area in 1928, 88 per cent in 1938, 80 per cent in 1948, and 86 per cent in 1949.

Certain Latin American countries are consistently net debtors vis-a-vis the whole area. Among these are Brazil, Chile, Uruguay, Guatemala and Cuba. Others, such as Argentina, Peru, Ecuador, El Salvador, Paraguay and Mexico are consistently net creditors.

A brief survey of the possibilities for an intra-regional payment scheme based on information available for 1948 and 1949 shows that bilaterally balanced, multilaterally compensable, and net surplus accounted for about 53, 23 and 24 per cent, respectively, of total turnover. This supports the conclusions of the International Monetary Fund's report on "Multilateral Compensation of International Payments in Latin America", which was presented to the Second Session of the Economic Commission for Latin America at Havana in June 1949. The Fund report stated that "multilateral clearing by itself is likely to contribute to an expansion of trade only as part of a regional payments scheme in which members are prepared to extend special credits to each other, or can call on an

/outside source

outside source of foreign exchange if it is needed to help countries that are not creditors within the group to convert their surpluses for use elsewhere".

In other words, a multilateral compensation scheme would facilitate trade only if the underlying trade pattern would support it. As may be seen from the data presented in the accompanying tables, the trade of the individual Latin American countries is too uneven as among themselves, on the one hand, and with the countries outside the region, on the other, to balance their intra-regional trade multilaterally unless they could use their surpluses and deficits with the non-convertible currency areas to cancel those with each other. The prospects of expanding trade with Europe and within the region are rather narrowly limited if each Latin American country must balance its trade with each European country. Whether there might be a sound basis for developing multilateral trade among the Latin American and European countries taken collectively without the necessity of settling large balances between individual countries in dollars, could only be determined by further study and on the basis of Europe's experience with multilateral payments agreements.

Aside from the problem of inconvertibility, there are other factors which now impede trade among the Latin American countries; certain elements of this problem are discussed in the second part of this report.

/PART II

Table 2. Latin America.- Value and destination of exports, selected years

Millions of dollars at current prices.

Country	United States & Canada				Europe				Latin America			
	1928	1938	1948	1949	1928	1938	1948	1949	1928	1938	1948	1949
1 Argentina	88	39	159b/	86c/	836	337	1277a/	668c/	65	50	179c/	120c/
2 Bolivia	2	1	71b/	n.a.	37	32	40e/	n.a.	2	1	2	n.a.
3 Brazil	216	103	528	569	202	155	403	364	44	18	163	115
4 Chile	80	33	173	149	137	93	99	99	9	6	37	37
5 Colombia	103	51	249	253	19	20	14	21	6	1	5	2
6 Costa Rica	5	4	25	n.a.	13	5	4	n.a.	1	-	2	n.a.
7 Cuba	207	108	390b/	324h/	64	30	258	174i/	5	2	12	14i/
8 Dominican Rep.	11	5	48	17j/	18	8	28	48j/	-	-	-	1j/
9 Ecuador	6	3	15	15	8	4	4	4	4	3	10	5
10 El Salvador	3	6	36	n.a.	19	3	3	n.a.	2	1	6	n.a.
11 Guatemala	16	12	46	48k/	12	4	3	3k/	-	-	-	-
12 Haiti	2	3	19	n.a.	20	4	12	n.a.	-	-	-	n.a.
13 Honduras	35	10	27	n.a.	5	1	-	n.a.	-	-	8	n.a.
14 Mexico	169	50	348	327j/	58	54	48	52j/	7	2	29	17j/
15 Nicaragua	6	2	14b/	16j/	6	2	1	3j/	-	-	2	3j/
16 Panama	3	4	10	10	1	-	-	1	-	-	-	-
17 Paraguay	-	1	-	1	2	4	2	2	13	2	26l/	30l/
18 Peru	41	25	40	47j/	48	34	45	51j/	35	15	61	49j/
19 Uruguay	11	3	50b/	50	66	48	98	110n/	24	9	22n/	26n/
20 Venezuela	32	38	321	279	13	20	99	246	1	2	43	23
All countries	1036	501	2569	2191	1584	853	2438	1847	218	112	607	448

Continued:

Country	Other areas				All world							
	1928	1938	1948	1949	1928	1938	1948	1949 a/	Changes from 1948 to 1949 +	Changes from 1948 to 1949 -	% changes 1948 to 1949 +	% changes 1948 to 1949 -
1 Argentina	29	12	12	-	1018	438	1627	880		747	-	46
2 Bolivia	-	1	-	n.a.	41	35	113	99		14	-	12
3 Brazil	12	20	86	46	474	296	1150	1096		84	-	7
4 Chile	10	7	19	22	236	139	328	307		21	-	6
5 Colombia	-	9	22	24	128	81	290	300	10	-	3	-
6 Costa Rica	-	-	1	n.a.	19	9	32	38	6	-	19	-
7 Cuba	2	2	64	89i/	278	142	724	601	-	123	-	17
8 Dominican Rep.	-	2	6	8j/	29	15	82	74	-	8	-	10
9 Ecuador	-	-	8	3	18	10	37	27	-	10	-	27
10 El Salvador	-	-	-	n.a.	24	10	45	63	18	-	40	-
11 Guatemala	-	-	1	-	28	16	50	51	1	-	2	-
12 Haiti	-	-	-	n.a.	22	7	31	35	4	-	13	-
13 Honduras	-	-	-	n.a.	40	11	35	25	-	10	-	29
14 Mexico	9	4	35	35j/	243	110	460	431	-	29	-	6
15 Nicaragua	-	-	2	3j/	12	4	19	25	6	-	32	-
16 Panama	-	-	-	-	4	4	10	11	1	-	10	-
17 Paraguay	-	2	-	-	15	9	28	33	5	-	18	-
18 Peru	1	2	11	8j/	125	76	157	155	-	2	-	1
19 Uruguay	1	1	9	15n/	202	61	179	201	22	-	12	-
20 Venezuela	70	118	651	526	116	178	1114	1074	-	40	-	4
All countries	134	180	927	781	2972	1651	6541	6526	73	1088		16

a/ Figures are partly estimated. For Brazil, Chile and Ecuador figures are totals for the whole year. For other countries are annual rates based on exports for 9 to 11 months. b/ Includes only USA. c/ Estimates based on statistics of trading partner d/ Europe and other countries of the sterling area e/ Includes only U.K. and Belgium. f/ Includes only Argentina, Brazil, Chile and Peru. g/ Includes Argentina, Chile, Colombia, Mexico, Paraguay, Uruguay and Venezuela h/ Estimate based on USA statistics The 1948 ratio between the figures reported by Cuba and that reported by USA in 1948, was applied to the 1949 USA figure. i/ Percent trade distribution for 8 months applied to total exports. j/ Percent trade distribution of first semester applied to total exports. k/ Percent trade distribution of 10 months applied to total exports. l/ Includes exports in transit. m/ Includes all Western Hemisphere, except USA. n/ Percent trade distribution of 11 months applied to total exports.

Sources: Data for total exports for 1928, 1938 and 1948 from: International Monetary Fund, International Financial Statistics, Dec 1949 issue, except for Argentina which is the official figure. Data for 1949 from trade reports prepared by the Economic Commission for Latin America, and from International Financial Statistics.

Data for trade distribution for 1928 and 1938 from the League of Nations: Network of World Trade, 1942. For 1948 and 1949 from official trade figures of the Latin American countries and their trade partners.

Table 3 - Latin America.- Value and origin of imports, selected years.
Millions of dollars at current prices.

Country	United States & Canada				Europe				Latin America			
	1928	1938	1948	1949	1928	1938	1948	1949	1928	1938	1948	1949
1 Argentina	193	90	607b/	207b/	488	287	849c/	525	79	51	332	113
2 Bolivia	6	7	34	n.a.	11	9	5	n.a.	6	8	24	n.a.
3 Brazil	120	76	599	480	250	160	298	358	64	40	126	159
4 Chile	50	32	117	167	82	61	66	57	21	17	81	66
5 Colombia	73	47	241	213	78	40	57	35	10	1	32	16
6 Costa Rica	9	6	33	n.a.	8	5	3	n.a.	1	1	3	n.a.
7 Cuba	148	85	463	389d/	52	23	37	31d/	9	2	29	20d/
8 Dominican Rep	20	6	59	32e/	7	4	4	4e/	-	-	2	1c/
9 Ecuador	6	4	39	32	8	5	9	9	1	-	5	2
10 El Salvador	9	4	31	n.a.	7	4	6	n.a.	1	1	4	n.a.
11 Guatemala	18	10	53	54f/	11	11	6	7f/	2	-	6	6f/
12 Haiti	16	5	27	n.a.	4	2	2	n.a.	-	-	1	n.a.
13 Honduras	11	8	38	n.a.	2	2	-	n.a.	-	1	4	n.a.
14 Mexico	127	72	489	401e/	55	47	50	35e/	-	0	5	2e/
15 Nicaragua	9	4	22	15e/	4	2	-	1e/	2	-	3	3e/
16 Panama	11	16	58	50	4	-	4	5	1	-	7	4
17 Paraguay	2	1	7	11	6	3	5	9	5	4	4	10
18 Peru	29	22	94	94e/	31	27	25	26e/	3	6	40	9e/
19 Uruguay	30	8	68	44	40	35	46	96	17	12	62	38
20 Venezuela	43	60	583	519	36	42	135	108	1	1	46	20
All countries	930	563	3662	2708	1192	769	1407	1306	223	145	816	469

Continued:

Country	Other areas				All world							
	1928	1938	1948	1949	1928	1938	1948	1949	Changes 1948-1949 +	Changes 1948-1949 -	% changes 1948-1949 +	% changes 1948-1949 -
1 Argentina	47	54	11	-	807	482	1599	845	-	754		47
2 Bolivia	-	2	6	n.a.	23	26	69	38	-	31		44
3 Brazil	7	20	98	106	441	296	1121	1103	-	19		2
4 Chile	10	8	5	13	163	118	269	303	34	-	13	-
5 Colombia	-	1	6	1	161	89	338	265	-	71		21
6 Costa Rica	-	1	3	n.a.	18	13	42	46	4	-	9	-
7 Cuba	25	9	40	16d/	234	119	569	456	-	113	-	20
8 Dominican Rep	3	2	7	3e/	30	12	72	40	-	32	-	44
9 Ecuador	1	1	-	-	16	10	53	43	-	10	-	19
10 El Salvador	1	-	-	n.a.	18	9	41	30	-	11	-	27
11 Guatemala	-	-	3	3f/	31	21	68	70	2	-	3	-
12 Haiti	-	1	2	n.a.	20	8	32	n.a.	n.a.	n.a.	n.a.	n.a
13 Honduras	-	1	-	n.a.	13	12	42	37	-	5	-	19
14 Mexico	3	4	6	8e/	185	123	550	446	-	104	-	19
15 Nicaragua	-	-	2	1e/	15	6	27	20	-	7	-	26
16 Panama	1	-	1	5	17	16	70	64	-	6	-	9
17 Paraguay	-	2	11	1	13	10	27	31	4	-	15	-
18 Peru	7	4	9	3e/	70	59	168	132	-	36	-	21
19 Uruguay	2	7	24	2	97	62	200	180		20	-	10
20 Venezuela	1	3	4	33	81	106	768	680		88	-	11
All countries	108	120	232	195	2453	1597	6123	4829	44	1307	1	21

a/ Figures are annual rates based on six to eleven months trade figures. For Argentina imports were estimated from statistics of the principal trading partners plus an adjustment of 17% for freight and insurance. b/ Includes only USA. c/ Includes Europe and other countries of the sterling area. d/ Percent distribution for 8 months applied to total imports. e/ Percent distribution for first semester applied to total imports. f/ Percent distribution for 10 months applied to total imports.

Sources: See Table

Table 4 .- Latin American Exports and Imports at 1938 Prices
Selected Years

Country	Exports a/					Imports b/				
	Millions of dollars			Index of volume 1938 = 100		Millions of dollars			Index of volume 1938 = 100	
	1928	1938	1948	1928	1948	1928	1938	1948	1928	1948
Argentina	692	438	464	158	106	587	482	665	122	138
Bolivia	n.a.	35	48	n.a.	137	18	26	27	68	103
Brazil	175	296	320	59	108	301	296	470	122	159
Colombia	60	81	88	74	108	121	89	156	136	175
Costa Rica	8	9	11	90	126	15	13	19	112	150
Cuba	210	142	254	148	179	181	119	289	152	226
Chile	147	139	158	106	114	132	118	112	113	95
Dominican Rep.	13	15	15	84	103	24	12	33	122	280
Ecuador	8	10	12	78	122	13	10	24	133	242
El Salvador	10	10	12	101	120	15	9	10	164	210
Guatemala	13	16	17	82	109	26	21	31	122	[illegible]
Haiti	8	7	9	115	121	n.a.	8	n.a.	n.a.	n.a.
Honduras	25	11	12	231	105	10	12	20	84	165
Mexico	128	110	178	116	162	149	123	255	121	[illegible]
Nicaragua	n.a.	4	n.a.	n.a.	n.a.	12	6	12	[illegible]	[illegible]
Panama	n.a.	4	n.a.	n.a.	n.a.	n.a.	16	n.a.	n.a.	n.a.
Paraguay	8	9	8	87	92	10	10	10	90	95
Peru	66	76	49	87	64	60	59	73	101	128
Uruguay	76	61	61	124	100	80	62	78	122	126
Venezuela	108	178	443	61	249	65	106	356	61	336
All countries	1,755	1,651	2,159	106	153	1,880	1,597	2,632	118	165

a/ United Nations Economic Commission for Latin America.

b/ Calculated by deflating the dollar value of imports by a price index based on export prices of United States, Great Britain and Argentina, weighed according to the importance of United States, the European countries and Latin America as suppliers in 1938.

Note: Data in this table show divergencies with that presented in the Economic Survey of Latin America 1949 because slightly different basic data and procedures were used.

Table 5.- Latin America. Trade Surpluses, selected years 1/

Millions of dollars at current prices

Country	Un. States & Canada				Europe				Latin America				Other areas				All world			
	1928	1938	1948	1949	1928	1938	1948	1949	1928	1938	1948	1949	1928	1938	1948	1949	1928	1938	1948	1949
1 Argentina	-105	-51	-448	-121	+348	+50	+628	+143	-14	-1	-153	+13	-18	-42	+1	-	+211	-44	+28	+35
2 Bolivia	-4	-6	+37	n.a.	+26	+23	+35	n.a.	-4	-7	-22	n.a.	-	-1	-6	n.a	+18	+9	+44	+61
3 Brazil	+96	+27	-71	+89	-48	-5	+105	+6	-20	-22	+37	-44	+5	0	-12	-58	+33	0	+59	-7
4 Chile	+30	+1	+56	-18	+55	+32	+33	+42	-12	-11	-44	-29	0	-1	+14	+9	+73	+21	+59	+4
5 Colombia	+30	+4	+8	+40	-59	-20	-43	-14	-4	0	-27	-14	-	+8	+16	+23	-33	-8	-46	+35
6 Costa Rica	-4	-2	-8	n.a.	+5	0	+1	n.a.	0	-1	-1	n.a	-	-1	-2	n.a	+1	-4	-10	-8
7 Cuba	+59	+23	-73	-65	+12	+7	+221	+143	-4	0	-17	-6	-23	-7	+24	+73	+44	+23	+155	+145
8 Dominican Rep	-9	-1	-11	-15	+11	+4	+24	+44	-	-	-2	0	-3	-0	-1	+5	-1	+3	+10	+34
9 Ecuador	0	-1	-24	-17	0	-1	-5	-5	+3	+3	+5	+3	-1	-1	+8	+3	+2	0	-16	-16
10 El Salvador	-6	+2	+5	n.a.	+12	-1	-3	n.a.	+1	0	+2	n.a	-1	-	-	n.a	+6	+1	+4	+33
11 Guatemala	-2	+2	-7	-6	+1	-7	-3	-4	-2	-	-6	-6	-	-	-2	-3	-3	-5	-18	-19
12 Haiti	-14	-2	-8	n.a.	+16	+2	+10	n.a.	-	-	-1	n.a	-	-1	-2	n.a	+2	-1	-1	n.a
13 Honduras	+24	+2	-11	n.a.	+3	-1	-	n.a.	-	-1	+4	n.a	-	-1	-	n.a	+27	-1	-7	-12
14 Mexico	+42	-22	-141	-74	+3	+7	-2	+17	+7	+2	+24	+15	+6	-0	+29	+27	+58	-13	-90	-15
15 Nicaragua	-3	-2	-8	+1	+2	0	+1	+2	-2	-	-1	0	-	-	0	+2	-3	-2	-8	+5
16 Panama	-8	-12	-49	-40	-3	-	-4	-4	-1	-	-7	-4	-1	-	-1	-5	-13	-12	-60	-53
17 Paraguay	-2	0	-7	-10	-4	+1	-3	-7	+8	-2	+22	+20	-	0	-11	-1	+2	-1	+1	+2
18 Peru	+12	+3	-54	-47	+17	+7	+20	+25	+32	+9	+21	+40	-6	-2	+2	+5	+55	+17	-11	+23
19 Uruguay	-19	-5	-18	+6	+18	+13	+52	+14	+7	-3	-40	-12	-1	-6	-15	+13	+5	-1	-21	+21
20 Venezuela	-11	-22	-262	-240	-23	-22	-36	+138	0	+1	-3	+3	+69	+115	+647	+493	+35	+72	+346	+394
All countries	+106	-62	-1093	-517	+392	+89	+1031	+540	-5	-33	-209	-21	+25	+60	+689	+586	+519	+54	+418	+588 2/

1/ For notes and sources see tables II and III.

2/ This figures differs from the balance obtained from the total of exports and imports because of the exclusion of Bolivia, Costa Rica, El Salvador, Haiti and Honduras.

Table 6 Intra Latin American Trade in 1928 a/

Millions of dollars

	Argentina	Bolivia	Brazil	Colombia	Costa Rica	Cuba	Chile	Dom. Rep.	Ecuador	El Salvador	Guatemala	Haití	Honduras	Mexico	Nicaragua	Panamá	Paraguay	Perú	Uruguay	Venezuela	No distribution	Total Exports
Argentina	-	2.0	39.0	-	-	1.0	8.0	-	-	-	-	-	-	-	-	-	6.0	2.0	7.0	-	-	65.0
Bolivia	1.0	-	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.0
Brazil	28.0	-	-	-	-	-	3.0	-	-	-	-	-	-	-	-	-	-	-	13.0	-	-	44.0
Colombia	-	-	-	-	-	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	5.0	-	6.0
Costa Rica	-	-	-	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0
Cuba	3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0	-	1.0	5.0
Chile	4.0	1.0	-	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0	1.0	-	1.0	9.0
Dom.Rep. b/	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ecuador	-	-	-	2.0	-	-	1.0	-	-	-	-	-	-	-	-	-	-	1.0	-	-	-	4.0
El Salvador	-	-	-	-	-	1.0	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.0
Guatemala b/	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Haití b/	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Honduras b/	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mexico	2.0	-	2.0	-	-	3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7.0
Nicaragua b/	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Panama b/	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Paraguay	13.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0	-	-	14.0
Perú	14.0	1.0	5.0	1.0	-	2.0	11.0	-	-	-	-	-	-	-	-	-	-	-	-	-	3.0	35.0
Uruguay	16.0	-	5.0	-	-	-	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24.0
Venezuela	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Imports	81.0	4.0	52.0	5.0	-	8.0	25.0	-	-	-	-	-	-	-	-	-	6.0	4.0	23.0	5.0	5.0	219.0

Source: League of Nations Network of World Trade, Geneva, 1942.

a/ Based on export figures
b/ Not available.

Table 7. - Intra-Latin American Trade in 1938 a/
(in millions of dollars)

Exporting countries \ Importing countries	Argentina	Bolivia	Brazil	Colombia	Costa Rica	Cuba	Chile	Dom. Repub	Ecuador	El Salvador	Guatemala	Haiti	Honduras	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela	Total Exports
Argentina		3.1	32.0	0.2	0.0	0.1	4.5	0.[illegible]	0.0	0.0	0.0	0.0	0.0	0.4	-	0.1	3.7	3.7	2.6	0.1	50.5
Bolivia	0.6		0.5	0.0	-	-	0.1	-	0.0	-	-	-	-	-	-	0.0	-	0.1	0.0	-	1.3
Brazil	13.1	0.1		0.2	-	-	0.5	-	-	-	-	-	-	-	-	-	0.1	-	4.1	0.1	18.2
Colombia	0.1	-	0.0		0.0	0.1	0.0	-	0.0	-	-	-	0.0	0.0	-	0.2	-	0.0	-	0.3	0.7
Costa Rica	0.0	-	-	0.1		-	0.0	-	-	-	0.0	-	0.0	-	0.0	0.0	-	0.1	-	0.0	0.2
Cuba	0.7	0.0	0.0	0.1	0.0		0.7	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.2	0.0	2.3
Chile	2.1	0.8	0.7	0.1	0.0	1.1		-	0.3	-	-	-	-	-	-	0.1	-	1.0	0.2	0.0	6.4
Domin.Rep.	-	-	-	-	-	0.0	-		-	-	-	0.0	-	0.0	-	-	-	-	-	0.0	0.0
Ecuador	0.0	0.0	0.4	0.2	0.0	0.1	0.5	-		-	0.0	-	-	0.0	0.0	0.1	0.0	0.9	0.7	0.0	2.9
El Salvador	-	-	-	-	0.0	0.0	0.0	-	-		0.1	-	0.4	0.1	0.0	0.0	-	0.0	-	-	0.6
Guatemala	0.0	-	0.0	-	0.0	0.0	0.0	-	0.0	0.0		-	0.0	-	0.0	0.0	-	-	-	0.0	0.0
Haiti	0.0	-	-	-	-	-	-	-	-	-	-		-	-	-	-	-	-	-	-	0.0
Honduras	-	-	-	-	-	0.0	-	-	-	0.2	0.0	-		0.0	0.0	0.0	-	0.0	-	-	0.2
Mexico	0.1	0.0	0.3	0.1	0.0	0.6	0.1	-	0.0	0.0	0.1	-	0.0		0.0	0.0	-	0.0	0.1	0.1	1.5
Nicaragua	-	-	-	0.0	0.1	0.0	-	-	-	0.0	0.1	-	0.0	0.0		0.0	-	0.1	-	-	0.3
Panama	-	-	-	0.1	0.1	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0		-	0.0	-	0.0	0.2
Paraguay	1.5	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-		-	0.1	-	1.6
Peru	6.0	1.0	1.5	0.1	0.0	0.0	4.6	-	0.1	0.3	0.0	-	0.0	-	0.1	0.1	-		1.6	0.0	15.4
Uruguay	5.9	-	2.2	-	0.0	0.0	0.0	-	-	-	-	-	-	0.2	-	0.0	0.2	0.0		0.1	8.6
Venezuela	-	-	0.1	0.5	0.0	0.2	0.9	-	0.0	-		-	-	-	-	0.0	-	0.0	-		1.7
Total Imp.	30.1	5.0	37.7	1.7	0.2	2.2	11.9	0.1	0.7	0.5	0.3	0.0	0.4	0.7	0.1	0.7	4.0	6.0	9.6	0.7	112.6

a/ Based on exports figures

Source: International Monetary Fund: Multilateral compensation of International Payments in Latin America, Doc. E/CN.12/87. Economic Commission for Latin America, 1949

Table 8 - Intra Latin America Trade in 1948 a/

Millions of dollars

Exporters \ Importers	Argentina	Bolivia	Brazil	Colombia	Costa Rica	Cuba	Chile	Dom. Rep.	Ecuador	El Salvador	Guatemala
Argentina	-	9.89	76.66	5.58	0.08	1.91	22.62	0.25	0.17	-	0.08
Bolivia	1.53	-	0.12	-	-	-	0.31	-	-	-	-
Brazil	111.08	-	-	4.22	-	-	12.79	-	-	-	-
Colombia	1.77	-	0.17	-	0.03	0.73	0.23	-	0.15	0.06	-
Costa Rica	-	-	-	1.40	-	0.20	0.26	-	-	0.01	0.01
Cuba	0.58	-	0.07	0.29	0.07	-	0.72	0.22	-	0.07	0.07
Chile	13.85	2.48	7.42	0.92	0.25	4.69	-	0.02	0.87	0.03	0.15
Dom.Rep. b/											
Ecuador	0.14	0.16	-	2.52	0.09	3.09	1.14	0.01	-	-	-
El Salvador	-	-	-	-	0.27	0.08	-	-	0.43	-	2.05
Guatemala b/											
Haiti b/											
Honduras	0.01	-	-	0.06	0.13	2.67	-	-	-	3.98	0.27
Mexico	2.48	-	1.98	0.92	-	11.91	0.32	-	0.23	0.55	3.68
Nicaragua	-	-	-	-	0.38	-	-	-	-	-	-
Panama b/											
Paraguay	23.64	-	-	-	-	-	-	-	-	-	-
Peru	6.39	5.93	0.44	9.02	0.14	-	27.97	-	1.33	0.30	0.30
Uruguay	3.58	-	10.74	-	-	-	-	-	-	-	-
Venezuela	24.17	-	9.02	0.78	-	-	0.11	-	0.22	-	-
Total Imports	189.22	18.46	106.62	25.91	1.44	25.28	68.25	0.50	3.40	5.00	6.61

Continued:

Exporters \ Importers	Haiti	Honduras	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela	Unallocated	Total exports
Argentina	0.70		1.61	-	0.36	8.09	26.16	14.04	11.20	-	179.41
Bolivia	-	-	-	-	-	0.08	-	-	-	-	2.04
Brazil	-	-	0.59	-	-	1.17	-	17.60	6.57	9.0	163.02
Colombia	-	0.06	0.03	0.03	0.29	-	0.23	-	0.90	-	4.68
Costa Rica	-	0.01	0.03	0.02	0.06	-	0.01	0.04	0.11	-	2.16
Cuba	0.07	0.07	0.22	-	0.36	-	0.58	0.80	7.89	-	12.08
Chile	-	0.16	0.27	-	0.56	0.25	3.06	1.09	0.61	-	36.08
Dom.Rep. b/											
Ecuador	0.02	-	-	-	0.59	-	1.42	0.01	1.26	-	10.4[illegible]
El Salvador	-	1.74	-	0.12	0.40	-	-	-	1.11	0.12	6.[illegible]
Guatemala b/											
Haiti b/											
Honduras	-	-	0.12	0.19	0.27	-	-	-	0.23	-	7.[illegible]
Mexico	-	0.69	-	0.69	1.01	-	0.18	0.37	3.77	-	28.78
Nicaragua	-	0.19	-	-	0.38	-	-	-	-	0.57	1.52
Panama b/											
Paraguay	-	-	-	-	-	-	-	2.24	-	-	25.88
Peru	-	-	0.14	0.30	-	-	-	6.69	0.30	-	61.[illegible]
Uruguay	-	-	-	-	-	-	-	-	-	7.26	21.[illegible]
Venezuela	-	-	-	-	-	-	0.11	8.58	-	-	42.99
Total Imports	0.79	2.92	3.01	1.35	4.28	9.59	31.75	51.46	33.95	16.95	606.7[illegible]

a/ Based on Export Figures
b/ Data for Guatemala, Haiti, Panama and the Dominican Republic are negligible.

Table 9.- Intra Latin America Trade in 1949 a/
Millions of dollars

Exporters \ Importers	Argentina	Bolivia	Brazil	Colombia	Costa Rica	Cuba	Chile	Domin Republ.	Ecuador	El Salvador	Guatemala
Argentina	-	-	101.00	-	-	-	13.33	-	-	-	-
Bolivia b/											
Brazil	84.06	0.22	-	0.88	-	0.11	8.88	-	0.11	-	-
Colombia	0.24	-	0.03	-	-	0.18	0.03	-	0.03	-	-
Costa Rica b/											
Cuba	0.60	-	0.06	0.12	0.18	-	7.15	0.12	-	-	0.06
Chile	11.08	2.59	12.14	0.44	0.20	4.15	-	0.01	0.70	0.13	0.22
Dom Rep.	0.01	-	-	-	-	0.11	-	-	-	0.09	0.04
Ecuador	0.47	0.10	0.04	0.89	0.07	0.22	0.92	0.01	-	-	0.01
El Salvador b/											
Guatemala c/											
Haiti b/											
Honduras b/											
Mexico	0.39	0.17	1.64	0.52	0.22	5.90	0.17	0.04	0.04	0.26	3.84
Nicaragua	-	-	-	-	0.29	0.03	-	-	-	0.38	0.31
Panama c/											
Paraguay	27.81	-	0.02	-	-	-	-	-	-	-	-
Peru	3.86	5.38	1.49	4.77	0.20	-	27.71	-	0.98	-	0.16
Uruguay	8.00	0.34	15.56	0.18	-	0.34	0.02	0.04	0.04	-	-
Venezuela	6.77	-	7.84	1.40	-	-	-	-	-	-	-
Total Import	143.29	8.80	139.32	9.20	1.16	11.04	58.21	0.22	1.90	0.86	4.64

Continued:

Exporters \ Importers	Haiti	Honduras	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela	Unallocated	Total exports
Argentina	-	-	-	1.40	0.27	-	5.28	2.70	2.36	-	126.34
Bolivia b/											
Brazil	-	-	0.33	-	0.11	2.09	0.44	16.44	1.75	-	115.42
Colombia	-	-	-	-	0.39	-	0.03	-	0.49	0.21	1.63
Costa Rica b/											
Cuba	0.06	0.24	0.18	-	0.34	-	0.13	-	3.37	0.96	13.52
Chile	-	0.36	3.09	-	1.00	0.51	1.94	0.65	0.57	-	36.98
Dom.Rep.	-	0.25	-	-	-	0.08	-	0.03	0.19	-	0.80
Ecuador	0.01	-	-	-	0.57	-	0.22	0.65	0.86	-	5.04
El Salvador b/											
Guatemala c/											
Haiti b/											
Honduras b/											
Mexico	-	0.39	-	0.22	0.52	0.04	0.47	0.04	1.98	-	16.85
Nicaragua	0.01	0.05	0.01	-	0.35	-	0.62	-	0.95	-	3.00
Panama c/											
Paraguay		-	-	-	-	-	-	2.06	-	-	29.89
Peru	-	-	0.02	0.29	0.03	0.05	-	1.07	2.99	-	49.00
Uruguay	-	-	0.02	-	0.01	0.28	0.14	-	0.74	-	25.71
Venezuela	-	0.11	-	-	-	-	-	6.44	-	-	22.56
Total Import	0.08	1.40	0.85	1.91	3.49	3.05	9.32	30.08	16.25	1.17	446.74

a/ Based on Export Figures
b/ Not available
c/ Negligible

Source: See Tables II and III

Table 10.- Trade Balances in Inter Latin American Trade, 1928
(Millions of dollars)
(+) refers to country in column head

	Argentina	Bolivia	Brazil	Colombia	Costa Rica	Cuba	Chile	Domin Repub	Ecuador	El Salvador	Guatemala	Haiti	Honduras	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela	Unallocated
Argentina	-	-1.0	-11.0	-	-	+2.0	-4.0	-	-	-	-	-	-	+2.0	-	-	+7.0	+12.0	+9.0	-	-
Bolivia	+1.0	-	-1.0	-	-		+1.0	-	-	-	-	-	-	-	-	-	-	+1.0	-	-	-
Brazil	+11.0	+1.0	-	-	-		-3.0	-	-	-	-	-	-	+2.0	-	-	-	+5.0	-8.0	-	-
Colombia	-	-	-	-	+1.0	-1.0	+1.0	-	+2.0	-	-	-	-	-	-	-	-	+1.0	-	-5.0	-
Costa Rica	-	-	-	-1.0	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cuba	-2.0	-	-	+1.0	-		-	-	-	+1.0	-	-	-	+3.0	-	-	-	-	+1.0	-	-1.0
Chile	+4.0	-1.0	+3.0	-1.0	-	-	-	-	+1.0	+1.0	-	-	-	-	-	-	-	+10.0	-	-	-1.0
Domin.Rep.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ecuador	-	-	-	-2.0	-	-	-1.0	-	-	-	-	-	-	-	-	-	-	-1.0	-	-	-
El Salvador	-	-	-	-	-	-1.0	-1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guatemala	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Haiti	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Honduras	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mexico	-2.0	-	-2.0	-	-	-3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nicaragua	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Panama	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Paraguay	-7.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-1.0	-	-
Peru	-12.0	-1.0	-5.0	-1.0	-	-	-10.0	-	+1.0	-	-	-	-	-	-	-	-	-	-	-	-3.0
Uruguay	-9.0	-	+8.0	-	-	-1.0	-	-	-	-	-	-	-	-	-	-	+1.0	-	-	-	-
Venezuela	-	-	-	+5.0	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated	-	-	-	-	-	+1.0	+1.0	-	-	-	-	-	-	-	-	-	-	+3.0	-	-	-
Gross (+)	16.0	1.0	11.0	6.0	1.0	3.0	3.0	-	4.0	2.0	-	-	-	7.0	-	-	8.0	32.0	10.0	0.0	0.0
Gross (-)	32.0	3.0	19.0	5.0	-	6.0	19.0	-	0.0	0.0	-	-	-	0.0	-	-	0.0	1.0	9.0	5.0	5.0
Net Balance	-16.0	-2.0	-8.0	+1.0	+1.0	-3.0	-16.0	-	+4.0	+2.0	-	-	-	+7.0	-	-	+8.0	+31.0	+1.0	-5.0	5.0

Source: See tables II and III

Table II - Trade Balances in Intra Latin America Trade, 1938
(Millions of dollars)
(+) or (-) refers to country in column head

	Argentina	Bolivia	Brazil	Colombia	Costa Rica	Cuba	Chile	Dom. Rep.	Ecuador	El Salvador
Argentina	-	-2.5	-18.9	-0.1	+0.0	+0.6	-2.4	-0.0	+0.0	-0.0
Bolivia	+ 2.5	-	- 0.4	-0.0	-	+0.0	+0.7	-	+0.0	-
Brazil	+18.9	+0.4	-	-0.2	-	+0.0	+0.2	-	+0.4	-
Colombia	+ 0.1	+0.0	+ 0.2	-	+0.1	-0.0	+0.1	-	+0.2	-
Costa Rica	- 0.0	-	-	-0.1	-	+0.0	+0.0	-	+0.0	+0.0
Cuba	-0.6	-0.0	- 0.0	+0.0	-0.0	-	+0.4	-0.1	-0.2	-0.0
Chile	+ 2.4	-0.7	- 0.2	-0.1	-0.0	-0.4	-	-	+0.2	+0.0
Dominican Rep.	+ 0.0	-	-	-	-	+0.1	-	-	-	-
Ecuador	- 0.0	-0.0	- 0.4	-0.2	-0.0	+0.2	-0.2	-	-	-
El Salvador	+ 0.0	-	-	-	-0.0	+0.0	-0.0	-	-	-
Guatemala	+ 0.0	-	- 0.0	-	+0.0	-0.0	-0.0	-	-	+0.1
Haiti	+ 0.0	-	-	-	-	+0.0	-	+0.0	-	-
Honduras	+ 0.0	-	-	-	+0.0	+0.0	-	-	-	+0.2
Mexico	+ 0.3	-0.0	- 0.3	-0.1	-0.0	-0.6	-0.1	+0.0	-	+0.0
Nicaragua	-	-	-	-0.0	-0.0	-0.0	-	-	-	+0.0
Panama	+ 0.1	+0.0	-	+0.1	-0.0	+0.1	+0.1	-	+0.0	-
Paraguay	+ 2.2	-	+ 0.1	-	-	+0.0	-	-	+0.0	-
Peru	- 2.3	-0.9	- 1.5	-0.1	+0.0	+0.1	-3.6	-	+0.8	-0.3
Uruguay	- 3.3	+0.0	+ 1.9	-	-0.0	+0.2	+0.2	-	+0.7	-
Venezuela	+ 0.1	-	+ 0.0	-0.2	-	-0.1	-0.9	+0.0	+0.0	-
Gross (+)	26.6	0.4	2.2	0.1	0.1	1.3	1.7	0.0	2.3	0.3
Gross (-)	6.2	4.1	21.7	1.1	0.0	1.1	7.2	0.1	0.2	0.3
Net Balance	+20.4	-3.7	-19.5	-1.0	+0.1	+0.2	-5.5	-0.1	+2.1	0.0

Continued:

	Guatemala	Haiti	Honduras	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela
Argentina	-0.0	-0.0	-0.0	-0.3	-	-0.1	-2.2	+2.3	+3.3	-0.1
Bolivia	-	-	-	+0.0	-	-0.0	-	+0.9	-0.0	-
Brazil	+0.0	-	-	+0.3	-	-	-0.1	+1.5	-1.9	-0.0
Colombia	-	-	-0.0	+0.1	+0.0	-0.1	-	+0.1	-	+0.2
Costa Rica	-0.0	-	-0.0	+0.0	+0.0	+0.0	-	-0.0	+0.0	-
Cuba	+0.0	-0.0	-0.0	+0.6	+0.0	-0.1	-0.0	-0.1	-0.2	+0.1
Chile	+0.0	-	-	+0.1	-	-0.1	-	+3.6	-0.2	+0.9
Dominican Rep	-	-0.0	-	-0.0	-	-	-	-	-	-0.0
Ecuador	-	-	-	-	-	-0.0	-0.0	-0.8	-0.7	-0.0
El Salvador	-0.1	-	-0.2	+0.0	-0.0	-	-	+0.3	-	-
Guatemala	-	-	+0.0	+0.1	+0.1	-0.0	-	+0.0	-	-0.0
Haiti	-	-	-	-	-	+0.0	-	-	-	-
Honduras	-0.0	-	-	-0.0	+0.0	-0.0	-	+0.0	-	-
Mexico	-0.1	-	+0.0	-	-0.0	-0.0	-	-0.0	+0.1	-0.1
Nicaragua	-0.1	-	-0.0	+0.0	-	+0.0	-	-0.0	-	-
Panama	-0.0	+0.0	+0.0	+0.0	-0.0	-	-	+0.0	+0.0	-0.0
Paraguay	-	-	-	-	-	-	-	-	+0.1	-
Peru	-0.0	-	-0.0	-	-0.0	-0.0	-	-	-1.6	-
Uruguay	-	-	-	0.1	-	-0.0	-0.1	+1.6	-	-0.1
Venezuela	+0.0	-	-	+0.1	-	+0.0	-	-	+0.1	-
Gross (+)	0.0	0.0	0.0	1.3	0.1	0.0	0.0	10.3	3.6	1.2
Gross (-)	0.3	0.0	0.2	0.4	0.0	0.4	2.4	0.9	4.6	0.3
Net balance	-0.3	0.0	-0.2	+0.9	+0.1	-0.4	-2.4	+9.4	-1.0	+0.9

Source: International Monetary Fund: "Multilateral Compensation of International Payment in Latin America".
Document E/CN.12/87. Economic Commission for Latin America, 1949.

Table 12 .- Trade Balances Intra Latin American trade, 1948
Millions of dollars
(+) or (-) refers to country in column head

	Argentina	Bolivia	Brazil	Colombia	Costa Rica	Cuba	Chile	Dom. Rep.	Ecuador	El Salvador	Guatemala
Argentina	-	- 8.36	+34.42	- 3.81	-0.08	- 1.33	- 8.78	-0.25	-0.03	-	-0.18
Bolivia	+8.36	-	- 0.12	-	-	-	+ 2.17	-	+0.16	-	-
Brazil	-34.42	+ 0.12	-	- 4.05	-	+ 0.07	- 5.37	-	-	-	-
Colombia	+ 3.81	-	+ 4.05	-	+1.37	- 0.44	+ 0.69	-	+2.37	-0.06	-
Costa Rica	+ 0.08	-	-	- 1.37	-	- 0.13	- 0.01	-	+0.09	+0.06	-0.01
Cuba	+ 1.33	-	- 0.07	+ 0.44	+0.13	-	+ 3.97	-0.22	+3.09	+0.07	-0.07
Chile	+ 8.78	- 2.17	+ 5.37	- 2.69	+0.01	- 3.97	-	-0.02	+0.27	-0.03	-0.15
Dom. Rep.	+ 0.25	-	-	-	-	+ 0.22	+ 0.02	-	+0.01	-	-
Ecuador	+ 0.03	- 0.16	-	- 2.37	-0.09	- 3.09	- 0.27	-0.01	-	+0.43	-
El Salvador	-	-	-	+ 0.06	-0.26	- 0.01	+ 0.03	-	-0.43	-	-2.05
Guatemala	+ 0.08	-	-	-	+0.01	+ 0.07	+ 0.15	-	-	+2.05	-
Haiti	+ 0.70	-	-	-	-	+ 0.07	-	-	+0.02	-	-
Honduras	- 0.01	-	-	-	-0.12	- 2.60	+ 0.16	-	-	-2.24	-0.27
Mexico	- 0.87	-	- 1.39	- 0.89	+0.03	-11.69	- 0.05	-	-0.23	-0.55	-3.68
Nicaragua	-	-	-	+ 0.03	-0.38	-	-	-	-	+0.12	-
Panama	+ 0.36	-	-	+ 0.29	+0.06	+ 0.36	+ 0.56	-	+0.59	+0.40	-
Paraguay	-15.55	+ 0.08	+ 1.17	-	-	-	+ 0.25	-	-	-	-
Peru	+19.77	- 5.93	- 0.44	- 8.99	+0.13	+ 0.58	-26.68	-	+0.09	-0.30	-0.30
Uruguay	+10.46	-	+ 6.86	-	+0.04	+ 0.80	+ 1.09	-	+0.01	-	-
Venezuela	-12.97	-	- 2.45	+ 0.12	+0.11	+ 7.89	+ 0.50	-	+1.04	+1.11	-
Unallocated	-	-	+ 9.00	-	-	-	-	-	-	+0.12	-
Gross (+)	+54.01	+ 0.20	60.87	0.94	1.76	10.06	9.59	-	7.74	4.59	-
Gross (-)	-63.82	-16.62	4.47	22.17	1.04	23.26	41.16	0.50	0.69	3.18	6.61
Net	- 9.81	-16.42	+56.40	-21.23	+0.72	-13.20	-31.57	-0.50	+7.05	+1.32	-6.61

Continued:

	Haiti	Honduras	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela	Unallocated
Argentina	-0.70	+0.01	+ 0.87	-	-0.36	+15.55	-19.77	-10.46	+12.97	-
Bolivia	-	-	-	-	-	- 0.08	+ 5.93	-	-	-
Brazil	-	-	+ 1.39	-	-	- 1.17	+ 0.44	-6.96	+ 2.45	-9.00
Colombia	-	-	+ 0.89	-0.03	-0.29	-	+ 8.09	-	- 0.12	-
Costa Rica	-	+0.12	- 0.03	+0.36	-0.06	-	+ 0.13	-0.04	- 0.11	-
Cuba	-0.07	+2.60	+11.69	-	-0.36	-	- 0.58	-0.80	- 7.89	-
Chile	-	-0.16	+ 0.05	-	-0.56	- 0.25	+26.68	-1.09	- 0.50	-
Dom. Rep.	-	-	-	-	-	-	-	-	-	-
Ecuador	-0.02	-	+ 0.23	-	-0.59	-	- 0.09	-0.01	- 1.04	-
El Salvador	-	+2.24	+ 0.55	-0.12	-0.40	-	+ 0.30	-	- 1.11	-0.12
Guatemala	-	+0.27	+ 3.68	-	-	-	+ 0.30	-	-	-
Haiti	-	-	-	-	-	-	-	-	-	-
Honduras	-	-	+ 0.57	-	-0.27	-	-	-	- 0.23	-
Mexico	-	-0.57	-	-0.69	-1.01	-	- 0.04	-0.37	- 3.77	-
Nicaragua	-	-	+ 0.09	-	-0.38	-	+ 0.30	-	-	-0.57
Panama	-	+0.27	+ 1.01	+0.38	-	-	-	-	-	-
Paraguay	-	-	-	-	-	-	-	- 2.24	-	-
Peru	-	-	+ 0.04	-0.30	-	-	-	-6.69	- 0.19	-
Uruguay	-	-	+ 0.37	-	-	+ 2.24	+ 6.69	-	+ 8.58	-7.26
Venezuela	-	+0.23	+ 3.77	-	-	-	+ 0.19	-8.58	-	-
Unallocated	-	-	-	+0.57	-	-	-	+7.26	-	-
Gross (+)	-	5.74	25.80	1.31	-	17.79	49.95	7.26	24.00	[illegible]
Gross (-)	0.79	0.73	0.03	1.14	4.28	1.50	20.48	37.14	14.96	16.95
Net	-0.79	+5.01	+25.77	+0.17	-4.28	+16.29	+29.47	-29.88	+ 9.04	-

Table 12-A - Trade Balances in Intra-Latin American Trade, 1949
(Millions of U.S. dollars
Signs (+ and (-) refers to countries in column head

	Argentina	Bolivia	Brazil	Colombia	Costa Rica	Cuba	Chile	Domin Rerubl	Ecuador	El Salvador	Guatemala
Argentina	-		-16.94	+0.24		+0.60	-2.25	+0.01	+0.47		-
Bolivia											
Brazil	+16.94		-	-0.85		-0.05	+3.26	-	-0.07		-
Colombia	-0.24		+0.85	-		-0.06	+0.41	-	+0.86		-
Costa Rica											
Cuba	-0.60		+0.05	+0.06		-	-3.00	-0.01	+0.22		-
Chile	+2.25		-3.26	-0.41		+3.00	-	-0.01	+0.32		-
Domin Rep.	-0.01		-	-		+0.01	+0.01	-	+0.01		-
Ecuador	-0.47		+0.07	-0.86		-0.22	-0.22	-0.01	-		-
El Salvador											
Guatemala	-		-	-		-	-	-	-		-
Haiti											
Honduras											
Mexico	-0.39		-1.31	-0.52		-5.72	+0.12	0.04	-0.04		-
Nicaragua	+1.40		-	-		-0.03	-	-	-		-
Panama	-		-	-		-	-	-	-		-
Paraguay	-27.81		+2.07	-		-	+0.51	+0.08	-		-
Peru	+1.42		-1.05	-4.74		+0.18	-25.77	-	-0.76		-
Uruguay	-5.30		+0.88	-0.18		-0.34	+0.63	-0.01	+0.61		-
Venezuela	+4.41		-6.09	-0.91		+3.37	+0.57	+0.19	+0.86		-
Unallocated	-		-	-0.21		-0.96	-	-	-		-
Gross (+)	+26.42		+3.92	+0.30		+7.16	+5.51	+0.28	+3.25		-
Gross (-)	-34.82		-28.65	-8.68		-7.38	-31.24	-0.08	-0.87		
Net	-12.40		-24.73	-8.38		-0.22	-25.73	+0.20	+2.38		

Continued:

	Haiti	Honduras	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela	Unallocated
Argentina			+0.39	-1.40	-	+27.81	-1.42	+5.30	-4.41	-
Bolivia										
Brazil			+1.31	-	-	-2.07	+1.05	-0.88	+6.09	-
Colombia			+0.52	-	-	-	+4.74	+0.18	+0.91	+0.21
Costa Rica										
Cuba			+5.72	+0.03	-	-	-0.18	+0.34	-3.37	+0.96
Chile			-0.12	-	-	-0.51	+25.77	-0.63	-0.57	-
Domin.Rep.			+0.04	-	-	-0.08	-	+0.01	-0.19	-
Ecuador			+0.04	-	-	-	+0.76	-0.61	-0.86	-
El Salvador										
Guatemala			-	-	-	-	-	-	-	-
Haiti										
Honduras										
Mexico			-	-0.21	-	-0.04	-0.45	+0.02	-1.98	-
Nicaragua			+0.21	-	-	-	-0.33	-	-0.95	-
Panama			-	-	-	-	-	-	-	-
Paraguay			+0.04	-	-	-	+0.05	-1.78	-	-
Peru			+0.45	+0.33	-	-0.05	-	-0.93	-2.99	-
Uruguay			-0.02	-	-	+1.78	+0.93	-	+5.70	-
Venezuela			+1.98	+0.95	-	-	+2.99	-5.70	-	-
Unallocated			-	-	-	-	-	-	-	-
Gross (+)			+10.70	+1.31	-	+29.59	+36.29	+5.85	+12.70	+1.17
Gross (-)			-0.14	-1.61	-	-2.75	-2.38	-10.53	-15.32	-1.17
Net			+10.56	-0.30	-	+26.84	+33.91	-4.68	-2.82	-

Source. See Tables 1 and 2.

PART II

TRADE AND POLICIES OF SELECTED LATIN AMERICAN COUNTRIES

I. Introduction

General Statement of the Problem

The trade policies of the Latin American countries up to 1930 were a relatively simple matter. Over a period of seventy-five years or more they had adapted their production and trade structures to the system of multilateral trade which prevailed. By and large they sold in the dearest market and bought in the cheapest; exchange rates were flexible and regulated internal-external price relationships; quantitative import and export controls were rarely used; trade treaties usually contained the most-favoured-nation clause; tariffs were generally imposed for revenue purposes with, however, some important exceptions. Since then commercial policy has become a complex and powerful instrument: in the first instance, for defense against world trade dislocations and disequilibrium in the balance of payments; and, secondly, for promoting economic development and redistributing the national income.

Restoration of multilateral trade and equilibrium in the balance of payments of the principal trading countries of the world outside of Latin America would no doubt go a long way toward solving the most urgent trade problems of this region. Latin American economies are ill-adapted to a system of bilateral trade because of the concentration of exports in a few commodities — it is practically impossible for a country with not more than three or four principal export commodities to adjust its total import requirements so that its imports from each trading partner will exactly balance its exports to that country. However, despite the great benefits which would come with currency convertibility and extensive multilateral trading envisaged in the Havana Charter and the General Agreements on Tariffs and Trade, it remains to be seen whether this is the core of the problem for a number of these countries.

The analysis presented in the Economic Survey of Latin America 1949 demonstrates that economic development in Latin America has been

/accompanied by

accompanied by a decreasing rate of real exports. 1/ Although exports have increased for most of the countries, they have not risen as much as national income and population. The disparity between increase of real exports and income and population has been greatly accentuated for several countries due to the fact that industrial development has been accelerated during the past twenty years, while the volume of exports and imports has increased only moderately or, as in the case of Chile and Argentina, has remained the same or decreased. Thus the ability to import has become less, although the demand for imports has increased due to the requirements of development and the fact that real income has gone up. This has created a tendency toward disequilibrium in the balance of payments which is more basic and is independent of of other factors causing disequilibrium such as inflation, inconvertibility of currencies, and short-run fluctuations of prices and volume of trade. 2/

It then follows that certain Latin American countries have been confronted with the necessity either to allow the rate of increase of per capita income to be retarded by real export trends or to expand economic activity at a faster rate than real exports and search for means to reduce the propensity to import. The problem first presented itself in an acute way during the depression. Some countries followed a deflationary policy and permitted trade to exercise its full influence on the internal economy which gradually recovered as trade revived. Other countries stimulated industrial development — some with and some without quantitative restrictions. Since the war the problem of adjusting imports in an expanding economy to exports which have not been sufficient to satisfy the demand for imports, has been complicated by inconvertibility of currencies and domestic inflation.

Latin American countries have attempted to limit the propensity to import in various ways. Cuba and Venezuela were the only countries to

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1/ The rate of real exports is computed by multiplying the index of physical exports by the terms of trade; in other words, it is an index of foreign purchasing power of exports.

2/ Second Economic Survey of Latin America 1949, Chapters 2-6, United Nations Economic Commission for Latin America.

/continue to

continue to build up gold and foreign exchange holdings after 1946. Cuba has protective tariffs but no quantitative controls. Venezuela has high tariffs and grants import licenses for certain goods only on condition that a prior purchase of similar goods locally produced has been made; coffee and cacao exports are given preferential exchange rates; exchange receipts of petroleum exports are purchased by the Government at a penalty rate; and the Government reserves a preferential rate to cover its own imports. Mexico maintains protective customs duties for some industries and imposes import prohibitions on certain luxury items and other goods which can be manufactured locally. In June 1949 it devaluated its currency by 44 per cent and levied a tax on exports to recapture a part of the benefits of devaluation. Peru followed the example of Mexico when in November 1949 it drastically devaluated its currency and abolished quantitative controls, except to retain import prohibitions on a long list of goods.

Argentina and Chile have complicated systems of quantitative controls which are used for development purposes as well as to balance international accounts. There are some 26 industries in Argentina which are protected by import restrictions against foreign competition and which are given preferential treatment in securing import permits for necessary raw materials. Argentina also exercises strict control over exports which, together with exchange and import controls, has had a strong influence in shifting productive factors from the export to domestic sectors of its economy. Chile like Bolivia has had to tighten restrictions during the past year because of the sharp drop in prices of copper and tin.

Uruguay protects home industries through tariffs; exchange controls are largely a function of inconvertible currencies — as is also the case with Paraguay. Brazil has only recently been able to balance its dollar account by a strict allocation of dollar exchange prior to the granting of import licenses. Colombia apparently has found it necessary to retain quantitative restrictions despite a substantial increase of foreign exchange receipts due to the rise in coffee prices. Colombia and Guatemala also require the importer of certain goods to purchase an

/amount

amount (in some cases specified as a percentage) of locally manufactured goods of the same type in order to secure an import permit. Ecuador has differential exchange rates and import licensing system. Of the Central American countries, only Costa Rica and Nicaragua impose quantitative import controls — which might be termed mildly restrictive. Haiti and the Dominican Republic have no quantitative controls.

Merely to indicate the different degrees and types of import restrictions practiced by the Latin American countries makes it clear that there is no uniformity or pattern applicable to all or even a majority of them. Nor is it possible to isolate the basic from the "transitory" causes of disequilibrium — this is particularly true if commodity price and export fluctuations have been accompanied by a strong inflationary process. However, if we proceed on the assumption that there will be a tendency toward persistent disequilibrium in a developing economy where the ratio trend of import capacity to real national income is downward, we could theoretically group the countries as follows:

a) In the first group would be those countries which have experienced a limited degree of industrial development. In these countries a relatively large proportion of manufactured goods, locally consumed, would be imported — thus the level of consumption would be dependent to a higher degree than in the more developed countries on the amount of goods which can be bought with receipts abroad; production, price and income curves will follow closely import and export curves; and internal investment will largely depend on the income level of their principal outlets for exports.

b) The second or intermediary group would include countries which have achieved varying degrees of economic development but have also been able to expand their exports sufficiently to meet the import needs of a growing population, a higher real income level, and continued industrialization. 1/

1/ There are in actuality border-line cases in which countries are in transition from one group to another. Although it is assumed that the countries in the second group are in an intermediate stage of development with respect to the first and third groups, it is quite possible that a country might reach a relatively advanced state of development without chronic disequilibrium on the basis of exports of primary products. For example, the rich mineral resources of Venezuela may allow it to proceed with an industrialization programme requiring heavy debt and investment service as well as imports of capital goods on current account.

/c) In the third

c) In the third category would be those countries which have made the greatest advances in industrial development during the past fifteen to twenty years, but whose import capacity has declined either because of loss of markets, less favourable terms of trade, failure to expand production for export, or contraction of exports due to a shift of productive factors — or as is usually the case, a combination of these causes.

It is in this last group of countries where we might expect to find an evolution of commercial policy directed toward maintenance of an independent internal cost-price relationship and selective quantitative import restrictions to serve the needs of development — unless of course such a country could develop export industries.

The above classification is suggestive rather than factual. It would require a much more thorough investigation than has yet been made to determine the cause and effect relationships between a broad development programme and commercial policy in a particular country. Nevertheless some general observations may be made on the basis of the analysis of trade policies of certain countries which are presented later in this report.

Evolution of Commercial Policy During the Depression of the 'Thirties

Depressed demand in the world food and raw material markets during the 1930's caused a substantial decrease in the terms of trade of Latin American countries. This reduced essential imports to a minimum and made it impossible for most of these countries to continue full payments on public debt service and investment income. In addition, the flow of international credit and investment capital practically ceased, resulting in an outflow of gold and foreign exchange holdings from Latin American countries. This combination of factors created a serious balance of payments difficulty which forced governments to resort to currency devaluation and various forms of import controls.

The burden of fixed charges on foreign-held debts had profound effects — both economic and psychological. Table 13 shows the ratio of debt and investment income service to exports for two countries,

/assuming that

Table 13. External Debt and Investment Payments as Percentage of Exports for Argentina, Brazil and Chile

Year	Ratio of public debt and investment income service payments 1929 to exports for given years						Ratio of public debt and investment income service actual payments to exports		
	Brazil			Chile			Argentina		
	External Debt Service %	Investment Income %	External Debt Service and Investment Income %	External Debt Service %	Investment Income %	External Debt Service and Investment Income %	External Debt Service %	Investment Income %	External Debt Service and Investment Income %
1929	18	9	27	13	9	22	6	16	22
1931	35	16	51	29	20	49	14	19	33
1932	46	22	68	88	60	148	14	21	35
1937	24	11	35	35	24	59	6	12	18
1938	28	13	41	42	29	71	8	18	26

Sources and Notes:

Brazil: 1) Service payments on External Sterling and Dollar Debt figures from Conselho Tecnico de Economía e Finanças.

2) United States direct investments from "Foreign Investments in Brazil", ECLA document E/CN.12/166/add.2 United Kingdom direct investments, South American Journal, March 13, 1948. Yield of United States private investments estimated at same per cent as yield of United Kingdom direct investments in Brazil, which was 5 per cent in 1929.

3) Total export values for years given above from Banco do Brasil S.A. 1808-1949. Relatorio de 1948. (Jornal do Commercio Rodrigues & Cia., Rio de Janeiro 1949).

Chile: 1) Figures on External Debt Service and Private Direct Investments Income from Banco Central de Chile, Balanza de Pagos de Chile, 1945; Imprenta y Litografía Universo, Santiago, Chile.

2) Exchange proceeds returned to the country have been used instead of exports. The foreign exchange left abroad by the mining companies has been deducted from the total value of exports.

3) Values of total exports for years given above from Comercio Exterior de la América Latina, Parte II. Política y Relaciones Comerciales de cada uno de los países latinoamericanos, Tomo I. Las Repúblicas Sudamericanas, Informe 146, Segunda Serie (Comisión Arancelaria de los Estados Unidos), page 171.

4) Returned value of exports was determined from basic data of the Research Centre of the Economic Commission for Latin America.

Argentina: 1) 1929, 1931 and 1932 figures for External Debt Service, Investment Income and Total Export Values were obtained from the Central Bank of the Argentine Republic Economic Review. Series II, Vol.I, No.1, 1937.

2) 1937 and 1938 figures for the same items as above were obtained from the Central Bank of the Argentine Republic Year Book for 1941-1945.

assuming that payments would have been continued at their 1929 level, and actual payments for Argentina, for selected years. This table should be studied in relation to the analysis of trade policies of each of these countries, which follows this introduction. It should be noted here, though, that Chile suffered the greatest loss of exports and deterioration of terms of trade during the early years of the depression, and that its exports were least responsive to stimulative measures. Brazil, on the other hand, was able to expand its exports greatly but at the expense of its terms of trade so that at no time up to the war were exports able to carry the full burden of debt service and essential imports. One of the primary reasons for Argentina's establishment of exchange and import controls in 1931 was to enable it to continue payments on the external debt and investment income.

Although the yield from direct investments in Argentina was proportionately lower after 1929 it was fairly stable and continued to represent well over one half of the total paid on external debt and investment. Doubtless this was because most of the foreign investments were in public utilities whose activities did not decrease, and because of measures which stimulated internal economic activity. A similar situation prevailed in Chile up to July 1931 when the Government was forced to declare a moratorium on debt payments. The total external debt and investment service was slightly higher in 1930 than in 1929 and for the first six months of 1931 it was at an annual rate equal to 1929. 1/

The burden of debt service in the face of a much lower level of real exports not only exposed the fundamental weakness of primary producing countries, but also made it evident that expansion and diversification of industries for domestic consumption would have to be locally financed to a large degree and that imports of capital goods and raw materials for these industries would, for the most part, have to be paid for out of current export receipts. In this connection, it should be noted that the total public debt and private foreign investments of the Latin American countries

1/ The earnings of the large mining companies are not included in the above calculations since they were not returned to the country and therefore were not a part of receipts from exports.

/taken as

taken as a group was reduced from 10,600 million dollars in 1938 to 8,000 million dollars in 1948. 1/

The limitation of imports during the depression period was achieved largely by tariffs and currency devaluation in Mexico; by tariffs and internal "deflationary policies" in Cuba and Venezuela. Argentina, on the other hand, introduced in 1933 a policy of import controls, multiple exchange rates at a depreciated level, government purchase and regulated foreign sales of certain export crops. The revenue derived from the difference in buying and selling exchange rates enabled the Government to make up the loss on foreign debt service due to depreciation of the peso and losses incurred in the purchase at "support prices" and sale at world market prices of exports of wheat, corn and linseed. Thus Argentina maintained debt service and the volume of exports without further depressing export prices by attempting to force on the world markets grain being offered by farmers as a result of higher internal prices due to depreciation of the currency. The policy was apparently successful in preserving for the farmers the benefits of depreciation and in preventing further depreciation. Import controls were governed by the necessity of balancing payments under bilateral agreements with the United Kingdom, Germany and other countries. Up to 1939 the sale of foreign exchange and import licensing discriminated as between countries but not as between products, except insofar as these had to be bought under non-competitive conditions. Since the war the policies initiated during the depression have been extended and much more rigidly applied. Exports, except for a few commodities, have come completely under the control of the Government. Revenue from exchange operations and profits of foreign sales have been used partially for development purposes. Imports are strictly controlled in accordance with the essential needs of the economy.

Brazil attempted to adjust the volume of coffee available for exports and to control imports through a licensing system from time to time, but in reality the structure of exports and imports was determined by the

1/ Economic Commission for Latin America; Economic Survey of Latin America 1948, Appendix I.

/world market

world market situation and the free market exchange rate. Higher internal prices stemming from currency depreciation stimulated coffee exports which in turn further depressed world market prices and resulted in further depreciation. World market conditions and national currency depreciation made production and exports of commodities other than coffee more profitable — exports of cotton increased enormously and other commodities, such as cacao, fruits and nuts, oilseeds, hides and skins, increased moderately. The average exports of Brazil for the years 1937-1939 were 70 per cent higher by volume than the average for 1928-1929, while imports were 20 per cent lower. For a brief period after the war Brazil abolished all import restrictions and made the cruzeiro virtually convertible. However, it soon had to impose a licensing system which was ineffective as a restraint on imports. This was followed by a prior import permit provision, but finally the Government had to establish a foreign exchange budget for earmarking anticipated foreign exchange receipts before issuing prior import permits in order to balance its accounts with the dollar area.

Chilean exports fell precipitously during the early depression years and only gradually recovered their former volume. The peso was drastically devaluated and a multiple rate system was established in 1932. The lower peso rate for copper exports of the large companies represented in reality a tax. Despite the fact that the rate has remained constant up to the present in the face of continued currency depreciation, copper exports have responded to world demand — largely because of increased productivity. The evidence presented in the section on Chile below indicates that during the period 1933-1939 nitrate and agricultural exports were stimulated by a more favourable exchange rate but that since the war agricultural exports have not responded to this stimulus. Chile established a system of import priorities and licensing in 1933 but not until 1939 did it make sale of foreign exchange to the importer contingent upon a prior import permit. Because of the failure of this system to reduce sufficiently import demand, Chile instituted a foreign exchange budget in 1947 by which import permits are granted only in accordance with

/foreign exchange

foreign exchange allocations made on the basis of anticipated receipts. Although no clear-cut conclusions can be drawn with respect to the earlier period, the indications are that quantitative controls were less important than the exchange rate in reducing the propensity to import. For the period since 1947 there is no doubt that stringent controls, quotas and prohibitions have restricted the propensity to import.

Import and Export Controls in Relation to Internal Economic Conditions

In recent years there has been a tendency to rely less and less on devaluation at a unified rate of exchange as a stimulus to exports. Uruguay, Bolivia, Colombia and Venezuela, as well as Chile and Argentina, are using multiple export rates to encourage marginal exports. Brazil is facing this problem now since the steep rise in coffee prices creates a situation wherein a single exchange rate appropriate for the principal export commodity considerably overvaluates the currency for other commodities, and tends to take the latter out of the regular market and into barter and other bilateral arrangements. A country producing only a few primary commodities for export is in a very different position from one producing a variety of manufactured articles for which prices are more stable and supply and demand more elastic. Unless the primary producing country is willing to allow external price fluctuations to determine the distribution of productive factors in the export sector of its economy, it must of necessity devise some form of export control, taxation or subsidy. In other words, the most economic "utilization of the world's resources" may not always be compatible with the cost-price relationships in an economy which is in a relatively early stage of industrial development.

This, however, poses another problem. Subsidies, either direct or through the exchange rate, may foster inefficiency and give wind-fall profits to exporters who do not pass them on to producers. For a country with a surplus of cheap labour and a low rate of investment in the particular export production being subsidized, it may not have any direct bearing in the long-run on the ability of that country to compete in the world markets — and may under certain conditions be considered desirable, since it brings in foreign exchange.

/In the foregoing

In the foregoing discussion emphasis has been given to the trade policies of Argentina, Chile and Brazil, because of the more industrially advanced Latin American countries these are the ones which have had the longest and most extensive experience with quantitative controls. It also seems clear that the disequilibrium in the balance of payments of Argentina and Chile, at least, is due only in part to inflation, currency inconvertibility, and price and market fluctuations; and that the basic disequilibrium arises out of the secular trend in their import-income ratios. The case of Brazil is less clear, but recent developments in that country suggest that equilibrium cannot be maintained under existing tariff schedules by depreciating the currency without seriously disrupting present price relationships and development programmes. 1/

Even the short-run requirements for machinery and equipment for transportation, electric power expansion, agriculture and manufacturing industries are enormous for these countries; if to these are added food and raw materials needed currently for industry and home consumption, it becomes apparent that pressure on imports will increase rather than adjust to the current level of economic activity.

A considerable part of the demand for luxuries and consumer durable goods of these countries comes from the groups which have benefited from inflation; and to the extent that imports of both capital and consumer goods originate in inflation the pressure on imports could be reduced by stabilizing internal prices. Nevertheless, the demand of higher income groups for the so-called non-essentials would remain at a comparatively high level provided the level of economic activity were maintained. Furthermore, the raising of the standard of living of the middle and lower classes continually adds to the number of persons who can afford to buy some of the consumer items which must be imported.

It would be of interest to investigate the effect of substitution of locally produced goods on the balance of payments. An effort was made by the ECLA Secretariat to ascertain the savings in foreign exchange

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1/ See Report of the Joint Brazil-United States Technical Commission for views of that Commission on this subject.

/resulting from

resulting from the development of the cotton textile industry in Chile since 1935, when the local manufacturers took care of approximately 20 per cent of the country's needs, whereas in 1948 they accounted for 80 per cent of the total. 1/ The Chilean cotton textile industry has to import its total requirements of machinery and equipment and raw cotton, as well as a part of its fuel needs. Because of the lack of precise data on amortization costs, it was not possible to arrive at an exact amount. However, on the basis of fairly complete data it was estimated that the savings in foreign exchange in 1948 were from 20 to 25 million dollars, which represents approximately 50 per cent of the total value of cotton piece goods produced in that year.

This estimate would indicate that the possibilities of foreign exchange savings are substantial from substitution by local production. Yet it is a matter of common observation that demand for imports multiply faster than substitutions are made. The reasons for this would appear to be that profits are re-invested in the parent industry or other plants which necessitate further imports of capital goods and raw materials, and real incomes are increased to the point where added demand is made for imported consumer goods. It might be noted that a part of the profits no doubt also find their way into foreign exchange for consumer goods imports.

Overvaluation of the currency has played an important role, especially in Chile and Argentina, in that it has stimulated investment in industries producing for the local market and has contributed to the unbalance in internal-external cost-price relationships. In Chile and Brazil it does not appear that investment in local industries has transferred investment and other productive factors from the export sector. In Argentina, on the other hand, there has been a definite shift of productive factors from the export sector of agriculture to industry, services and agriculture producing for the domestic market.

Some idea of the magnitude of the disparities between internal and external prices may be seen by comparing the relative increase of domestic prices with that of import prices expressed in the national currency.

1/ In 1949, the import quota was reduced to less than 5 per cent of the total available supply.

/The gap

The gap has widened constantly since 1939 in Chile, and since the end of the war in Argentina. These disparities reflect the underlying unbalance of imports and exports and no doubt present a serious obstacle to an adjustment which might obviate the necessity of quantitative controls. Thus by isolating the national economy from external influences a structure of production and costs is evolved which necessitates the continuance of import quotas and exchange controls in order to limit imports and to adjust export prices (in national currency) to costs of the different export sectors of the economy.

Quantitative Controls versus Tariffs

Quantitative import controls as they are now used generally have two objectives. They have been imposed in the first place to reduce the general level of imports to a point where the balance of payments may be equilibrated. 1/ This is not only the original purpose, but remains the orthodox reason for maintaining controls after they have come to serve other ends as well. Second, quantitative controls are used to change the composition of imports. In certain circumstances this may become as important as the first objective, but as a rule they are so intertwined that it is difficult to disentangle them. Import restrictions generally start with a priority schedule by broad categories, later go on to restrict or prohibit luxury and non-essential items, and finally come to allocate foreign exchange for particular industries. So long as restrictions are necessary to reduce the "average propensity" to import, it is not quite clear when selective quotas become essentially a protectionist policy and when they pass from a temporary to a "permanent" status.

Although tariffs may also reduce the general level of import demand, provided the duties are inclusive and high enough, their primary purpose is always revenue for the government or protection for local producers.

1/ The fact that one of the functions of quantitative controls may be to balance accounts between bilateral trading partners does not change their essential character as a restraint on imports.

/Under conditions

Under conditions of trade equilibrium such as existed before the First World War, tariffs have certain marked advantages over quantitative restrictions: tariffs are non-discriminatory in that they apply equally to all foreign suppliers and to all domestic purchasers; they pass on to the government the difference in internal prices over import prices which accrue because of limitation of supply, rather than allow this difference to go to favoured importers in the form of wind-fall profits; and lastly, they are more easily administered and least subject to misuse. Their chief disadvantage is that it is more difficult to adjust tariffs readily to price fluctuations.

However, tariffs have had no significant effect on the balance of payments position of Argentina, Chile and Brazil since the depression, no doubt partly because of the inflation. The effect of depreciation and inflation on tariff schedules in the case of Brazil is indicated by the fact that Brazil was allowed to re-valuate upward all specific duties by 40 per cent as basis for negotiations under the General Agreements on Tariffs and Trade at Geneva in 1947. As may be seen from Table 36 on the influence of Chilean tariffs, the percentage of import prices expressed in national currency represented by customs duties has gone down steadily since 1934. Mexico, as was pointed out above, has made effective use of tariffs for both selective and general restriction of imports, supported however by an extensive list of import prohibitions.

If persistent disequilibrium due to the downward trend of the import-income ratio is the central problem of the more industrially advanced countries of Latin America and it is recognized in principle that quantitative controls may not be the most desirable solution, then the role of tariffs may have to be re-examined. Those countries with a basic disequilibrium are caught in a dilemma: expansion of world trade is obviously to their advantage to the extent that they can expand production for exports without a corresponding deterioration in their terms of trade, but they are also faced with the necessity of reducing their own import demands, the upper limit of which is determined only by their capacity to import. Thus if Chile, for example, imposes a restrictive tariff on automobiles and refrigerators from the United States and other countries,

/it in no way

it in no way reduces world trade since Chile must use its foreign exchange up to the limit for capital goods, raw materials and other essentials. Chile's imports are in this way merely shifted from one group of products to another, and therefore do not affect the balance of payments position of other countries taken as a whole. On the other hand, if the United States restricts its importation of copper by a tariff, it reduces world trade by so much since it immediately and directly affects the balance of payments position of Chile without any corresponding offset with Chile or other countries. This of course is an oversimplification of the problem but it will help to clarify the issues involved. Whether tariffs could be used by an under-developed country both to promote development and to equate imports with exports is certainly debatable. For one thing, tariffs used for such diverse purposes would tend, like quantitative controls, to be discriminatory since they would be designed to afford protection not only for domestic industries but also against persistent creditor countries. Unless preferential tariffs were permitted, as contemplated by Article 15 of the ITO Charter, among under-developed countries having to some degree complementary economies and having the prospect of complementary development (Chilean copper manufactures for Brazilian textile machinery, e.g.), tariffs high enough to limit the general level of imports would probably reduce the level of world economic activity.

This relationship of tariffs to the balance of payments also throws light on the limitation of the exchange rate in solving the disequilibrium. Chile, for example, might attempt through currency depreciation to maintain exports, either by surmounting the copper tariff barrier or by making it "profitable" for producers of other commodities to export. But given the inelasticity of demand for its exportable commodities, it would probably succeed only in worsening its terms of trade to the point where the increased volume would be offset by lower market prices, as happened with Brazilian coffee during the 1930's. The disequilibrium would continue unless depreciation were so drastic as to reduce the propensity to import, in which case the inflationary process would be given such an impulse as to create in time a new level of disequilibrium.

/Alternatives to

Alternatives to Quantitative Controls

a) There is no easy way out of the dilemma. As suggested above, the possibility of tariffs supported by prohibitions of imports of a number of articles and moderate devaluation from time to time might be considered as a long-term alternative to quantitative controls. This would necessitate relative stabilization of internal prices and a steady inflow of capital for some years at least for economic development. Thus far Mexico has dealt with the problem of disequilibrium by these means. However, its position is not as difficult as that of Chile, Argentina and Brazil. Although its real exports have not increased as much as real income, they have increased relatively more than those of Brazil and very much more than those of Chile or Argentina. Its proximity to and favourable trading position with the United States gives it a great advantage with the result that the problem arising out of convertibility is not as acute. Its proximity to the United States also enables Mexico to exploit one of the country's most important resources in its attraction for tourists. And it is precisely here that devaluation is most effective because of the great demand elasticity for this "commodity". The importance the tourist trade has in Mexico's balance of payments position is shown by the fact that in 1949 merchandise exports totalled 431 million dollars, while dollar receipts from the tourist trade amounted to an estimated 140 million dollars.

Nevertheless, this suggests to other countries suffering from reduced import capacity the necessity and possibility of finding new and more profitable sources of exports which, along with other measures, might within a few years adjust imports to exports without curtailing development.

b) The expansion of trade within the region also offers opportunities for relaxing the pressure on imports. Yet in the past four years trade among the Latin American countries has deteriorated and declined from the high point it reached during the war. One explanation is that new industries (textiles, leather goods, and other manufactures) could not meet the competition of the producers in the more highly

/industrialized

industrialized countries when the latter were able to re-enter the world markets after the war. However, the same factors of maladjustment and disequilibrium that have acted upon world trade trends have also affected intra-regional trade. There has been a growing unwillingness or inability to settle accounts among themselves in dollars. An even more significant development has been the tendency to utilize import quotas and exchange controls to reduce or prohibit imports which formerly came from neighbouring countries, in order to stimulate and protect local production, even though the costs may be very much higher. The result has been that several countries are now attempting to produce their own requirements for such basic commodities as sugar, wheat, cotton, cattle, etc., utilizing land, capital, and labour which could be more profitably used for producing commodities for which they are better adapted. 1/ The principal reasons for this have been the scarcity of dollars and the inability of the importing country to develop exports sufficient to pay the country from which the imports come; high prices charged by the exporting country has also been an important factor.

There have been some significant changes in the trade among Latin American countries due to changes in the structure of their economies. Chile's industrialization programme with attendant increase of income has increased demand for Argentine meat. Brazil's steel and textile industries have enabled it to reduce its trading deficit with Argentina by exporting certain manufactures to that country, especially during the war, while on the other hand the development of industry in Argentina has also stimulated imports of raw materials from Brazil. The rapid expansion of Chile's textile industry in recent years has resulted in increased imports of Peruvian and Brazilian cotton. These new developments do not yet bulk large in the total trade of the region but they are indicative of future possibilities.

Past efforts to effect a better integration of national economies among Latin American countries have usually been too ambitious for

1/ There are a number of instances in which natural advantages provide a sound basis for diversification of agricultural production — e.g., sugar, cotton and wheat in Bolivia; rice in Chile, Ecuador, and the Dominican Republic; etc.

/realization.

realization. This is especially true of "customs union" proposals, which might threaten to bring about changes in an economy unacceptable to a particular country. However, the possibility of expanding trade within the region by a closer integration of future development might well deserve study and consideration. This would afford the possibility of developing new export industries which would complement each other, and thus offer a broader market, which is often necessary in order to increase efficiency and per worker output and to lower costs of production and distribution. Such proposals need not involve broad development plans but rather could be worked out in the first instance on individual items which would seem to promise results. Chile, for example, should be able to specialize on a few iron and steel products from its new modern steel mill for export in exchange for a part of its requirements for cotton, sugar, wheat and manufactures. Mexico, Colombia and others have similar possibilities.

ARGENTINA

Influence of the Depression on Trade Policy 1931-33

The world economic crisis in 1930-32 did not affect Argentina as seriously as many other Latin American countries principally because its reserve position was strong and it was able to maintain the volume of exports at a relatively high level. The volume of exports fell off in 1930 due to bad crop conditions but was restored in 1931 to approximately its highest previous level — 18.5 million tons. However, value of exports declined sharply during these years due to the fall in agricultural prices. Imports did not contract to a level where trade surpluses were sufficient to cover debits in current transactions. By 1932 the peso value of exports had fallen to 59 per cent of 1929 and to 36 per cent of their 1929 dollar value. Imports in 1932 were 26 per cent of their 1929 dollar value and 43 per cent of their peso value. Since there were not sufficient trade surpluses to service the public debt and foreign investments, private remittances, and public expenditures abroad, all of which amounted to about 600 million pesos per year for the period 1929-31, gold shipments were made to cover the deficits — 403 million pesos in 1929, 71 million in 1930 and 562 million in 1931. In addition there was a considerable amount of capital flight. Banking reserves dropped, as did the value of the peso from an average rate of 2.3911 to the dollar in 1929 to 2.7384 in 1930 and 3.4527 in 1931. The difficulty of maintaining adequate reserves was aggravated by the tendency of exporters to withhold foreign exchange in the expectation of further depreciation of the peso.

When Great Britain abandoned the gold standard in the fall of 1931 the Argentine Government decided to establish direct control over the foreign exchange market in order to prevent exhaustion of gold holdings and further depreciation of the peso and to maintain servicing of the foreign-held national debt. The decree of 10 October 1931 had as its immediate objectives to force the exporters to liquidate their holdings of foreign exchange and to regulate the sale of foreign exchange. An

/Exchange Control

Exchange Control Commission, consisting of three representatives of banks and two of exporters, was established to administer the decree and was authorized to fix the selling rate of exchange. Although licenses were required for the purchase of exchange there were no import controls. 1/

The Commission stipulated priorities to be followed by authorized banks and dealers in selling exchange. The Government had first priority to cover debt service and purchases abroad.

Although the peso at the rate fixed by the Commission soon proved to be over-valued, no change was made until toward the end of 1933. Imports accumulated at the docks, for which foreign exchange permits were not available. The balance of payments deficit was 232 million pesos in 1933; 2/ "unblocking loans" totalling 298 million pesos were granted by foreign creditors in order to release imported goods for which exchange permits could not be secured.

The international market situation continued to deteriorate during 1932 and 1933. (See Table 14). The maintenance of the exchange rate fixed in October 1931 in the face of declining prices and exports was beginning to exert a strong deflationary influence. These factors along with the obligation to allocate sterling receipts after setting aside a reasonable amount for debt service payable to countries other than Great Britain, in accordance with the Roca-Runciman Treaty, led the Argentine Government to take a decisive step toward more rigid exchange and quantitative controls during the latter part of 1933. In addition to fulfilment of treaty obligations, the measures taken were designed to provide revenue for support prices for certain agricultural products and for offsetting foreign debt-service losses due to the depreciation of the peso.

1/ The year 1931 was also important in the economic history of the country in that the first decree to promote industry was proclaimed, tariff values were changed and an additional 10 per cent tax was imposed on all taxed imports.

2/ Total balance of payments credits were 1,190 million pesos, of which merchandise exports represented 1,141 million; total debits were 1,422 million pesos, of which 911 million were for merchandise imports, 176 million for public debt service and 250 million for interest and dividends on private capital investments.
Source: Economic Review Series 11. Vol. I, Banco Central de la República Argentina.

/In order to

Table 14. Argentina: Exports and Imports and Prices of Grains and Flax, 1929-1937

1929 = 100

	Value of Exports in national currency a/	Quantum of Exports b/	Value of imports in national currency a/	Quantum of imports b/	Wholesale prices c/	Peso prices of grains and flax f.a.s. port of loading	Index of the exchange rate (pesos per dollar) d/	Terms of trade b/
1929	100	100	100	100	100	100	100	100
1930	64	69	86	88	95	82	115	95
1931	67	96	89	60	92	57	144	71
1932	59	88	43	46	92	61	162	73
1933	52	85	46	52	88	53	135	69
1934	66	87	57	55	101	66	125	83
1935	72	91	60	59	100	68	128	84
1936	76	81	57	62	102	84	126	107
1937	107	96	80	80	116	107	127	118

Sources: a/ United States Tariff Commission, Foreign Trade of Latin America, page 13, (Spanish Edition), 1943.

b/ Research Centre, Economic Commission for Latin America.

c/ United Nations, Statistical Yearbook, 1948, page 353.

d/ United Nations, Statistical Yearbook, 1948, page 373.

In order to put the new programme into effect, a series of decrees were issued providing for the following:

1) Imports could be paid for at the official exchange rate only if an exchange permit had been secured prior to placing orders abroad. 1/
2) An official buying rate was established (about 20 per cent above the previous rate) which applied to the proceeds of sale of "regular" exports. 2/
3) The official selling rate 3/ was an "auction" rate subject to variation in availability of exchange which could be more or less "regulated" by the Government since it controlled the supply of foreign exchange as well as the amount of import permits to be granted.
4) A free exchange market was legalized based upon receipts from invisible items and specified exports whose movement in international trade had been irregular. 4/ Prior permits were not required for imports at the free rate. The free market rate ranged from 10 to 20 per cent higher than the official selling rate during 1934 and 1935. When late in 1935 the free rate appreciated to less than 10 per cent above the official rate, the Government was authorized to levy a surcharge up to 20 per cent in excess of the official rate on all imports coming in without a prior exchange permit.
5) A Grain Regulating Board (Junta Reguladora de Granos) was established to "guarantee" minimum prices to producers and regulate export sales of certain agricultural products. The Board was authorized to purchase, exclusively for export, wheat, corn and linseed at

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1/ Decreto No. 31130 of 10 November 1933; quoted by J. Prados Arrate, El Control de Cambios, pages 83-84, Buenos Aires 1944.

2/ These included exports which were regularly sold abroad year after year and the demand for which was considered inelastic.

3/ Decreto No. 31864 of 28 November 1933; quoted by J. Prados Arrate, op.cit.

4/ This category whose foreign exchange receipts were sold in the free market included animal skins, fruits, honey, cheese, garlic, etc.; wool was given a preferential rate calculated at 5 per cent below the official selling rate. It is interesting to note that all exports to countries bordering Argentina (i.e. Brazil, Uruguay, Paraguay, Chile and Bolivia) could be reckoned in free market pesos. Later Peru was granted the privilege of importing from Argentina at the free market rate.

/specified prices.

specified prices. Any losses incurred by the Board were to be charged to the exchange margin fund which received the exchange profits of the Government arising out of the difference between the official buying and selling rates.

The Board regulated its sales abroad in such a manner as not to depress world market prices. Only a very small percentage of the exchange profits were required to cover losses during the first period (1933-36) of its existence. At the end of 1934, one year after the multiple rate system had been initiated, the exchange profits amounted to 91 million pesos, of which less than 25 million were used to cover foreign debt-service losses and approximately 9 million for losses of the Grain Board's buying and selling operations. 1/ With the improvement in the world markets during 1934-37 the need to cover overseas grain sale losses was eliminated. Thus the exchange profits became in effect a hidden tax on agriculture and an important source of revenue for the Government.

Exports and Imports 1929-1937

The changes in value of exports from 1929 to 1937 were largely the result of changes in prices. In 1932 the volume of exports was 12 per cent below that of 1929 but the value in pesos had decreased by 41 per cent. There was a further value decrease of 12 per cent in 1933 accompanied by a small decrease in volume from 1932. After that the value of exports gradually rose until by 1937 it exceeded that of 1929 in pesos and had recovered to 70 per cent of the dollar value of exports in 1929; the volume of exports was slightly lower than in 1929. Table 14 shows the changes which took place from year to year and also gives an index of the weighted average prices of grain (wheat, corn, barley, oats) and flax, at port of loading. It should be noted that the exchange rate was stabilized during this period (1933-37), and that the general price level rose moderately — i.e., by less than export prices, just as it declined by less during the early years of the depression. The higher export prices reflected the improvement in world agricultural markets

1/ Virgil Salera, Exchange Control and the Argentine Market, Columbia University Press, New York, 1941.

/and also the

and also the stabilization policy of the Argentine Government referred to above.

Changes in the value of imports, on the other hand, were largely due to changes in volume rather than prices. Imports decreased in 1932 to 43 per cent of their value in 1929, and to less than 46 per cent of their 1929 volume (i.e. as measured by constant prices). Imports, like exports, increased after 1933; however, in 1937 both the value and volume of imports was 20 per cent below the 1929 level. Argentina had a net surplus of 407 million pesos in its balance of payments in 1937, and cancelled 455 million pesos of its external debt that year.

The depression and recovery were reflected to some degree in the changes in composition of imports: iron and steel manufactures, vehicles, and machinery and equipment (including agricultural) had dropped to about 11 per cent of the total imports in 1932 from 26.2 per cent of the total in 1929. By 1937 this group of imports had recovered to 22 per cent of the total value and in 1938 they constituted 29 per cent of the total; the heavy imports of farm machinery in the later year, arising out of higher farmers' incomes in 1937, no doubt explained a considerable part of the increase in 1938.

Commercial Treaties

As in the case of Chile and Brazil, Argentina entered into a number of compensatory trade agreements during the depression in an effort to maintain its volume of exports. The first and most important of these agreements was with the United Kingdom in 1933. The system of quotas and imperial preferences established by the Ottawa Conference in 1932 1/ threatened to diminish the British market for Argentine products, especially meat. Therefore Argentina was quite willing to accept an agreement which represented an abrupt change of policy and put it at a certain disadvantage in that certain foreign supplies would have to be purchased in a non-competitive market. The treaty, known by the name

1/ The Smoat-Hawley Tariff enacted by the United States in 1930 no doubt also influenced Argentina's action; in 1932 Argentine exports to the United States had fallen to the point where they represented only 3.4 per cent of its total exports as compared with 10 per cent in 1929.

/of its

of its negotiators — Roca-Runciman — recognized the importance of meat exports in the Argentine economy and guaranteed that the United Kingdom's imports of chilled beef would not be less during a three-month period than 90 per cent of the corresponding three-month period of the year ending 30 June 1932.

Article II of the Treaty was the most important since it was the origin of the bilateral system of trade which Argentina followed with the United Kingdom and with certain modifications with other countries thereafter. It provided that with the establishment of exchange control in Argentina the total amount of sterling accruing to that country from its exports to the United Kingdom must be reserved for payments to the United Kingdom "after the deduction of a reasonable sum each year for the servicing of external public debts (national, provincial and municipal) payable in countries outside the United Kingdom". As was stated earlier, one of the principal reasons for establishing exchange control late in 1933 was to carry out this provision of the Treaty.

The discriminatory effect of the Roca-Runciman Agreement may be seen in the fact that Great Britain's share of official exchange increased from 33.7 per cent of the total in 1933 to 40.7 per cent in 1934. Whereas all remittances to the United Kingdom were covered by official exchange, 31 per cent of the remittances to other countries had to be made at the free exchange rate which, as pointed out above, ranged from 10 to 20 per cent higher than the official rate. It is estimated that approximately one-half of the imports from United States during this period (1934-39) had to be paid for at the free market rate. One of the major effects of this and other agreements was to cut down Argentine imports from the United States from 40 to 50 per cent, as a percentage of total imports as compared with 1929, even though exports to the United States were restored to their former relative position after 1934. 1/

1/ The free market exchange accounted for from 17 to 25 per cent of imports and from 30 to 40 per cent of all debit items in the balance of payments from 1933 to 1939. See Virgil Salera, op. cit.

/Argentina

Argentina concluded a compensation agreement with Germany in 1934, which was followed by similar agreements with a number of other countries.1/ These agreements usually provided that Argentina would reserve an amount of exchange at the official rate for imports from its trading partner equal to Argentine exports to that country. These countries accounted for 55 to 60 per cent of Argentina's exports and imports from 1934 to 1939.

Recession and Trade Policy 1938-39

The recession of late 1937 and 1938 which especially affected the prices and trade of food and raw materials marked the beginning of a downward trend in the production and export of Argentina's traditional export crops — wheat, corn, linseed — which has lasted to this day. The reduction of these exports had a profound effect on policy and was in turn affected by policy after the war. 2/

The deterioration in international trade which set in during the second half of 1937 began to make itself felt almost immediately on Argentina's position — exports were falling throughout the second half of the year although imports were rising. This trend continued into 1938 at the end of which Argentina found itself with a trade deficit for the first time since 1930 — exports dropped to a value of 1,400 million pesos from almost 2,500 million in 1937, while imports reached a total of 1,460 million as compared with 1,557 million the year before.

1/ The Netherlands, Spain, Austria, Switzerland, Italy, France, Hungary, Denmark, Belgium, Finland, Czechoslovakia.

2/ One of the by-products of the depressed state of Argentine agriculture after 1938 has been the failure to maintain and expand the mechanization of agriculture. This was due to the lack of availabilities of farm machinery during and immediately after the war, but also to the lack of farmer purchasing power. The average price of grain and flax increased from 13.21 pesos per 100 kilos in 1937 to 17.08 in 1947 and 23.50 in 1950 (crop year 1949/50), while the price of a 30-40 HP tractor increased from 6,500 pesos in 1937 to 15,500 in 1947 and 36,500 pesos in 1950. In other words, after 1938 the Argentine grain farmer had a decreasing market at low prices in relation to those for farm machinery. On the other hand, the prices received for food grains by farmers in the United States in 1947 increased 187 per cent above the 1935-39 average while prices paid for farm machinery in 1947 had increased by only 35 per cent over the 1935-39 average. In 1947, total agricultural production, by quantity, in United States was 35 per cent above the 1935-39 average. (See Agricultural Statistics 1948, United States Department of Agriculture).

/Prices of

Prices of grain and flaxseed dropped 15 per cent in 1938, another 20 per cent from 1938 to 1939, and continued to decline until by 1943 they were 41 per cent below the average prices of 1937.

The Government attempted to stimulate exports and ameliorate the position of the agricultural producers by reviving the Grain Regulating Board and by authorizing the creation of a quasi-public Corporation for the Promotion of Trade. The Grain Board started purchase and sales (export) operations in 1938 limiting its activities, as heretofore, to wheat, corn and linseed. During the period 1936-38, 40 per cent of Argentine exports went to countries in Continental Europe and Asia, which by 1942 were completely shut off from world trade. The Board sustained substantial losses due to the difference in buying and selling prices and inability to sell the total exportable surplus of grain, a part of which was used as fuel during the war years.

With imports continuing at high level in 1938 — only 7 per cent below 1937 — and exports declining to approximately 55 per cent of the 1937 level, the Government decided to tighten exchange and import controls. In November 1938 the prior permit system was extended to all imports; in August 1939 it was decreed that all merchandise would be imported at the official selling rate (thus abolishing the free market for imports) and that imports would be classified as to essentiality or non-essentiality, with a separate rate for each. The decree of 21 August 1939 introduced a fundamental change in the character of import control. The priority classification which was set up in 1931 was designed merely to guarantee sufficient exchange for the Government to service the debt and to provide for its purchases abroad. After 1933 the Government continued to have first claim on exchange for its requirements and a considerable portion of the remainder of the available official exchange was allocated on the principle of origin in order to fulfil trade agreements. This of course discriminated as between countries since it restricted imports from the free currency areas and increased their prices to the extent that free market exchange was used to pay for them. Nevertheless free exchange, which paid for about 20 per cent of imports, carried no restrictions either as to origin or commodity. With imports coming completely under import restrictions and the necessity to conserve foreign exchange, it

/was apparent

was apparent that selectivity based on commodity as well as origin would thereafter be an important factor in allocating exchange.

The import quotas announced under the new exchange regulations not only stipulated amounts for each classification but also provided different quotas for the same class of products according to their origin. Thus imports of automobiles in 1939 were unlimited from a group of countries with which Argentina had bilateral agreements but were limited to 20 per cent of the preceding year's imports from free currency countries. This quota was raised to 70 per cent later when arrangements were made to have the imports financed by short-term credits by the exporting companies. Import permits for agricultural machinery were prohibited for all areas in 1939, but in 1940 import quotas from the free currency countries were 90 per cent of 1938 whereas they were 120 per cent for the "bilateral" countries. A long list of items such as crude oil, trucks, tin-plate, drugs and chemicals, tools, paints, caustic soda, typewriters, etc. were similarly treated. As scarcities developed because of the war quota restrictions were removed. 1/

Although obviously no sharp dividing line can be made as to the degree or time when induced policies become autonomous, the year 1939 marks the beginning of a definite tendency to adapt exchange and quantitative controls to economic development objectives. As we have seen, Argentina's balance of payments situation steadily improved up to 1937 and the free market exchange rate tended to approach the official rate when not subject to the surtax. Apparently the pressure on imports was not beyond the reach of equilibrium somewhere near the official rate. Had the value of exports continued to rise, although perhaps at a lower rate, and the 1937 terms of trade at least been maintained, it is reasonable to assume that exchange and import controls could have been relaxed within the limits of Argentina's treaty commitments, as was the avowed intention of the Government, since her import needs could thus have been satisfied to an increasing degree. It should be pointed out, however, that Argentina's import coefficient

1/ Virgil Salera, op. cit.

/(ratio of

(ratio of value of imports to national income) in 1937 was 16.7 as compared with 22.3 in 1929 and 21.8 in 1930. The lower coefficient in 1937 is no doubt explained in part by the limitation of imports which enabled the government to cancel 445 million pesos of the foreign-held public debt. The problem of limiting imports during the war was temporarily solved by the lack of availabilities, only to reappear with greater force after the war.

Tariff Policy

Tariffs in Argentina have never been an important instrument of foreign trade policy. Up to the depression import levies were viewed as a steady source of revenue for the Government; with the sole exception of protective duties for sugar, wine and yerba mate — products of vital importance to three zones of the country — the function of tariffs was fiscal and not protective. 1/

Ad-valorem duties were established for the most part by Law 4933 in 1906, but the law of 1923 is the base of the present tariff schedule. This measure increased appraisals by 60 per cent and duties by 25 per cent; it provided for an addition of 2 per cent on ad-valorem duties in the 10-20 per cent bracket and of 7 per cent in brackets above that. The tariff provides for minimum and maximum ad-valorem rates levied on fixed unit valuations. There are also a considerable number of specific duties based on units of quantity (rather than official valuations) and some based on c.i.f. prices at Argentine ports; a large number of commodities are also subject to surtax.

Not until the enactment of Law 11588 in 1932, establishing an additional 10 per cent levy on imports, does one find a protectionist tinge to tariff policy. But although this law raised tariffs, the increase provided only a light protection to national industry. The following table compares the value of customs collection with the value of total imports, first for the two years before the war (1937-38), and second for the last two years for which data are available (1946-47):

1/ Customs duties made up from 30 to 35 per cent of the national Government's revenues during the 'thirties. (See Suplemento Estadístico de la Revista Económica, Banco Central).

/Table 15

Table 15. Customs Duties and Receipts

Year	Tariff values a/ of imports (in million pesos) Dutiable imports	Non-dutiable imports	Total	Customs Receipts (in 000's pesos)	Customs receipts as percentage of total imports	of dutiable imports
1937	1,128.5	386.6	1,515.1	324,217	22.6	30.3
1938	1,025.6	393.8	1,419.4	320,379	22.6	31.2

Year	Real values of imports (in million pesos) Dutiable	Non-dutiable	Total	Customs Receipts (in 000's pesos)	Customs receipts as percentage of total imports	of dutiable imports
1946	1,755.2	576.5	2,311.7	229,960	9.8	13.1
1947	4,479.4	869.1	5,348.5	492,306	9.2	11.0

Sources: Dirección General de Estadística de la Nación, El comercio exterior argentino en 1941 y 1940.
Sintesis estadística mensual de la República Argentina, Marzo de 1948.

a/ The tariff values are the official values for purposes of duty collection. In 1937 and 1938 they differ only slightly from "real" values, which give 1,557,684,380 pesos for total imports in 1937 and 1,460,887,797 pesos in 1938.

The figures for 1937-38 are not directly comparable with those for 1946-47, since in the first period "tariff values" differed little from "real values", while this difference was very sharp in the post-war years. To make them comparable a part of Table has been reconstructed below, setting forth tariff valuations for the second period. As the tariff valuation for 1947 is not available broken down into taxable and duty-free components, the breakdown is derived by assigning to each the percentage weight it had in the real-value category for that year.

Year	Tariff values of imports (in million pesos) Taxable imports	Duty-free imports	Total	Customs Receipts (in 000's pesos)	Customs receipts as percentage of total imports	of taxable imports
1946	795.0	371.9	1,166.9	229,960	19.7	28.9
1947	1,863.6	360.3	2,223.9	492,306	22.1	26.4

/It is apparent

It is apparent that the percentage levy based on tariff values of imports has been very constant for many years. Thus from 1910 to 1947 the minimum customs-collection based on total imports value was 16.4 per cent in 1930, and the maximum was 27.5 per cent in 1932. The minimum collection computed only on imports levied against (that is, excluding the duty-free items) was 24.4 per cent in 1930, and the maximum 34 per cent in 1934.

It must be stressed that these percentages do not measure the degree of protection actually accorded by tariffs to the national industry. Two major factors which weaken the protective nature of the tariff must be taken into account: (a) the widening gap between tariff values and real values, and (b) the relatively high levies on capital goods and certain raw materials needed by domestic industries and the relatively low tariffs on imports of competing finished goods.

Although it is apparent that customs duties have given little protection to Argentine industries, it is of interest to take note of Decree 14630 of 5 June 1944, which had as its objective the protection and expansion of local industries. The Decree authorizes: 1) Additional customs levies; 2) import quotas including prohibitions; 3) subsidies to industrial production; 4) establishment of an Advisory Commission for Industrial Development (Comisión Asesora de Fomento Industrial) which would recommend to the Executive the application of the foregoing measures as necessary to industries when such measures were found to be to the "national interest".

It provided for an increase up to 50 per cent in tariff levies on those products whose c.i.f. price, plus existing duty and shipping costs, was lower than that of its Argentine counterpart. The increase could exceed 50 per cent when this price disadvantage to the Argentine product resulted from any form of dumping or from any of the following causes in the country of origin: special advantages granted by the foreign government to its producers, exporters, or shipping agents; devaluation of currency; low wages, lack of social legislation, low standard of living, or forced labour. The Executive was given authority to fix import quotas on those products which competed with Argentine production, or to prohibit their import altogether. The Executive was also given authority to grant

/subsidies at

subsidies at its discretion to those industries which could qualify under the provisions set forth in the Act. The authority to use the tariff as an effective barrier against lower costs of production abroad has never been exercised.

The other features of the decree, i.e., granting of subsidies and import prohibitions in favour of industries which qualify under the act, have been used to assist a number of industries. In order to secure assistance under the act the industry concerned was to present the following data to the Advisory Commission: amount of capital and number of employees, quantity and quality of products manufactured or to be manufactured; their domestic distribution and proportion of national demand which they supplied or could supply in the near future; quantity and origin of its principal raw materials, specifying clearly those which it was deemed necessary to import and showing that it was impossible to obtain them domestically under favourable economic conditions; proposed site for the industry, justifying its selection. In the case of new industries, the Commission may determine the site of the plant in harmony with the general industrial plan.

The so-called "sheltered industries" which have been accorded protection and assistance under the terms of the decree are the following: sulphur, cast-iron, plywood, dry cell batteries, hydrogen peroxide, barium chloride, barium sulphide, sheet iron, tugsten carbide, photographic plates and films, long fibres for bag material, penicillin and sulpha drugs, synthetic plastics, citric acid, insecticides, printing inks, tools in general.

As can be seen, the list does not seem long nor does it appear to correspond to any general plan of development, but rather to the desire of the Government to aid those activities which do not find a natural base for development and thus require the widest protection. Apart from these industries which do not bulk large in the total industrial production, the others which make up the major portion of industry in Argentina find their protection principally in exchange controls.

Periodically the Banco Central de Argentina issues bulletins with reference to entrance permits granted for the importation of goods into

/the country.

the country. As no item can come in without its corresponding permit, it is evident that these bulletins define what can or cannot be imported. An industry can consider itself to have sufficient protection when its finished products are not listed among the goods which can be imported, but the basic materials it needs from abroad are on the list.

Exchange Policy 1939-1949

When the United States dollar was devaluated in March 1933 the value of the Argentine peso was adjusted upward. At the end of the year, when the multiple rate system was introduced (i.e., an official and a free rate) the official rate was 3.21 to the dollar as compared with 3.91 in March 1933. From 1934 to 1938 the official buying rate was stabilized at a little over 3 pesos to the dollar while the selling rate fluctuated slightly more.

Table 16. Argentina: Exchange Rates, 1934-38
(Pesos to the dollar)

	Official buying rate	Official selling rate	Free rate
1934	2.98	3.39	3.95
1935	3.06	3.46	3.80
1936	3.01	3.41	3.59
1937	3.03	3.23	3.33
1938	3.07	3.30	3.92

Source: Suplemento Estadístico de la Revista Económica, No. 7, for 1934-37 rates; International Financial Statistics, March 1950, International Monetary Fund, for 1938 rate.

The decree of 21 August 1939, referred to above, split the official selling rate — the rate of 17 pesos to the pound sterling was reserved for specified essential imports and all other imports were transferred to a rate of 20 pesos per pound sterling. With the outbreak of the war the United Kingdom devaluated the pound sterling, whereupon Argentina established the following rates:

Argentina: Exchange Rates, October 1939

	Sterling	Dollar
Buying rate:	13.50	3.36
Selling rates:		
Basic	17.00	4.23
Preferential	15.00	3.73

/When the Trade

When the Trade Development Corporation (Corporación para la Promoción del Intercambio) was created in March 1941 a new buying rate was initiated, which came to be known as the preferential buying rate. The Corporation, which was a semi-private entity, was authorised to buy foreign exchange from proceeds of sale of non-regular exports 1/ at the rate of 4.22 pesos per dollar. The purpose of this concession was to encourage exports of products which otherwise could not find a market abroad. The Corporation was authorized to use the foreign exchange thus obtained for imports of automobiles and spare parts, truck chassis and trucks, agricultural machinery, typewriters, cash registers, calculating machines and other items not on the essential list.

The basic and preferential selling rates did not change from September 1939 to September 1949; the basic buying rate also remained the same and the preferential buying, which had been reduced about 5 per cent in 1943, remained the same thereafter until October 1949.

Because of the devaluation of the sterling in September 1949 and the rise in internal prices and costs of production, which made it increasingly more difficult for certain exports to compete in world markets, a new schedule of exchange rates was established in October 1949 as follows:

Argentina: Exchange Rates, October 1949 a/

	Buying Rates				Selling Rates			Free Market
	Basic	Preferential A	Preferential B	Special	Basic	Preferential A	Preferential B	
Dollar	3.36	4.83	5.73	7.20	6.08	3.73	5.37	9.02
Pound Sterling	9.40	13.53	16.04	20.15	17.04	10.45	15.04	25.26

a/ Argentina's New Multiple Rate System, January 1950, International Monetary Fund.

The main objective of the new buying rates would seem to be to maintain the dollar value of the Basic rate for most of the traditional exports which, under present conditions of inconvertibility, go principally to the non-dollar area. These include grains (except oats), linseed, beef

1/ Canned ham, leather goods, shoes, hats, wool and cotton yarns, etc.

/and mutton.

and mutton. Under this rate the dollar value of the peso stays the same as before devaluation and the sterling value of the peso is increased by 44 per cent. The preferential and special rates offer varying degrees of assistance to other exports. The Preferential B and Special rates represent a devaluation of 30.5 per cent against the dollar compared with previous rates in these categories. They cover a variety of exports which formerly were considered "non-regular" such as textiles, leather goods, ham, bacon, cheese, casein, dried and fresh fruit, powdered milk, dried eggs, tung oil, quebracho, metal manufactures, etc.

In between the Basic and the Preferential B rates is the Preferential A rate to which are transferred a number of commodities which formerly were exported at the Basic rate; chief among these are wool, linseed oil and other vegetable oils, pork, and hides. The rate for these exports was devaluated in terms of the old preferential rate by 17.6 per cent against the dollar and therefore represents an appreciation of 18.6 per cent against the sterling. However, for the commodities transferred to it from the Basic rate it represents a devaluation of 30.5 per cent against the dollar and of course remains the same for the sterling. It may be noted that wool exports to the United States have been stimulated not only by devaluation but also by the substantial rise in prices during the latter part of 1949.

Thus Argentina has a set of exchange rates for exports ranging from 3.36 pesos to 7.20 pesos to the dollar; the bulk of the regular exports are in the lowest rate (i.e. highest peso value) category and most of the non-regular exports are in the highest rate category.

The lowest selling rate is the Preferential A, which maintains its dollar value at 3.73 pesos and is apparently reserved to the Government to cover its obligations and purchases abroad including coal and petroleum. The Preferential B rate maintains its sterling value and therefore its dollar value is depreciated 30.5 per cent; imports of coffee, bananas, newsprint, soft wood, natural rubber, iron ingots, steel, copper and tin bars and sheets, and industrial chemicals are made under this rate.

The Basic rate of 6.08 represents a 30.5 per cent devaluation against the dollar. A large variety of essential supplies will come in under this rate: industrial machinery and equipment, farm machinery, truck chassis

/and parts,

and parts, iron bars and pipe, steel rails, textiles, caustic soda, etc. The Auction rate, which fluctuates in accordance with availability of exchange and import quotas, will be used for imports of durable consumer goods, certain kinds of iron, tin and copper products, artificial silk textiles, pumps, and manufactures not included in other categories. Most import items are subject to quotas and may be shifted from one rate to another.

The Free market rate has undergone a devaluation of 47 per cent with respect to the dollar and 23 per cent to the sterling. All transactions other than merchandise imports and exports will be carried out at this rate (9.02 pesos to the dollar and 25.26 pesos to the pound sterling). This rate may be attractive to foreign capital seeking investment in Argentina. The Free rate may also for the time being ease the balance of payments situation inasmuch as remittances of interest, dividends, etc., for foreign account must be made at this rate.

The present rate structure widens considerably the spread between buying and selling rates and therefore substantially increases the revenue of the Government from this source. The exports of grain, oilseeds, beef and mutton covered by the Basic buying rate (3.36 pesos to the dollar) comprised approximately 55 per cent of the total value of exports for the years 1947 and 1948. 1/ Wool, hides and vegetable oils which made up about 20 per cent of the total value of exports for 1947 and 1948 are now exported at the Preferential A rate of 4.83 pesos to the dollar. On the import side, coal and petroleum, which are brought in at the 3.73 selling rate (Preferential A), were about 10 per cent of total value of imports in 1947 and 1948. The bulk of imports, other than Government purchases abroad, are made at the Basic (6.08) and Auction rates. A very rough estimate based on the composition of exports and imports in 1946-47 would indicate that the average rate for exports is from 4.30 to 4.50 pesos to the dollar, and the average for imports is from 6.50 to 6.70.

To the extent that the new schedule of selling rates increase the domestic prices of imports of goods competing with those locally produced,

1/ Before the war this group of products made up from 65 to 70 per cent of the total exports.

/an additional

an additional protection is afforded national manufacturers such as of certain textiles, agricultural equipment, durable consumer goods, various metal products, assembly plants manufacturing component parts, etc. Nevertheless it may be assumed that licensing and quotas, which have become more restrictive during the past year because of relative scarcity of foreign exchange, continue to be the most effective instrument both for protecting local industries and for limiting the general level of imports.

The new rate schedule will also alter the relationship between internal and external prices since the domestic prices of imported capital goods and raw materials will be increased which in turn will result in higher costs of production. Agriculture is affected the most by the rate changes. Farm machinery impocts come in under the Basic rate of 6.08 as compared with 4.23 (except tractors under 40 HP which came in at 3.73) before October 1949. It is estimated that a 30-40 HP tractor (wheel type) will cost a farmer 36,500 pesos this year as against 15,500 pesos in 1947. The exchange rate accounts for 30 per cent of the increased cost; the higher f.o.b. factory price for 24 per cent; 1/ and the remainder is due to increased distribution costs and an 8 per cent sales tax recently added. Costs of production for agricultural export crops are apparently fairly close to world market prices when converted at the 3.36 rate. 2/ Furthermore, the Government is already paying a large subsidy on flour — bakers receive a refund of 23 pesos for each 100 kilos of flour for which they pay the millers 39 pesos per 100 kilos. Nevertheless, the Government has indicated that it will guarantee "support prices" regardless of world market prices for agricultural products. If costs should increase above equivalent world prices the exchange rate for such commodities would have to be raised or exports subsidized.

1/ The f.o.b. plant price of the tractor used in the above calculations increased by 47 per cent from January 1947 to January 1950.

2/ According to the Argentine Ministry of Agriculture, the average cost of production of wheat for the 1949/50 crop year was 22.44 pesos per 100 kilos (f.a.s. port); the IAPI sold wheat abroad during this period at 27.0 pesos per 100 kilos (f.o.b. port), which is the equivalent of 2.19 dollars per bushel. (See Table 18.).

/Exports

Exports 1937-1949 1/

It was pointed out above that although the dollar value of exports in 1937 was still 30 per cent below that of 1929 the value in national currency was 7 per cent higher; and that this was followed by a recession in 1938 which, for the traditional export crops (grains and flax) of Argentina, heralded a downward trend in volume of production and exports. Table 19 shows that by 1942 the volume of total exports was reduced to 53 per cent of 1937; the index rises again to 71 per cent in 1947. The reduction in exports during the war years was due to the loss of markets when countries which took 40 per cent of Argentina's exports were completely cut off from overseas trade and also because of lack of shipping space. Exports of wheat and flour, for example, declined from 4.9 million tons in 1939 to 2.0 million in 1943. (See table 22 on volume of exports by commodities for selected years).

During the war a significant shift in the distribution of the world's agricultural resources took place, which persisted after the war, and changed considerably the direction of trade in certain commodities -- particularly grains and linseed. This re-alignment of production of certain major crops may be seen in Table 17, which gives data on world production and exports of wheat and corn for the pre-war and post-war years. The yearly average production of wheat in the United States in 1947 and 1948 was 86 per cent higher than for the years 1934-38; and United States exports of wheat as a percentage of world exports rose from 6 per cent to 52 per cent.

Argentina's share of world wheat exports declined from 23 per cent in the pre-war period to 7 per cent in 1948. Its wheat production in 1945 2/ and 1946 was 60 per cent of the yearly average for 1934-38; production increased in 1947 and again in 1948 when it approached the pre-war level. However, it fell off again in 1949 and 1950 to a level about 25 per cent below that for 1934-38. Not only did the average yearly production and exports decline but exports as a percentage of production in Argentina decreased from 51 per cent in 1934-38 to 38 per cent in 1948, while the corresponding percentage for the United States rose from 4 to 37 per cent.

1/ All export and import data for 1948 and 1949 are provisional estimates.
2/ Crop year 1944/45; years given in the text are for year in which crop is harvested.

/Canada increased

Table 17. World Wheat and Corn Production and Exports

(in 1000 metric tons)

	Wheat					Corn			
	Argentina	United States	Canada	Others	World	Argentina	United States	Others	World
Production									
1934-38	6,634	19,476	7,170	131,620	164,900	7,892	53,066	43,742	114,700
1946-47	6,664	37,209	9,165	99,762	152,800	6,500	60,555	54,145	121,200
1947-48	4,800	35,065	10,705	116,330	166,900	6,630	92,728	59,072	158,430
Exports									
1934-38	3,376	844	4,862	5,784	14,866	4,895	682	4,618	10,195
1946-47	2,149	10,725	6,323	1,936	21,133	1,951	2,761	162	4,874
1947-48	1,831	13,053	5,681	3,919	24,484	2,964	819	895	4,678
Exports as percentage of production									
1934-38	51	4	68	4	9	62	1	11	9
1946-47	32	29	69	2	13	30	4	Neg.	4
1947-48	38	37	53	3	15	45	1	2	3
Exports as percentage of world exports									
1934-38	23	6	33	39	100	48	7	45	100
1946-47	10	51	30	9	100	40	57	3	100
1947-48	7	53	23	16	100	63	18	19	100

Source: F.A.O. Grain Bulletin, Commodity Series No. 10, January 1949, pages 41, 48, 54, 56.

Note: Argentine figures are for calendar years 1947 and 1948. The world totals have been adjusted accordingly. Figures for 1946/47 and 1947/48 from Economic Commission for Latin America.

Canada increased its production of wheat but also experienced a decline in its share of world exports. It may be noted that both Canada and Argentina were apparently reserving a larger share for home consumption after the war.

The story for corn is somewhat different. Although the United States has substantially increased production, it has not been an important factor in world exports except for one year. The significant fact to be noted here is that while world production of corn has increased by almost 40 per cent since the pre-war period, exports have decreased 55 per cent; and that world exports as a percentage of world production have declined from 9 per cent before the war to 3 per cent in 1948. Insofar as this may indicate a trend toward national self-sufficiency, it represents a permanent loss of markets for Argentina, whose production and exports of corn have considerably declined. However, production of corn in Argentina has not declined nearly as much as exports, which as a percentage of production decreased from 62 to 45 per cent in 1948.

During the pre-war period Argentina exported over 90 per cent of its linseed production, which represented 80 per cent of world linseed exports. Because of high prices of linseed and linseed oil in 1947 and 1948, other countries found it profitable to grow their own crop. Sweden, which had imported the bulk of its requirements, began to develop its own production; and the United States, Argentina's best customer for this commodity, established support prices and practically eliminated Argentina from that market. Argentina's production of linseed was reduced from a yearly average of 1,700,000 metric tons for 1935-39 to 940,000 tons in 1948 and 550,000 tons in 1949.

A combination of external and internal conditions have thus weakened Argentina's export position. The geographic distribution of its exports is fundamentally the same as before the war, with a large proportion of its exports going to non-dollar areas under bilateral agreements. After the war Europe was unable to fully pay for imports from Argentina either with its own exports or with dollars. The European Recovery Programme enabled Western Europe, however, to overcome a part

/of its trade

of its trade deficit and continue large imports of food and raw materials from North America. This has tended to perpetuate the shift in commodity trade noted above. Although supplies were more readily available from European countries, Argentina's dollar position was worsened because of a decline in exports to dollar areas during 1949.

Meanwhile, industrial development in Argentina has caused a shift from agricultural production for export to industry and the domestic sector of agriculture. The extent of this shift is indicated not only by a reduction in exports but also by a decrease in production of the most important exportable crops.

With respect to exports, policy has been carried out through the Institute for the Promotion of Trade (Instituto Argentino para la Promoción del Intercambio), a Government agency created in 1946 with authority to purchase and sell exportable commodities. The chief objectives of this policy were:

a) to promote trade through implementation of the bilateral treaties which Argentina has entered into with most of her trading partners; since 1946, from 70 to 85 per cent of its trade has been carried out under compensatory agreements;
b) to improve Argentina's terms of trade; and
c) to accelerate the rate of industrialization by utilizing export profits for public works and promotion of state and private industries.

Table 18 shows the relationship of Argentine export prices of wheat and corn to those paid to farmers and to United States prices for these commodities given in peso equivalents. Because of the disruption of "world markets" caused by scarcity of supplies and inconvertibility of currencies, it is not possible to speak of world market prices during the post-war period. However, it will be noted that the margin between Argentine and United States wheat prices has been eliminated during the past year.

A policy of industrialization of linseed (manufacture of oil, oilseed cakes, and residual products) was initiated in 1946 with the corollary policy of exporting oil and oilseed cakes rather than seed. 1/

1/ In recent years Argentina has also made an effort to increase the degree of processing of other raw materials for export.

/Exports of

Table 18. Argentina: Production and Domestic and Export Prices of Wheat and Corn

Wheat

(Prices in pesos per 100 kilos)

	Average price paid to farmers at port	Average price of wheat Minneapolis U.S.A.	Average price of sales abroad by IAPI	Production a/ (1000 tons)	Exports (1000 tons)
	b/	c/	d/	e/	f/
1929	9.68	-		9,500	6,613
1933	5.28	-		6,556	3,929
1937	13.21	-		6,802	3,887
1939	6.71	11.85		10,319	4,746
1942	6.75	15.90		6,487	2,176
1945	9.50	21.08	14.02	4,085	2,358
1946	15.09	28.84	21.83	3,907	1,387
1947	17.08	35.50	45.50	5,615	2,284
1948	20.00	34.50	60.00	6,663	2,149
1949	23.00	27.40	35.00	4,800	1,836
1950	23.50	26.90	27.00	5,300	-

Corn

	b/	g/	d/	e/	f/
1929	8.11	-		6,412	5,048
1933	4.00	-		6,802	5,019
1937	6.79	-		8,640	9,083
1939	6.62	6.99		4,864	3,196
1942	4.40	12.00		9,034	220
1945	8.08	25.60	10.34	2,966	572
1946	17.24	23.85	17.67	3,574	2,200
1947	10.84	30.79	28.50	5,815	2,366
1948	14.00	33.32	35.00	5,900	2,540
1949	15.80	17.98	22.00	4,000	1,081
1950	16.00	17.33	19.50	3,000	-

a/ Production shown for year in which crop was harvested.

b/ Average price f.o.b. Buenos Aires. Until 1948, the prices have been taken from the Boletines Estadísticos del Banco Central, and for 1949 and 1950 from the Presidential Decrees fixing the Government crop purchasing prices.

c/ Until 1947 — U.S. Department of Agriculture, Agricultural Statistics. 1948 — for Minneapolis No. 1 Dark Northern Spring wheat. For 1948 an estimate was made at 2.18 dollars per bushel, and for 1949 at 2.32 according to data from the United Nations. For 1950, first month at 2.80 (World Markets).

/d/ Until 1947 prices

Table 18 (Cont.)

d/ Until 1947 prices are obtained by dividing the value of exports by the corresponding volume, which appears in the Anuarios de Comercio Exterior, published by the Dirección General de Estadísticas y Censos. For 1948, 1949 and 1950 data has been taken from trade journals. The prices for 1948 have been checked against the totals of grain exports appearing in the Memoria del Banco Central of 1948. The difference between the average price f.o.b. and the export price which is evident until 1945 is due mainly to the fact that sales were unevenly distributed throughout the year.

e/ and f/ Until 1948 data from the Dirección General de Estadísticas y Censos. For 1949 and 1950 - Lettre d'Argentine No. 14 de la Société Générale. From the same source, the data concerning maize for 1947/48. The data for each year correspond to the crop year ending in that year. For 1949 exports, the Review of the River Plate, 20 January 1950.

g/ Until 1947 — U.S. Department of Agriculture, Agricultural Statistics. 1948 — Average maize quotations in Chicago. 1948 prices are calculated at 2.50 dollars per bushel and for 1949 at 1.36 according to data from the United Nations. For 1950, at 1.31 dollars per bushel (World Markets, February).

Exports of linseed in 1946 were 37,500 tons as compared to 134,600 tons in 1945. On the other hand, exports of linseed oil rose from 46,000 tons in 1945 to 148,000 tons in 1946 and 214,000 tons in 1947. Prices for exported linseed oil rose from 691 pesos per metric ton in 1945 to 1,478 pesos in 1946 and 2,154 pesos in 1947. Prior to 1946 United States had been the principal importer of linseed from Argentina. However, faced with the inability to secure linseed instead of oil and because of the profitability of growing linseed, crop production in the United States more than doubled from 1944 to 1948. During the latter part of 1949 and the first part of 1950, shipments of both linseed oil and linseed were again made to Europe, principally the United Kingdom, in fairly large volume.

Table 21 shows the changes in composition of Argentine exports by value for selected years. Grains, linseed and meat have become relatively less important; the position of wool and hides has remained more or less the same; vegetable oils, live animals, milk products and other agricultural commodities have increased as a percentage of total exports. This has been due more to a decrease in exports of the first group rather than an increase of the latter products. Part of the decrease is explained by increased domestic consumption. The yearly average exports of meat during 1946-1948, for example, were 581,000 metric tons as compared with 648,000 in 1937; yet production of meat increased from 2,230,000 tons to 2,550,000 tons during the same period.

Wool exports in 1949 fell off about 50 per cent from 1948. Although there was an estimated 10 to 12 per cent decrease of sheep numbers from 1947 to 1949, the main reason for the decline of exports in 1949 was the sluggishness of the international market at prevailing prices. During the latter half of the year, demand rose — especially in the United States — as did prices, thus creating a favourable situation for Argentine exports of wool.

Imports

If exports are calculated on a yearly average basis for 1940-48, it is quite apparent that they have not been sufficient to satisfy the increasing demands of a rapidly developing economy. Although the value

/of exports

of exports was maintained at a high level during 1946-48 because of unusually high prices, there has been a definite tendency during the past eighteen months for both volume and prices of exports to decline with the consequent necessity to restrict imports more rigidly. The relationship of exports and imports to national income and terms of trade may be seen in Table 19. Only in 1948 when an unprecedented amount of imports arrived, did the ratio of imports to national income equal that of 1937 — a year in which, as pointed out earlier, imports in relation to national income was 25 per cent below that of 1929. Argentina's industrial development has enabled it to substitute an increasingly larger number of locally produced goods for imports; but quite aside from the enhanced demand for certain classes of consumer goods which arises out of higher incomes, the nature of Argentina's natural resources are such that its growing industries will probably require greater quantities of industrial raw materials, heavy equipment, machinery and motors of all kinds. More and more its industries are dependent on imported fuels, industrial chemicals and metals and proportionately less on agricultural raw materials although of course the latter are still basic requirements satisfied from its own production. In the long run, then, the country must depend on increased exports to meet its increasing needs for imports.

Argentina's import policy during the post-war period has been conditioned by three factors: a) abnormally high requirements for capital goods as a result of development and lack of availabilities in preceding years; 1/ b) repatriation of a large portion of the foreign-held debt and investments; and c) the unbalance of its exports and imports with the different currency areas.

The foreign-held debt and private investments amounted to an estimated 3,250 million dollars in the decade of the 'thirties. Earnings and amortization of these debts and investments represented some 150 to 160 million dollars a year or roughly 20 to 30 per cent of receipts from exports. The maintenance of the servicing of the public debt and

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1/ See Economic Survey of Latin America 1949, Chapter VII, for an analysis of the process of economic development and capital investment in Argentina.

/investments

investments was achieved with great sacrifice during the depression. After the war the Government adopted a determined policy of liquidating a considerable part of the debt and public utility investments held abroad. The fact that a part of the foreign exchange reserves accumulated during the war could not be used immediately for imports no doubt had some bearing on the decision to repatriate these investments. In any case, it is estimated that Argentina cancelled about 2,000 million dollars of foreign-owned government bonds and private investments, from 1946 to the end of 1948.

The liquidation of public debt and investments plus an unprecedented influx of imports was made possible not only by a high level of receipts from exports but also by utilizing gold and foreign exchange holdings accumulated during the war. From 1940 to 1946, its gold and foreign exchange holdings were increased by 1,240 million dollars to a total of 1,700 million dollars. By the end of 1948 this reserve was reduced to less than half that of 1946.

Argentina began to have balance of payments difficulties in 1947 which became more acute during the latter part of 1948 resulting in a back-log of overdue commercial debts. The balance of payments problem was greatly aggravated by the unbalance of its trade as between soft and hard currency areas. Argentina, like Brazil, had large surpluses of inconvertible currencies during the post-war years which could not be used to finance deficits with the dollar area. In 1947, its over-all current transactions were in balance; yet it had a net deficit of 1,960 million pesos on current account with the dollar area, which was offset by a net surplus of 1,350 million pesos with the sterling area and 560 million with compensation currency areas. Although it had a small over-all trade surplus in 1948, its imports from dollar areas made up almost 40 per cent of its total imports and were twice as much as convertible currency receipts from exports. 1/ Furthermore, a sizeable portion of its exports in 1946 and 1947 were financed by credits under

1/ See Balance of Payments Year Book 1938, 1946, 1947; International Monetary Fund; and the 1948 Report of the Argentine Central Bank.

/bilateral

bilateral agreements. About 1.8 billion pesos of these credits had been used up to December 1947. According to the 1948 Report of the Central Bank (Memoria del Banco Central) there were still large outstanding credit balances at the end of 1948 with Spain, France and Italy, and small balances with a number of other countries. Whereas Brazil has been able to increase exports to the dollar area, Argentine dollar earnings have declined both in amount and in percentage of total receipts. In 1948 dollar receipts were less than 30 per cent of the total. This explains in part the drastic restrictions which have had to be applied to imports in order to balance its trade bilaterally.

The geographic distribution of Argentina's trade is shown in Table . The basic pattern of exports remains the same with, however, the United Kingdom taking a larger share after the war. It will also be noted that a larger share of imports came from United States and Canada in recent years. Because of United Kingdom disinvestments and inconvertibility of the sterling, Argentina can hardly carry large balances with that country; the same is essentially true of its trade with Continental European countries. Whatever are the disadvantages, it appears inevitable that Argentina must increase its imports from Europe both to liquidate existing balances and to create additional markets for its exports.

It will be recalled that up to 1939 although import restrictions acted as a restraint on the general level of imports and determined their origin in accordance with bilateral agreements, they did not appreciably affect the composition of imports. Because of the lack of recent data it is not possible to evaluate the effects of import controls on the composition of imports since the war. In 1947, the last full year for which official data are available, capital goods constituted 37 per cent of total imports as compared with 21 per cent in 1940 and 27 per cent in 1937. The 1948 Report of the Central Bank presents data on permits granted which indicate that capital goods and raw materials imports were an even larger percentage of the total in 1948 than in 1947 — assuming that the amount of permits granted is a fairly accurate measure of actual imports of the different categories of goods.

/With world

With world agricultural market prices settling at a level considerably below those obtained by Argentina from 1946 to 1948, and with the volume of exports below the pre-war level, the country is faced with the continued necessity to restrict the demand for imports in order to satisfy the needs of industry and agriculture for machinery, raw materials and transport facilities. In other words, there seems little likelihood that Argentina would relax quantitative import controls for some years to come.

Table 19. Argentina: Foreign Trade and National Income

	Value of exports	Value of imports	Quantum of exports	Quantum of imports	National income at constant prices	Ratio of imports to income	Terms of trade
	(millions of pesos)						
1937	2,311	1,558	100	100	100	100	100
1938	1,400	1,461	66	92	98	94	81
1939	1,573	1,338	83	81	109	74	79
1940	1,428	1,499	69	70	108	65	72
1941	1,465	1,277	61	56	125	45	79
1942	1,789	1,274	53	45	127	35	73
1943	2,192	942	56	31	124	25	78
1944	2,360	1,007	60	30	135	22	71
1945	2,498	1,154	59	33	119	28	73
1946	3,973	2,332	67	68	125	54	116
1947	5,505	5,349	71	133	140	95	141
1948	5,465	5,341	70	147	141	104	135

Source: Research Centre, Economic Commission for Latin America.

Table 20. Argentina: Trade by Areas, Selected Years

(millions of dollars

	1928			1938			1948			1949 a/		
	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance
United States and Canada	88	193	- 105	39	90	- 51	159	607	- 448	86	207	- 121
United Kingdom	280	158	+ 122	144	97	+ 47	559	234	+ 325	316	224	+ 192
Continental Europe	556	330	+ 226	193	190	+ 3	718	415	+ 303	352	301	+ 51
Others	94	126	- 32	62	105	- 43	191	343	- 152	126	113	+ 13
All world	1,018	807	+ 211	438	482	- 44	1,627	1,599	+ 28	880	845	+ 35

a/ All figures for 1949 are rough estimates based on data of Argentina's principal trading partners.

Source: See Tables 2 and 3 , Part I.

Table 21.- Composition of Exports of Argentina for selected years.

	(% OF TOTAL BY VALUE)				VALUE IN THOUSAND PESOS (national currency)				
	1928 %	1935-37 (average) %	1945 %	1946-47 (average) %	1928	1935-1937 (average)	1945	1946-1947 (average)	1947
A.-VEGETABLE PRODUCTS	62.5	58.8	25.7	44.3	1,498,115	1,085,309	642,187	2,097,272	2,759,800
1.Grain & grain products	57.1	46.1	19.9	33.5	1,367,532	850,948	496,913	1,588,556	2,118,500(1)
2.Linseed	5.4	12.7	1.2	0.1	130,583	234,165	29,703	4,107	-
3.Linseed oil	neg.	neg.	1.3	7.2	(2)	22	32,007	340,194	463,200
4.Other vegetable oils	neg.	neg.	3,3	3.5	(2)	165	83,564	164,415	180,100(3)
B.-ANIMAL PRODUCTS	32.7	34.0	49.8	38.9	782,140	625,914	1,246,049	1,849,150	1,990,000
5.Meat & meat products	12.7	15.0	19.2	14.3	304,670	276,543	479,645	680,018	767,300
6.Live animals	0.9	0.6	3.0	1.6	20,754	10,209	74,681	75,542	84,900
7.Wool	7.6	7.9	10.8	7.2	182,433	145,970	270,472	341,614	326,200
8.Hides & skins	7.8	6.6	6.9	7.4	187,535	122,417	173,043	349,067	357,600
9.Dairy products	1.7	1.1	2.8	3.3	39,691	19,799	70,491	158,929	170,800
10.Sub-products	2.0	2.8	7.1	5.1	47,057	50,976	177,717	243,980	283,200
C.11.FOREST PRODUCTS	2.3	2.3	2.8	2.1	55,498	42,795	69,746	98,454	119,800
D.12.MINERALS	neg.	0.6	0.8	0.3	387	11,224	18,808	13,298	9,100
E.13.OTHER AGRICULT.PRODUCTS	1.0	2.7	6.7	7.3	24,005	50,407	167,913	345,768	398,400
F.14.OTHERS	1.5	1.6	14.1	7.1	36,464	30,014	353,067	335,085	227,900
	100.0	100.0	99.9	100.0	2,396,609	1,845,654	2,497,770	4,739,027	5,505,000

Sources: a) Anuario del Comercio Exterior de la República Argentina correspondiente a 1937. Dirección General de Estadística de la Nación. Ministerio de Hacienda. Buenos Aires. 1938
b) Anuario Estadístico de la República Argentina. Comercio Exterior.1945-1946. Dirección General de Estadística y Censos. Buenos Aires, 1948.
c) Síntesis Estadística Mensual de la República Argentina, N°3. Año II, March 1948. Dirección General de Estadística y Censos. Buenos Aires.
d) Research Center of U.N.Economic Commission for Latin America.

Notes: (1) Export values for items c) and d) of group A.1, for 1947, are included in group E.13, and those for item e), in group F.14 (See description of groups on page 76). (2) Export value for linseed oil and other vegetable oils are included in group E.13(See description of groups)
(3). Export value for other vegetable oils, in 1947, does not include edible oils;this value is contained in group E.13.

Table 22 .- Argentina: Volume of Exports
Metric tons

	1928	1935-37 (average)	1945	1946	1947	1948	1949
A. VEGETABLE PRODUCTS	15,041,140	14,481,730	4,053,200	5,558,690	6,706,220		
1.Grain & grain products(1)	13,096,660	12,792,050	3,777,070	5,283,670	6,414,560(2)	6,367,910(2)	3,898,890
2.Linseed	1,944,400	1,689,200	134,600	37,400	-	-	-
3.Linseed oil	60	40	46,300	148,280	213,160	53,500	57,460
4.Other vegetable oils	20	440	95,230	89,340	78,500	n.a.	n.a.
B. ANIMAL PRODUCTS	1,322,950	1,203,700	1,298,830	1,392,450	1,513,500		
5.Meat & meat products	706,750	598,090	513,570	548,210	687,300	508,000	n.a.
6.Live animals	82,790	61,620	200,970	170,010	167,500	175,000	n.a.
7.Wool	125,400	130,720	158,740	206,430	171,700	213,200	94,880
8.Hides & skins	167,690	164,550	119,070	174,300	146,900	175,000	149,220
9.Milk products	38,100	27,600	58,380	65,900	58,300	66,610	23,820
10.Sub-products	202,220	221,120	247,900	227,600	281,800	n.a.	n.a.
C.11.FOREST PRODUCTS	398,560	288,520	214,630	231,630	235,700	144,000	n.a.
D.12.MINERALS	6,680	141,210	83,830	105,500	48,600	45,000	n.a.
E.13.OTHER AGRICULTURAL PRODUCTS	172,620	279,460	671,380	734,790	888,540	n.a.	n.a.
F.14.OTHERS	290,250	119,720	183,970	212,400	134,300	n.a.	n.a.
TOTAL	17,232,200	16,514,340	6,505,840	8,235,460	9,526,860		

Sources: a) Research Center of U.N.Economic Commission for Latin America, Santiago, Chile.
b) Anuario del Comercio Exterior de la República Argentina, correspondiente a 1937. Dirección General de Estadística de la Nación. Ministerio de Hacienda. Buenos Aires. 1938.
c) Anuario Estadístico de la República Argentina. Comercio Exterior. 1945-1946. Dirección General de Estadística y Censos, Buenos Aires, 1948.
d) The Review of the River Plate. Vol.CXII, N°3027, January 20,1950, page 17.
e) Business Conditions in Argentina, quarterly report (Ernesto Tornquist & C° Ltda.) N°265, page 17.
f) The Situation in Argentina, a four page bulletin of the First National Bank of Boston, Buenos Aires Branch, February 27, 1950.
g) "Camoatí" Revista de Economía y Estadística. Publicación Mensual. Año X, N°116(extra). Jan.1950, page 4.
(See description and notes on next page)

Table 22 (Cont.)

Description

Unless otherwise specified, each of the following groups is made up as follows:

A.-1. Grain and grain products: a) wheat, corn, oats, barley, rye, birdseed, rice, Guinea corn, millet, Indian barley; b) wheat flour and 6 other products from wheat grinding; c) other grain flours and brans; d) other forms of grain; e) all kinds of vermicelli and spaghetti, biscuits, crackers and other bakery products.

A.-4. Other vegetable oils: The following oils: Cotton, corn, peanut, castor, turnip, "tung", sunflower, edible and others.

B.-9. Milk products: Evaporated, condensed and powdered milk, cream, butter, cheese and caseine.

B.10. Subproducts: Tallow, fats, bones, hair, horse meat, and others.

C.11. Forest products: Quebracho and its extract, timber, vegetable coal, fire-wood, resins, and other forest products.

D.12. Minerals: Bismuth, copper and silver minerals, tin and silver minerals, silver, lead, tungsten, zinc and other minerals; also, some of the above metals in other metallurgical or commercial forms; petroleum and derived products; mica, gypsum, onix, marble, quartz, kaolin, lime, clay, common salt; and other mining products.

E.13. Other agricultural products: Fresh fruit; oilseeds and peanuts; cotton-, peanut-, sunflower-, and turnip-cake; by-products from vegetable oils manufacture; peas, chickpeas, lentils, beans, "habas", cotton, forage (all kinds), flax, potatoes, garlic, onion, vegetables, forage seeds, "yerba mate", and others.

F.14. Others: a) Hunting and fishing products; b) food and drinking manufactured products; tobacco; eggs, sirups, candy and sweets; chocolate paste, cocoa, coffee, raisins; preserved and dry fruit, tomatoes, preserved vegetables, spices, hot peppers, wine, beer, other liquor, vinegar, sauces; mineral waters; grape-juice; c) textile products; d) chemical and pharmaceutical products; e) other manufactured products; f) machinery; and g) others.

Notes

(1) All grain products are given in grain equivalent weights.

(2) Quantities for items c) and d) of group A-1 are included in group. E.-13. and those for item e), in group F.-14.

BRAZIL

Introduction

Brazil imposed rigid and effective quantitative import controls for the first time in 1948-49. The primary purpose of exchange control before the war was to reserve to the Government sufficient foreign exchange at an official rate to cover its own obligations abroad. From time to time priorities were established for the sale of foreign exchange but there is no evidence that it had any appreciable effect on the propensity to import or on the composition of imports.

The necessity to apply controls arose out of Brazil's balance of payments difficulties in 1947, when the volume of imports was for the first time greater than in 1928 or 1929. Accumulated demand from the war years was an important factor in 1947; yet later, in 1949, when Brazil had a trade deficit (2.5 per cent), despite controls imports (at constant prices) were only 15 per cent greater than the average for 1928-29 and 35 per cent more than for the years 1937-39. Meanwhile, population had increased 44 per cent and 25 per cent over the two earlier periods, respectively; and industrial production and national income had increased more than population. 1/ Therefore it is not surprising that demand was in excess of supply of foreign exchange at a cruzeiro rate, which was evidently not overvaluated for the most important Brazilian export commodities.

The yearly average volume of exports for 1946-49 was approximately the same as for 1937-39 and about 70 per cent greater than for 1928-29. These data, together with those on imports above, provide the basic facts governing Brazilian commercial policy since the world economic crisis of the early 'thirties. During the second half of the depression decade Brazil was able to maintain imports at a level about 20 per cent

1/ See Economic Survey of Latin America 1949, Chapter VIII, Economic Commission for Latin America, Document E/CN.12/164.

/below the

below the pre-crisis level by exporting 70 per cent more. Equilibrium on these unfavourable terms relative to the earlier and later periods was achieved by depreciation. The situation is very different today. Coffee prices are high, Brazil's terms of trade are again relatively favourable, and the possibility of expanding its exports are limited. In view of Brazil's experience during the past three years, it seems quite evident that a devaluation sufficient to limit imports to available foreign exchange would have to be so great as to create serious repercussions in the internal economy. It follows then that under existing tariff rates quantitative restrictions will probably have to be maintained in the short run. Whether import restrictions may be relaxed or abolished will depend in the long run on the country's ability to attract foreign capital and to reduce imports by replacing them with local products or to expand export - including manufactures.

Influence of Policy upon Exports, 1931-39

Brazil, like the other Latin American countries, experienced a drastic decline in trade with the onset of the depression. By 1932 the volume of exports had dropped to 76 per cent of the 1928-29 average and to 38 per cent in dollar value. Although imports declined to 24 per cent in value and to 56 per cent in volume, the country's trade balance and reserves were not sufficient to meet the fixed charges of the debt-service. The external debt in 1930 amounted to 1,100 million dollars. This represented 61 per cent of the total public debt of Brazil and absorbed 34 per cent of the Federal Government Budget.[1/] In 1929, service charges on the external public debt and on foreign investments in Brazil totalled 122 million dollars,

1/ Foreign Investments in Brazil; Economic Commission for Latin America, Document E/CN.12/166/Add.2

/which was

which was about 27 per cent of the value of exports 1/. The dollar value of exports in 1931 was 242 million dollars and that of imports was 140 million, leaving a trade balance of 102 million dollars 2/. Even if the entire trade balance had been applied to debt service, which was impossible in view of shipping and other necessary service charges, it would have been barely sufficient to meet the total obligation. Payment on investment income, although greatly diminished, also required foreign exchange. In addition to the fixed charges, the Bank of Brazil had outstanding foreign-held commercial debts of 70 million dollars. The latter were made up principally of loans contracted by the Bank to finance the coffee valorization programme up through 1930.

In an effort to cope with a situation which was rapidly deteriorating, the Government, late in 1931, gave the Bank of Brazil control over all exchange transactions. The primary purpose of this action was to secure foreign exchange to cover the obligations of the Government, to prevent capital flight, and to provide for the essential import needs of the country. The control was administered through authorized banks. The milreis (equal to cruzeiro) was devaluated to 14.268 per dollar from 8.476. These measures presumably helped to reduce imports during the latter part of 1931 and 1932. However, the sale of foreign exchange was not strictly regulated, the "free" market flourished, and in the absence of import licenses and normal credit arrangements merchandise without the means of foreign payment accumulated to the point where by June 1933 it was necessary for the Bank of Brazil to enter into an agreement with foreign creditors for the liquidation of commercial debts. The "Agreement" provided that the Bank of Brazil would

1/ Banco do Brasil, Relatorio de 1948, page 222 (Table of Foreign Trade). (Cruzeiros).

2/ Exports dropped to 179 million dollars in 1932 and imports to 106 million, leaving a trade balance of 73 million dollars.

/transfer within

transfer within 90 days earmarked credits up to 665 thousand cruzeiros per debt at the official exchange rate, but the total amount to be transferred was not to exceed one million U.S. dollars; Promissory Notes, converted into dollars at 13.965 cruzeiros and endorsed by the Federal Government, were to be issued for the balance plus interest and to be paid off in monthly instalments over a period of six years beginning August 1933.

Later that year the Government issued a decree condemning as illegal all foreign exchange transactions not contracted through authorized banks. In 1934, the exchange control act was modified whereby the Government retained control over the purchase of all foreign exchange from exporters but relinquished control over sales in order that they might be carried out "according to the rules and rates established by the law of Supply and Demand" 1/ The decree was further modified in February 1935, making it compulsory for exporters to sell 35 per cent of their receipts to the Government at the official rate of exchange, which was then to be used exclusively for government obligations. The remainder could be sold in the free market. Except for a brief period in late 1937 when exporters were allowed to sell their entire proceeds in the free market, this system prevailed down to the war when the Government again took over full control of the exchange market.

The official exchange market was reserved to the Bank of Brazil; and the amount to be sold at the official rate varied among commodities from time to time. A tax of 3 per cent on all foreign exchange purchases was also imposed in 1937.

Thus during most of this period (1931-39) from 40 to 65 per cent of imports, other than government purchases abroad, were made at the

1/ Decree 24,268, 19 May 1934.

/free rate

free rate which varied from 20 to 40 per cent above the official rate. (See Table 23).

There can hardly be any question that the most important factor contributing to Brazil's trade difficulties was the coffee situation. Coffee represented 70 per cent of the total value of exports for the years 1925-29. After the first world war the Government had initiated a "valorization" programme for the purpose of stabilizing prices. This was done by withholding surpluses from the market during years of low prices and/or large crops, and releasing these stocks during the good market years. The surpluses were financed by government purchase or loan. Over a period of years this had the effect of increasing production faster than the market could absorb it, so that by 1929 a serious problem of over-production already existed.

When, in 1931, loans could no longer be secured from abroad to finance "valorization", the Government prohibited new plantings of coffee trees for five years 1/, imposed an export tax, and started the destruction of surpluses. The export tax which was used to finance the destruction of coffee was supplemented by a sacrifice quota - the growers had to turn over to the Government a portion of their crop (15 to 30 per cent) at a very low price. Up to 1940, a total of 71 million bags of coffee had been destroyed.

These measures apparently were not adequate to stabilize coffee prices, which fluctuated more and at a markedly lower level than did the agricultural products in the United States, which was Brazil's principal coffee market. The most plausible explanation is that too great a supply was being put into a market having an inelastic demand. In 1930 and 1931, for example, exports were substantially

1/ The law was extended another five years in 1936, but applied only to States with more than 50 million trees.

/greater than

Table 23. Brazil: Exchange Rates

Year	Official	Free	Special Free
1930	9.34		
1931	14.22		
1932	14.04		
1933	12.69		
1934	11.83	14.84	
1935	11.80	17.36	
1936	11.62	17.31	
1937	11.37	16.07	
1938	17.62	17.62	
1939	16.64	19.22	21.54
1940	16.63	19.80	20.77
1941	16.60	19.72	20.59
1942	16.58	19.64	20.48
1943	16.59	19.63	20.42
1944	16.57	19.58	20.04
1945	16.54	19.50	19.96
1946	16.50	19.42	20.00
1947	18.72	23.25	
1948	18.72	26.55	
1949	18.72	30.75	
1950	18.72	30.15	

Sources:
1) From 1930 to 1932: "Statistical Abstract of the United States, 1935", Table 298, page 271, U.S. Department of Commerce.
2) From 1933 to 1938: "Banco do Brasil. Relatorio de 1942" (1808-1943), page 211, Rio de Janeiro 1943 (Jornal de Comercio, Rodrigues & Cia.)
3) From 1939 to 1947: "Banco do Brasil. Relatorio de 1948" (1808-1949), page 282, Rio de Janeiro 1949. (Jornal de Comercio, Rodrigues & Cia.)
4) From 1948 to January 1950: "International Financial Statistics", February 1950. International Monetary Fund.

greater than in 1929, when coffee exports were at about the average for the years 1925-29. All through the 'thirties the volume of exports was on an average larger than before the depression, and the most precipitous price declines in 1930-31 and 1938-39 coincided with the peaks of exports.

The exchange rate was both a cause and effect of this condition. The need to expand exports to cover essential imports and services and the increased cost of production of the exportable portion, which had to absorb the cost of the one-third destroyed, forced the value of the cruzeiro down. This made it "profitable" to export more than the market could absorb at current prices; the lower prices in turn forced a further depreciation of the cruzeiro.

The relationship of coffee prices to exports and the exchange rate, and to cotton and United States farm-products prices are shown in Table 24 . The three price indices follow a common course down through 1932 but thereafter the trend of cotton and United States farm prices is upward, while that of Brazilian coffee prices in New York continues at the same level until 1938 when it dips downward again, reaching its lowest point at 30 in 1940 after the heavy shipments of 1938 and 1939. In this connection, the disparity between coffee prices and those of United States farm products is especially significant when it is realized that coffee has perhaps an even higher inelasticity of demand in the United States market than do most other food products.

Proceeds from coffee sales abroad represented 71 per cent of the total value of exports in 1928; by 1936 the value of coffee exports had declined to 45 per cent and in 1940 to 32 per cent of the total value. The influence of coffee prices on the total value of exports is shown in ratio index which gives the index of total value of exports as a ratio of the index of the value of coffee exports. If the index for any given year is above 100 it measures the extent to

/which the

Table 24 Brazil: Indices of Exports and Prices of Cotton and Coffee

Year	COFFEE					Exchange Rate	COTTON					U.S. Farm Products
				Ratio					Ratio			
	Volume of Exports	Average price of Santos No.4 Coffee (New York market)	New York Prices in domestic currency	Coffee Value of Exports Index	Value of total Exports Index		Volume of Exports	Average price of Sao Paulo Fair (Type 5) (Liverpool)	Liverpool Prices in domestic currency	Cotton Value of Exports Index	Value of total Exports Index	Average Price
1928	100	100	100	100		100	100	100	100	100		100
1929	103	96	97	99		101	487	84	85	435		99
1930	110	56	63	88		112	304	55	62	318		83
1931	129	38	65	97		170	208	36	61	174		61
1932	86	46	77	101		168	5	42	71	8		46
1934	111	39	59	102		150	117	59	89	127		49
1934	101	48	68	85		142	[illegible]	67	95	1439		62
1935	110	39	72	73		185	[illegible]	65	120	1722		74
1936	102	41	75	64		183	2001	68	124	2073		76
1937	87	48	83	59		173	2360	49	85	2023		82
1938	123	33	71	63		215	2685	47	101	1990		65
1939	119	33	74	71		224	3233	61	137	2252		62
1940	87	30	68	45		226	2241	71	160	1842		64
1941	80	48	108	42		225	2880	75	169	1639		78
1942	52	58	130	37		224	1538	68	152	937		100
1943	73	58	130	45		224	779	75	168	517		116
1944	98	58	130	51		224	1075	101	226	679		116
1945	102	58	129	49		223	1643	100	223	938		121
1946	105	76	150	49		198	3524	142	281	1758		141
1947	107	99	222	51		224	2852	173	388	1584		171
1948	126	98	220	53		224	2585	204	457	1702		178
1949	138	119	267	74		224	1537	217	486	1133		-
1950	Jan.	189	423	-		224	-	-	-	-		-

Sources and notes:

1. Volumes and Values of Exports of Coffee and Cotton: Comercio Exterior do Brasil: "Exportaçao de cafe, exportaçao de algodao em rama", Janeiro a Dezembro, 1946-48. Serviço de Estatistica Economica e Financeira, Ministerio da Fazenda, 1949. Departamento de Imprensa Nacional, Rio de Janeiro, Brasil.

/2. Value of total

Table 24 (Cont.)

Sources and notes continued:

2. Value of total Exports of Brazil. Banco do Brasil S.A. 1808-1949. Relatorio de 1948, page 222. Value of exports for 1949:"International Financial Statistics", February 1950. International Monetary Fund, Washington, U.S.A.
3. Average price of Santos No.4 Coffee, New York Market: From 1928 to 1948: Banco do Brasil S.A. Relatorio de 1948, page 260.
4. Average spot price per pound, at Liverpool, of Brazilian, Sao Paulo Type 5(Fair) Cotton; From 1928 to 1930: "Agricultural Statistics 1939" U.S. Department of Agriculture, Table , page . From 1931 to 1940: "Agricultural Statistics 1948", U.S. Department of Agriculture, Table 106, page 91.
   Prices for 1948 and 1949 were computed for the Liverpool market from available prices at the Sao Paulo market, for which information was obtained directly from the Banco do Brasil.
5. Exchange Rates: From 1928 to 1934: "Statistical Abstract of the United States 1935", U.S. Department of Commerce, Table 298, page 271. From 1935 to 1942: Banco do Brasil, Relatorio de 1948, page 282. From 1947 to 1949 and January 1950: "International Financial Statistics", February 1950. International Monetary Fund, page 44. From 1935 to 1945, when multiple buying rate existed, an average exchange rate was calculated by weighing the pertinent rates by the proportion applicable to exports.
6. U.S. Farm Products, price index "Statistical Abstract of the United States, 1949", U.S. Department of Commercie, Table 339, page 302.
7. 1949 and 1950 figures are fairly approximate. They were computed from data obtained from various reliable sources.

which the value of coffee exports has increased more or decreased less than the value of total exports; if the index is below 100 it indicates that the value of coffee exports has decreased more or increased less than has the value of total exports. Thus if coffee values had increased to 120 while total value went to 180 in comparison with 100 for the base year, the ratio index would be 67, or if the corresponding values were 60 and 90 the index would be 67.

The effect of a substantial increase in world prices of cotton was almost instantaneous -- Brazilian exports increasing from 12,000 tons in 1933 to 127,000 in 1934 and 324,000 tons in 1939. It is of particular interest to note that the index of Brazilian cotton prices on the Liverpool market follows fairly closely, except for two or three years leading up to the war, the index of United States farm products prices. During most of this period Brazilian coffee exports were about 60 per cent of total world coffee exports, while its cotton exports in 1936-39 were 8.5 per cent of the world's total. The United States, on the other hand, exported approximately 41 per cent of the world's cotton exports.

In other words, Brazil was not in a position to regulate the production and sale of its principal commodity, as were Argentina and the United States. All through this period Brazil's terms of trade were very much lower relative to the pre-crisis years than were those of Argentina. It seems evident that Brazil could have improved its terms of trade by a more rigorous control of commodity supply and maintenance of the currency at a higher value.

Nevertheless, depreciation of the cruzeiro and relatively higher world market prices for other commodities enabled the country to expand production and export of certain of these products. While coffee dropped from 71 per cent of total exports by value in 1929 to 45 per cent in 1936, cotton rose from 4 to 19 per cent. The value of cacao exports rose from 2.7 to 5.3 per cent of the total. There

/was also

was also a very marked increase both in volume and value of exports of other commodities such as rice, sugar, fruits and nuts, meat products, carnauba wax, castor beans, timber, cotton-seed and oil-seed cake.

Commercial Treaties

Trade treaties and agreements were one of the chief instruments of policy to expand exports. From 1931 to 1935 Brazil negotiated commercial agreements with most of the principal trading countries of the world. Up to 1934 all such agreements were accorded most-favoured-nation privileges which gave these countries the benefit of Brazilian minimum tariff rates. Beginning in 1934 new agreements were negotiated, most of which were compensation agreements 1/. The biggest increase in trade was with Germany. Brazil's volume of exports to Germany increased from 214,000 tons in 1929 and 143,000 in 1933 to 723,000 tons in 1938; the value was 19 per cent of total exports in 1938 as compared with 8 per cent in 1933. The principal export was cotton although other exports also increased.

Table 25. Brazil: Exports to Germany as per cent of Brazil's Total Exports, 1938

	Metric Tons	Percentage of Total Exports	Thousand Cruzeiros	Percentage of Total Value
Tobacco	13,078	48.9	44,933	52.5
Hides and skins	21,921	39.4	74,282	35.5
Raw Cotton	81,803	30.4	286,260	30.8
Timber	78,719	26.1	20,879	27.1
Cacao	23,577	18.4	40,879	19.2
Oranges	21,750	11.3	12,740	11.3
Other products	482,240	17.8	491,543	15.0
Total	723,088	18.4	971,516	19.1

Source: Banco do Brasil, Departamento de Estatística e Estudos Economicos.

Imports from Germany increased in value from 9 per cent in 1933 to 25 per cent of total imports in 1938. Certain commodities were not included in the compensation agreement which may explain the disparity

1/ Compensation agreements were signed with Germany, United Kingdom, France, Norway, Sweden, Denmark, Portugal, Argentina (1939), and Chile, and represented over 50 per cent of her total trade in 1938. A single transaction agreement was negotiated in 1930 with the United States for the exchange of coffee for wheat.

/between value

between value of imports and exports.

Tariff Policy

Brazil's tariff rates were not generally considered highly protective. Import duties are specific and in 1934, when the provision that 60 per cent of the duty had to be paid at the gold value was abolished, the duties were approximately 25 per cent of the value of imports; with the increase of prices the custom receipts as percentages of imports declined to about 10 per cent after the war.

Table 26. Brazil: Value of Imports and Custom Receipts, Selected Years.

Year	Total value of imports (000's cruzeiros)	Custom Receipts (000's cruzeiros)	Custom Receipts as percentage of total value of imports	Custom Receipts as percentage of total Government revenues
1935	3,855,917	975,000	25.30	47.91
1937	5,314,551	1,173,413	23.40	50.82
1940	4,964,149	977,514	19.69	35.87
1942	4,694,873	674,220	14.36	20.14
1945	8,747,086	1,026,039	11.73	14.49
1946	13,028,734	1,404,033	10.78	14.99
1947	22,789,291	1,876,437	8.23	6.09

Source: Brazil, Anuarios Estatisticas, for 1937, 1948. (I.B.G.E.)

Customs receipts were equal to only 8 per cent of total imports in 1947, which was about one-third of the percentage in 1935. Data are not available on the ad valorem equivalents for 1947 , but since the schedule of specific duties remained the same, it is evident that the tariff has lost any protective influence it may have had - except for a very few items. Customs duties had also lost much of their importance as revenue for the Government, having dropped from about 50 per cent of total revenue collected to 15 per cent in 1945 and 6 per cent in 1947.

/In order

In order to compensate for reductions in the ad valorem equivalent due to the rise in prices, Brazil was permitted to valuate all duties 40 per cent higher for "bargaining" purposes during tariff negotiations under the General Agreements on Tariffs and Trade in Geneva in 1947. As a result of these agreements and subsequent Congressional action, import duties were decreased from the re-valuated level (at Geneva), but remained 24 per cent higher than the 1934 level. This still leaves the duties much lower in terms of ad valorem equivalents than they were in 1934. A long list of items including leather, hemp and similar fibres, cement, lead pipe and tools, sanitary ware, etc., were increased 10 per cent on an average in the new tariff schedule. Duties on raw wool, barbed wire, automotive vehicles, surgical and scientific instruments, ships, machinery, tools and equipment, and raw materials for perfumery, paint, dye and tanning industries, were increased approximately 20 per cent on an average. A number of items were increased by 40 per cent or more. Duties on petroleum products were not changed. Farm machinery and fertilizers are duty free. Many items of local manufacture - particularly metal products - were not negotiated at Geneva. With respect to import duties, mention should also be made of the consumption tax which is about 50 per cent higher for imported articles than for those locally produced; for the great majority of items this tax will range from 6 to 8 per cent of the c.i.f. value.

Balance of Payments Difficulties, 1947-49

The war years (1940-1945) were a period of transition for Brazilian trade. Although average yearly imports were 20 per cent below the average for 1937-39, exports were maintained at the same level. The value of the cruzeiro was stabilized. Foreign exchange and gold holdings increased from 62 million dollars to 708 million at the end of 1945. This was also a period of intense industrial development. The most significant trend from the standpoint of trade was the improvement in

/the terms

the terms of trade. The value of exports and imports increased by 50 per cent in 1946; the trade balance was 5 billion cruzeiros, the greatest in the country's history; and gold and foreign exchange holdings increased by 78 million dollars for that year. At the end of 1946 Brazil held the equivalent of 5,200 million cruzeiros of compensation and blocked currencies; one year later this had increased to 5,900 million cruzeiros.

Brazil's balance of payments difficulties since 1947 have arisen from two sources. Despite a high level of exports and greatly improved terms of trade, its foreign exchange receipts have not been sufficient to satisfy demand for imports. Second, the lack of equilibrium in the overall balance of payments has been greatly aggravated by the unbalance as between exports and imports, with the dollar area on the one hand and with the soft currency countries on the other, as may be seen in the following table:

Table 27. Brazil: Brazilian Exports and Imports

(millions of cruzeiros)

	Terms of Trade 1937 = 100	Dollar Area		Other Countries		Total	
		Exports	Imports	Exports	Imports	Exports	Imports
1947	126	9,400	14,500	12,000	8,300	21,400	22,800
1948	119	11,800	14,200	9,900	6,800	21,700	21,000
1949	130	12,200	12,100	8,000	8,600	20,200	20,700

Source: Economic Commission for Latin America

The trade deficit with the dollar area in 1947 amounted to 5,100 million cruzeiros, which was offset in part by a surplus of 3,700 million with the soft currency countries. The deficit on current transactions was a little over 3,000 million cruzeiros. There was a net inflow of 720 million cruzeiros of private long-term capital and a net outflow of long-term capital to cover official obligations in the amount of 1,140

/million cruzeiros

million cruzeiros. The dollar position was better than appears inasmuch as approximately 75 per cent of shipping costs for imports was payable in non-dollar currency. Taking this into account, the net deficit in dollars on all current transactions was 4,850 million cruzeiros (262 million dollars) and the surplus with other countries was 1,630 million cruzeiros[1/]. The dollar deficit was liquidated by a "stabilization loan" of about 1,500 million cruzeiros (80 million dollars) from the United States Export-Import Bank, by reduction of short-term assets, and deferred payment for imports which had accumulated without means of dollar payment. The soft currency balances were largely disposed of by debt amortization and settlement and purchase of a British-owned railroad.

The situation improved in 1948, especially in the dollar account. This was due largely to increased exports to the dollar area which, along with a slight decrease in imports, reduced the trade deficit from 5,100 million cruzeiros in 1947 to 2,400 million in 1948. The trend is even stronger in 1949 when an over-all trade surplus of 100 million cruzeiros was achieved with the dollar area, while the deficit with the non-convertible area was 600 million cruzeiros. The decrease in exports to other areas was due largely to the sharp decline of textile exports and moderate decline of exports of oilseeds, hides and skins, corn, meat products, and minor products; in 1949 the exports of the above products continued to decline and in addition there was a substantial reduction of exports of raw cotton (40 per cent), rice, sugar, and timber.

It appears that Brazil's trade is returning to its former structure both as to the distribution and composition of exports and imports. Up to the war Brazil regularly maintained a relatively large trade and net balance of payments surplus with the United States, which was used to cover deficits with certain other countries - principally with the United Kingdom, Germany and Argentina.

From 1946 to the middle of 1949 the distribution of its trade was reversed -- large net deficits with the United States, which however were not fully offset by net surpluses with other countries. During the latter

1/ Balance of Payments Year Book 1938, 1946, 1947. International Monetary Fund.

/half of 1949

half of 1949 this trend was again definetely reversed -- as may be seen in the following table.

Table 28. Trade Balance with United States and Other Countries, 1949
(millions of cruzeiros)

	With United States	With Other Countries	Total
First Semester	- 1,200	- 1,100	- 2,300
Second Semester	2,500	- 700	1,800
End of Year Balance	1,300	- 1,800	- 500

Source: Banco do Brasil, Departamento de Estatística e Estudos Economicos.

Changes in Composition of Brazil's Exports

The reversal of the trend of distribution of Brazil's trade, noted above, has been brought about by a combination of factors including bilateral agreements and quantitative controls. On the export side, however, the most important factors have been world market conditions and price movements.

Because of the great scarcity of certain products, Brazil was able to enter markets during the war and early post-war years which had previously been closed to her. For example, cotton textiles made up 11 per cent of total exports whereas before the war they were insignificant. Other manufactures constituted another 7 or 8 per cent during those years. There was also a marked increase of exports of certain agricultural products -- rice, corn, vegetable oils, oilseeds, sugar, timber, hides and skins, tobacco and a number of minor items. Furthermore, prices rose sharply after the war. As world production gradually returned to "normal", prices declined and exports of textiles decreased in 1948 and again in 1949, until by now they have been reduced to their pre-war level. The other products listed above have also declined. Cotton exports, which had been below the average for the pre-war years in volume, fell off by 38 per cent and cacao by 20 per cent in value in 1949 as compared with 1948. If all of the products discussed above are taken as a group their exports decreased by 40 per cent in value from 1948 to 1949. There is not much likelihood that textiles, rice, corn, sugar or rubber will re-appear within the near future as important exports items. However, raw cotton, which had been limited by production as well as recent loss of markets, should

/be able to

be able to restore its position in Brazil's trade.

It is apparent that Brazil is again becoming largely dependent on coffee for its dollar receipts. The recent rise in coffee prices, which has offset losses of other exports, is reflected in the improvement of its total exports to the United States, which for the last four months of 1949 were 50 per cent higher in value than the monthly average for 1948 and the first eight months of 1949.

Composition of Imports

Changes in the composition of Brazilian imports are shown in the following table.

Table 29. Composition of Brazilian Imports for Selected Years

(Percentages)

	1928	1937-39	1948
Foodstuffs, beverages and tobacco	21.7	15.5	18.7
Textile raw materials and manufactures	15.6	5.8	5.6
Paper, cardboard and manufactures	2.3	3.4	1.7
Hides, skins and manufactures	1.5	0.6	0.2
Chemical and pharmaceutical products	5.5	9.5	7.6
Non-edible fats and oils	0.4	0.4	0.3
Fuels and lubricants	3.7	12.4	12.3
Rubber and manufactures	1.3	1.2	0.2
Wood and timber and manufactures	0.3	0.3	0.2
Non-metallic minerals and glass	1.8	1.5	1.2
Basic metals and manufactures	11.0	13.1	7.0
Automobiles and home appliances	6.2	6.4	9.9
Capital goods	21.6	25.4	32.0
Miscellaneous	7.1	4.5	3.1
	100.0	100,0	100,0

Source: Research Centre, Economic Commission for Latin America.

The structure of the country's imports has changed principally in the direction of a larger percentage for capital goods and less for certain consumer goods such as textiles and beverages. Wheat, which was only 8.8 per cent of total imports in 1929, went up to 16.7 per cent in 1932 and gradually went down in percentage as total imports increased until by 1938 it represented 10.3 per cent of the total. Flour imports, which had been relatively unimportant (less than 1 per cent), rose substantially during the post-war years — 4.1 in 1946, 6.3 in 1947, and 6.4 in 1948. Wheat and flour together made up 11.9 per cent of the total imports in 1948 and

/11.2 per cent

11.2 per cent in 1949, when wheat imports again reached 9.4 per cent. Petroleum products are another basic item in Brazilian imports: before the war these products were from 7 to 8 per cent of total imports; in 1948 the percentage was 9.5 and 10.2 in 1949. The 1946-48 average volume of imports of wheat (including equivalent in flour) did not increase over the average for 1937-39 despite the great increase in value which was due to high prices. However, petroleum products imports by volume have increased tremendously. For example, gasoline imports went up from an average of 363,000 metric tons in 1937-39 to 1,132,000 tons in 1948; fuel and diesel oil from 638,000 tons to 1,727,000 tons for the same period. Petroleum imports cost over 100 million dollars a year now; it is apparent that a fairly rapid development of the petroleum industry could help to relax the pressure on imports.

The quantity of capital goods imported since the war has increased by about 100 per cent, although the percentage of the total has gone up only about 6 per cent. Imports of durable consumer goods (automobiles, refrigerators, radios, etc.) increased from 2 to 3 times in quantity and became relatively more important while those of raw materials became relatively less important. It was not until the second half of 1949 that imports of durable consumer goods were substantially reduced by import quotas.

It is considered that Brazil may have the possibility of maintaining capital goods and raw materials imports at their present level for some years provided imports of durable consumer goods are limited as they were during the last six months of 1949 -- and provided also that exports do not decline either because of decrease of volume or prices. The country's agricultural and mineral resources offer an opportunity over a longer period of time for replacing a considerable number of import items by local manufacture and of expanding exports by the sale abroad of manufactured articles. This will require many years of further development with an increasing rather than a lessening of pressure on imports. One of the biggest obstacles to Brazil's economic development is the lack of transportation facilities. This alone will require a very large outlay for imports, as will the development of electric power and the mechanisation

of agriculture.

of agriculture.

Import Controls Since the War

As pointed out earlier, Brazil did not impose any quantitative controls[1] on imports before the war except to establish from time to time a schedule of priorities for the sale of foreign exchange. Data are not available to compare domestic and import prices. However, the cost of living index for the city of Rio de Janeiro, which may not be representative for the country, went up 44 per cent [2] from 1930 to 1939, during which time the currency was devaluated by 100 per cent. This would indicate that the currency was undervalued, which is also borne out by the strong stimulus which depreciation gave to cotton and other exports. In any case, in the absence of quantitative restrictions and a high tariff barrier it is apparent that the exchange rate was the dominant factor in adjusting imports to exports.

Since the war the situation has been reversed, Wholesale prices had risen by 215 per cent from 1939 to 1947 and by 305 in 1949; import prices increased by 140 per cent up to 1947 and 150 per cent by 1949. The exchange rate had been increased by only 4 per cent over this same period.

The clearest indication of the inability of the current exchange rate to reduce the propensity to import may be found in the experience of the country after the war. The pent-up demand began to make itself felt in 1947 and by the end of the year a backlog of 1,500 million cruzeiros' worth of imports had accumulated for which foreign exchange was lacking. When in June of that year it became evident that the country would be in serious balance of payments difficulties, the Government requested from Congress broad powers to control all aspects of trade. In the meantime, import licensing was restored and a set of priorities stipulated for the sale of convertible foreign exchange. Authorized

1/ Imports of machinery and equipment, except for repairs and replacements, were prohibited from 1931 to 1937 for industries in which there was over-production". The most important industry so classified was the textile industry, which, despite the prohibition on imports of machinery for expansion, about doubled its production from 1931 to 1937

2/ PUBLIC DEBT 1914-1946. United Nations Department of Economic Affairs, Lake Success, N.Y., 1948.

/banks and dealers

banks and dealers were also required to sell 30 per cent of all export receipts to the Government.

In February 1948 Congress enacted a law authorizing the Government to assume complete control over foreign trade, including licensing of exports and imports, with the exception that certain foodstuffs, pharmaceutical products, petroleum, and cement might be exempt from import licensing.

The law established a Consultative Commission for Foreign Trade, whose duties are to develop policies which will: a) make the most efficient utilization of the country's import and export resources; b) ensure a regular supply for the domestic market and the fulfilment of international agreements; c) restrict imports of non-essential goods and those which, although essential, can be economically produced in the country; and d) secure imports of essential products in short supply which are subject to various internal controls.

The Commission is also entrusted with the responsibility of making whatever ivestigations are necessary for the determination of policy and administrative decisions. The Export-Import Department of the Bank of Brazil was entrusted with the administration of the trade controls. Decisions regarding import quotas are based on investigations of requirements and consultations with producer, merchant, and consumer groups. In general the basic criteria followed in quotas and allocations for imports are essentially for consumption, for maintenance of industrial production, for expansion of industries and other development purposes, particularly public projects; second, whether the product can be locally produced, taking into consideration price and quality of the goods; third, possibility of securing the requested imports from soft currency countries. With respect to import permits for industry, generally speaking, preference is given to machinery and equipment for replacement over that for expansion of industry; applications for importation of machinery and equipment by the so-called non-essential industries utilizing local raw materials may be considered on an equal footing with essential industries utilizing imported raw materials; an effort is made to maintain non-essential industries, though importing raw materials, at their present level, and

/to promote

to promote all industries utilizing local raw materials.

The guiding principle in granting import permits, as among applicants, has been precedence of the applicants, who must present documents proving amounts of actual imports for the previous three-year period. The administration of the import control system has been decentralized -- the examination and the granting of licences are handled by the authorities in the principal cities, the state capitals being the most important focal points.

All exports were brought under the licensing system; to begin with the granting of export licenses for certain foodstuffs was suspended in order to protect the food supply of the country. Gradually licences were renewed for limited quantities after it had been ascertained that there were available exportable surpluses.

Although all imports had been subjected to licensing since the middle of 1947, it had no apparent effect in restricting imports, which is indicated by the fact that the backlog of unpaid merchandise on the docks increased from approximately 1.5 billion cruzeiros at the end of 1947 to 3 billion cruzeiros by May 1948. It was then decreed that all imports should be subject to prior permit. Although this had the effect of slowing up the rate of imports during 1948 it was not sufficient to reduce substantially the backlog of unpaid merchandise and to prevent a comparatively large importation of durable consumer goods. This was partly due to defects in the administration of the law and to the provision which exempted petroleum products, wheat, flour and a number of other food items which provided a method of evasion in securing foreign exchange for other imports. Gradually these exemptions were eliminated and in June 1949 a foreign exchange budget was drawn up providing for allocation of anticipated receipts for payment of government obligations abroad, various service charges and essential imports. As a result of strict rationing of available resources and limitation of non-essential imports from the dollar area, the over-all trade balance was reduced from a deficit of 2,300 million cruzeiros at the end of June to one of 500 million cruzeiros at the end of December 1949. The performance with respect to its dollar trade was especially favourable: from a trade deficit of 1,900 million cruzeiros in June to a surplus of 100 million cruzeiros in December. Imports from the United States were reduced by 60 per cent during the second half of the year as compared with the first half.

Table 30. Brazil: Exports

Commodities	1927-29		1931-33		1937-39		1942-44		1947-49	
	Amount (tons)	Value (Cr.1000)	Amount (tons)	Value (Cr.1000)	Amount (tons)	Value (Cr.1000)	Amount (tons)	Value (Cr.1000)	Amount (tons)	Value (Cr.1000)
Raw Cotton	23,552	7,741	10,996	29,579	276,127	775,327	113,200	575,366	227,986	2,822,693
Rice	7,994	6,073	47,237	30,495	49,698	35,188	105,666	232,600	143,997	475,484
Sugar	31,125	18,649	25,658	12,118	19,304	8,604	42,633	59,633	153,867	330,010
Cacao beans	71,165	147,109	90,021	106,135	121,738	222,270	96,300	288,967	100,981	1,025,702
Coffee beans	865,547	2,718,704	904,909	2,074,628	917,453	2,229,944	619,980	2,882,933	1,013,380	9,461,502
Meat	67,676	113,667	62,535	93,675	88,219	182,481	81,867	447,400	38,939	383,790
Vegetable wax	6,816	28,349	6,909	21,744	38,797	171,702	30,667	335,567	25,820	444,651
Hides	59,440	157,538	42,307	68,904	58,849	226,003	41,033	334,333	65,162	757,052
Vegetable fibres	4,427	4,893	4,541	4,047	..	..	..	..	..	..
Wool	4,930	28,825	3,753	16,858	..	..	..	..	..	..
Wood	119,773	24,466	101,621	21,556	322,503	84,053	343,533	309,533	614,506	885,779
Corn	7,814	2,138	122	31	70,870	24,390	3,567	1,767	92,340	142,814
Tobacco	30,458	67,027	28,201	44,054	32,918	90,180	22,067	91,467	30,988	308,056
Woollen textiles	18	163	142	1,391	962	14,860	24,000	982,567	8,770	698,945
Cattle	924	858	31,677	7,657	..	..	..	..	..	..

Source: Research Centre, Economic Commission for Latin America.

Table 31. Brazil: Exports, Selected Years

(In millions of cruzeiros)

	1928 Value	Per Cent	1938 Value	Per Cent	1947 Value	Per Cent	1948 Value	Per Cent	1949 Value	Per Cent
United States and Canada	1,812	46	1,765	35	8,504	40	9,699	45	10,471	52
United Kingdom	137	3	447	9	1,652	8	2,049	9	1,713	9
Germany	445	11	972	19	10	-	230	1	314	2
Other European countries	1,132	29	1,239	24	6,116	29	5,130	24	4,669	23
Argentina	236	6	230	5	2,004	10	2,055	10	1,550	8
Other Latin American countries	128	3	89	2	1,013	5	935	4	567	3
Others	82	2	354	7	1,881	9	1,600	7	870	4
Total	3,970	100	5,097	100	21,179	100	21,697	100	20,153	100

Brazil: Imports, Selected Years

(In millions of cruzeiros)

	1928 Value	Per Cent	1938 Value	Per Cent	1947 Value	Per Cent	1948 Value	Per Cent	1949 Value	Per Cent
United States and Canada	995	27	1,325	26	14,409	63	11,217	54	8,988	44
United Kingdom	795	22	539	10	1,548	7	2,116	10	2,663	13
Germany	461	13	1,298	25	-	-	20	-	111	-
Other European countries	112	3	980	19	3,598	16	3,449	16	3,929	19
Argentina	426	12	615	12	1,461	6	1,496	7	2,174	11
Other Latin American countries	835	23	109	2	517	2	870	4	811	4
Others	71	2	330	6	1,255	6	1,816	9	1,971	10
Total	3,695	100	5,196	100	22,789	100	20,985	100	20,648	100

Source: Research Centre, Economic Commission for Latin America.

Note: Percentages do not add up to 100 because of rounding.

CHILE

The Effect of the World Crisis on Chile's Trade, 1929-1932.

The impact of the world depression was especially severe on Chile's economy. In 1932, when the volume of world trade was 72 per cent of 1929 trade, Chilean exports were only 29 per cent of 1929 while imports had been reduced to 12 per cent. The Chilean economy had always been a highly specialized unit in the "international division of labour". Nitrates and copper then, as now, accounted for about 80 per cent of total exports but their relative importance has changed. For several decades prior to the First World War the nitrate industry had practically a world monopoly of the supply. Despite the rapid development of synthetic nitrogen production, Chilean exports maintained a fairly high level throughout the twenties. Nevertheless it was evident toward the end of the decade that the industry was becoming less competitive and that it was extremely vulnerable in the event of a downward movement of world agricultural prices, which of course would react on the use of nitrate fertilizers.

The state of public finances was also closely tied to the fate of nitrate and copper exports. Approximately 86.5 per cent of government revenues were derived from export and import taxes during 1920-1930.[1/] There had also been a substantial inflow of capital which had kept government expenditures and private investment at a high level.[2/]

In 1931 public and private financial obligations abroad were more than 250 million gold pesos, which was almost twice the amount of official holdings of gold and foreign exchange. Thus the government was forced to declare a debt moratorium and take measures to prevent capital flight.

But aside from financial considerations, the country was faced with the alternative of permitting the level of real income to adjust itself to the level of exports or of attempting to raise the income by

1/ Fernando Illanes Benitez, La Economía Chilena y el Comercio Exterior, page 12, Imprenta Chile, Santiago, 1944.
2/ Economic Commission for Latin America, Economic and Legal Status of Foreign Investments in Latin America, document E/CN.12/166/Add. 3

/expanding and

expanding and diversifying production for the domestic market. Recovery of the previous level of economic activity by the first course could have been achieved only if exports had risen at least to their former real value. The possibilities of recovery on this basis were indeed remote. After 1930 nitrates could compete in the world market only at prices which would worsen Chile's terms of trade and reduce foreign exchange receipts to a comparatively low level. 1/ The prospects for copper were also limited since the market outside of United States was controlled by cartel agreements, and the United States market was effectively closed off by a duty of 4 cents per pound. 2/ The possibility of expanding exports of agricultural products was limited by local productive capacity and world demand.

It is noteworthy that during the first two years of the crisis, up to April 1932, the balance of payments was allowed to exercise its full influence on the national economy. Only by a heavy drain on reserves, substantial loans in 1930 and suspension of debt-service payments in in July 1931, was the country able to finance imports. The deflationary character of this policy is revealed by the following indicators of economic activity.

1/ In 1934 world productive capacity was estimated at 5 million short tons of nitrates and world consumption was estimated at 2 million short tons.

2/ Copper prices fell from 16.34 cents per pound in 1928-29 to 5.555 in 1932. See Economic Survey of Latin America 1949, Annex F.

/Chile: Table

Chile: Table 32. Indicators of Economic Activity, 1928-32.

	Exports a/ million	Imports a/ dollars	National income at constant prices b/	Money supply c/	Wholesale prices d/	Unemployment number
1928	236	146	100	100	100	..
1929	279	197	119	100	99	..
1930	162	170	111	80	84	..
1931	100	86	87	73	76	..
1932	35	26	71	124	105	125,000 e/

Sources: a/ U.S. Tariff Commission, Foreign Trade of Latin America, Part II, page 166 (Spanish Edition), 1943.
b/ See note c, Table 35.
c/ Banco Central de Chile, Boletín Mensual # 250, January 12, 1948.
d/ Unweighted average of the wholesale price index of Agricultural Products and the wholesale price index of domestically produced industrial products. The official wholesale price index has not been used because it is too heavily affected by export and import prices.
e/ Estimate, Banco Central, Annual Report, 1934.

Exchange Rate policy

With exports and imports declining precipitously and unemployment increasing to serious proportions, the Government reversed its policy in 1932. A public works programme based on deficit financing was initiated with the result that by the end of the year the money supply had increased by 70 per cent and wholesale prices of locally produced goods had gone up 34 per cent. In April 1932, the foreign exchange rate which had been maintained at 8.26 pesos to the dollar was depreciated to 16.55 pesos to the dollar. At the same time, in order to isolate the balance of payments from the inflationary effects of the compensatory employment programme all foreign exchange transactions were brought under the control of a newly created agency — the Foreign Exchange Control Commission.

The exporters were obligated by the decree to return to the country their entire foreign exchange proceeds with the exception that the large copper and nitrate companies had to return only that part of their receipts equal to the cost of production and taxes. The portion returned to the country by the large copper companies was sold at the official rate. The nitrate companies were required to sell only a small proportion, which varied according to market conditions, of their receipts returned to the

/country at the

country at the official rate; 1/ the remainder was liquidated at the export draft rate as were the so-called "additional exports". The Exchange Commission was authorized to classify certain exportable commodities as "additional exports", the exchange receipts of which could be returned in the form of imports or in any other form approved by the Commission. All exports other than copper, iron ore, nitrates and iodine were so classified; up to 20 per cent of the exchange receipts of the "additional exports" had to be sold to the government at the official rate, the remainder was sold at a higher rate which became known as the Export Draft Rate and which fluctuated within a range actually determined by the import "quotas" at from 25 to 30 per cent above the official rate.

Table 33 gives the rates for the entire period 1930-1949. The DP (disponibilidades propias) rate was originally introduced to reduce the scope of the free market by allowing non-trade receipts and foreign exchange balances accumulated abroad prior to exchange controls to be used for the imports of "luxury goods". The intention was that this rate would vary above the export draft rate but below the free rate. It should be noted that the free market was not legalized but tolerated.

Finally there were the so-called "compensation" rates. Since the payment agreements with European countries played an important role in Chile's trade recovery during the 'thirties, it might be well to describe the payment arrangements in some detail. Prior to the crisis Chile usually had a sizeable deficit in the current account with United States; for example, in 1929 the deficit was estimated at 45 million dollars. These deficits were financed with surpluses earned in Europe. With the decline of trade Chile had deficits with both areas and many European countries saw their short-term credits frozen with the moratorium declared in 1931. Certain countries made the repayment of frozen credits a requisite of continuation of trade relations. In December 1931 the French

1/ At present 1.44 U.S. dollars per ton must be returned at the rate of 19.37; the total amount of foreign exchange thus sold is then subtracted from the total cost of production, of this remainder 37 million dollars is sold by the Nitrate Corporation at 43 pesos and the balance at 19.35 pesos per dollar.

/Government proposed

Table 33. Chile.- Exchange Rates, Pesos per dollar
1928 - 1949

Year	Special Rate	Export Draft Rate	D.P.Rate	Banking Rate	Free Rate
1928	8.26	-	-	-	-
1929	8.26	-	-	-	-
1930	8.26	-	-	-	-
1931	8.26	-	-	-	14.00
1932	14.05	33.38	-	-	37.00
1933	13.34	33.18	-	-	34.25
1934	9.64	25.07	-	-	25.09
1935	19.32	24.27	-	-	25.20
1936	19.38	26.05	-	-	27.86
1937	19.37	25.58	27.95	-	26.10
1938	19.37	24.95	28.75	-	27.14
1939	19.37	24.98	30.85	-	32.18
1940	19.37	24.98	30.95	-	32.82
1941	19.37	24.00	31.00	-	31.54
1942	19.37	25.00	31.00	-	31.63
1943	19.37	25.00	31.00	-	32.50
1944	19.37	25.00	31.00	-	31.45
1945	19.37	25.00	31.00	-	32.05
1946	19.37	25.00	31.00	-	34.43
1947	19.37	25.00	31.00	-	47.15
1948	19.37	25.00	31.00	43.0	59.84
1949	19.37	25.00	31.00	43.0	79.33

Source: Estadística Chilena, Dirección General de Estadística, several issues.

Government proposed a payment agreement whereby the whole proceeds of Chilean exports to France were to be retained in Paris and used to cancel frozen credits at the cross-rate corresponding to 8.25 pesos to the dollar. In June 1932, the French Government by unilateral action put into effect the retention of Chilean funds with the result that trade between the two countries was almost paralysed; in November a compensation agreement was signed. For similar reasons compensation agreements of the same type were signed with Sweden, Belgium, Germany, the Netherlands and Switzerland. By the end of 1934 agreements had also been signed with Austria, Brazil, Denmark, Spain and Czechoslovakia. 1/

The main characteristics of the compensation and payments agreements were: a) a certain percentage of the purchase of nitrates by the creditor country was entered into a special account and earmarked for the liquidation of frozen credits (Sweden 15 per cent; Czechoslovakia 40 per cent; Spain 20 per cent; France 40 per cent; Belgium 15 per cent; Denmark 15 per cent; Germany 20 per cent; Austria 15 per cent; Italy 20 per cent; Switzerland 25 per cent; and the Netherlands 15 per cent); b) a certain percentage of the purchases of nitrates by the creditor country was to be used for the payment of Chilean purchases in the creditor country (Spain 20 per cent; Denmark 15 per cent; Germany 20 per cent; Austria 15 per cent; Italy 20 per cent; Switzerland 15 per cent; the Netherlands 25 per cent); c) exports of copper from Chile were exempted except in the agreement with Germany; d) other exports were included only in the case of Germany, France, Belgium, Switzerland and the Netherlands; e) private barter transactions were to be facilitated; and f) the rate for the settlement of frozen credits was the Chilean official exchange rate, while the rate for other transactions was to be determined by the Chilean Government.

The various rates and their equivalents in terms of pesos per dollar by the end of 1934 were:

1/ For a detailed account of compensation agreements see: Fernando Illanes Benitez, op. cit., Chapter V, Paragraph 2.

/Chile: Table

Chile: Table 34. Compensation and barter exchange rates, 1934

Currency	For settlement of "frozen" credits (Pesos per dollar)	Official compensation rate for settlement of accounts under b) above (Pesos per dollar)	Private barter rate (Pesos per dollar)
U.S. Dollar			23.58 a/
French Franc	16.55	23.97	25.91
Lira	16.55	23.97	24.80
Swiss Franc	16.55	23.97	24.59
Belgian Franc	16.55	-	24.59
Peseta	16.55	23.97	24.17
Reichsmark	16.55	-	23.97

a/ The 23.58 was the convertible currency rate (export draft) in December 1934.

Source: Banco Central, Memoria 1934.

The compensation rates were fixed by the Government at a certain per cent above parity. The barter rates were determined by supply and demand within the limits of import quotas set by the Import Licensing Commission.

To summarize, by January 1935 Chile had no less than four export rates, some of which applied only to a portion of exchange receipts of each commodity. However, the two basic rates were the official rate (19.37 per dollar). 1/ at which the returns from copper sales were bought and a small percentage of all other commodities; and the export draft rate at which the remainder of receipts of all other commodities were bought with minor variations noted above. The official 19.37 rate for copper receipts has been retained down to the present. During 1941-42, all exports, including those of the small and medium sized copper mines but excluding those of large copper mines and a portion of nitrates, were transferred from the export draft rate to the what has been called the DP rate at 31 pesos to the dollar. The official rate 19.37 pesos per dollar became a special rate and a new parity rate of 31 pesos per dollar (the old DP rate) was established in 1946 when Chile joined the International Monetary Fund. In 1948 these exports were again shifted to a higher rate — 43 pesos to the dollar — called the banking rate; the rate for proceeds of sale returned to the country by the large copper mines remained at 19.37 pesos

1/ The official rate had been increased from 16.55 to 19.37 to the dollar by the end of 1934.

/to the dollar.

to the dollar.

The basic selling rate for imports from 1932 to 1939 was the export draft rate except for the Government expenditures abroad at the official rate and the variations for payments agreements, private barter, luxury items and certain invisibles — travel, capital inflow, etc. (free market rate). In March 1939 this rate was restricted to essential imports, non-essentials being bought at the DP rate. In 1941 all imports were transferred to the 31 peso rate, except that sugar, cellulose and newsprint remained at the export draft rate. In 1948, imports were shifted to the new banking rate of 43 pesos per dollar, except that newsprint remained in the export draft rate; and sugar, raw cotton, cellulose, petroleum and machinery for government corporations were authorized to be imported at the 31 peso rate. A further shift was made in 1949-50; the above products except newsprint were placed in the banking rate category and the commodities formerly in this category were shifted to a new rate of 60 pesos to the dollar.

Mention should be made of the revival of the private barter deals which had been abolished before the war. By 1947 certain agricultural exports had begun to face serious difficulties because of "the increase in costs brought about by the inflation the country has been experiencing for some years" 1/. To ensure the continuity of these exports barter operations were permitted, consisting of allowing exporters to import or to sell their exchange to an importer at a "barter" rate. To make this rate more attractive articles included in the import prohibited list were permitted when financed by barter operations. As a consequence the "barley dollar", the "oats dollar", the "wine dollar" and other types of "dollar" appeared in the market at rates as high in some cases as 90 pesos per dollar.

In January 1948, the so-called "gold law" was enacted to stimulate gold production. Imports of goods included in the prohibited list were

1/ Ministerio de Economía y Comercio, "Exposición sobre la Balanza de Pagos hecha por el Ministro de Economía don Alberto Baltra Cortés, ante el Honorable Senado del 30 de Noviembre de 1948", page 8, Talleres gráficos "La Nacion S.A.", Santiago, 1948.

/permitted if

permitted if financed with the proceeds from exports of gold. The corresponding selling rate has fluctuated between 109 and 140 pesos to the dollar and exports of gold increased much faster than gold production. Apparently this discrepancy was due to dishoarding. One of the difficulties in administering the law was due to the fact that it stimulated the invoicing of merchandise at lower than market values and thus enabled importers to finance a larger volume of imports by making up the difference in value through purchases in the free market. The free market rate of exchange rose from close to 52 pesos to the dollar in January 1948 to close to 100 pesos in December 1949. Of course there were other important factors affecting the free rate. The gold law was modified in March 1950 and the defects that were observed under the previous system will be eliminated without reducing the subsidy to gold miners.

The system of exchange and import controls has created a number of administrative difficulties because of its complicated nature and the many leaks which the multiple rates afford. Two of the most serious administrative problems of recent years have arisen from the gold purchase plan and the private barter deals described above. It has been practically impossible to limit imports of luxury and non-essential items under the gold and barter transactions to the amount of receipts actually provided by these two categories.

Period of Recovery and Recession in Trade 1933-39

The period 1933-37 was one of recovery for the Chilean economy. Industrial production in 1934 was 9 per cent above the previous year and 19 per cent above the average 1927-29. The volume of construction, thanks to cheap money and a law granting a ten-year tax exemption on all construction finished before the end of 1935 was larger than in 1929. The increase in authorized capital of industrial corporations and partnerships amounted to 95 million pesos, which was only one million less than in 1929. Unemployment had almost completely disappeared and real income had increased by 15 per cent over the previous year.

Foreign trade also improved. For one thing, nitrate exports were assisted by an international cartel agreement which was reached in late

/1932 and remained

1932 and remained in effect until 1939, and which limited production in accordance with quotas and established world market prices. Furthermore, the nitrate companies in Chile were reorganized and sales were monopolized through a consolidated corporation in which the Government participates on a profit share basis in lieu of taxes. An abundant crop permitted the country to satisfy her needs of certain goods without resorting to imports and made it possible to double the volume of agricultural exports. Although the export price index fell 8 per cent from 1933 to 1934, the volume of exports rose by 59 per cent, which together with a decline in import prices enabled the country to buy substantially more from abroad.

The volume of exports was about the same for the years 1935-36 but the terms of trade rose by 20 per cent over the two-year period. (See Table 35). 1937 was an exceptionally good year — the volume of exports for the first time were equal to the pre-crisis level and volume of imports were 58 per cent of the earlier period. Although exports declined only 6 per cent in 1938, the terms of trade dropped to their 1933 level — 53 as compared with 1928. The terms of trade have never recovered their 1937 level and only in four years have they exceeded those of 1938.

The year 1939 marked a reorientation of policy in the sense that a more conscious and determined effort to industrialize the country was initiated. The new programme of industrialization was brought about partly by political and partly by natural circumstances.

In January 1939 an earthquake caused extensive destruction in five provinces of the country. In order to cope with the problem the Government created a corporation for the reconstruction of the devastated area. At the same time it established a Development Corporation (Corporación de Fomento). The two corporations were to be financed by foreign loans up to 2,000 million pesos and by commercial bank loans up to 500 million pesos. The banks were authorized to use their local reserve requirements to cover loans. Service and amortization were to be financed by increasing personal income tax rates, by a special income tax on large copper mining companies, and by higher taxes on inheritance and gift taxes, and certain other minor taxes. During the first year the two corporations were financed by loans

/from commercial

from commercial banks. 1/

Import and Income Trends

In order to evaluate the influence of trade policy on imports it is convenient to divide the long-term trends into three periods: 1923-30, 1931-40 and 1941-49. There were violent fluctuations in imports within each of these periods but roughly they correspond, respectively, to the period of equilibrium when Chile's trade and capital inflow were relatively high; the period of world depression when Chile's trade was at a low level and internal economic activity was expanding more rapidly than trade; and the war and post-war periods when industrialization and the inflationary process were accelerated and the gap between the import trend and that of real income widened constantly.

The yearly average volume of imports during the depression period was 35 per cent lower than during the earlier period; imports during the recent period averaged 36 per cent more than for the 1930's but were 10 per cent lower than for the 'twenties. If only the post-war years (1946-48) are considered the average goes up to 53 per cent above the previous period and to practically the same level of the 1920's.

Despite the great improvement in imports, it was not enough to maintain the relatively low ratio of imports to income of the thirties. Graph I on the next page shows the extent to which the "average propensity to import" has been reduced. There is a marked shift of the ratio of imports to economic activity to a lower level from period to period. It is of particular interest to note the relationship of imports to income since 1937 — the income index shifts steadily to the right while the import index fluctuates slightly around a fixed point until 1946. Considering the current export situation and terms of trade it appears likely that import-income ratio has reached another level about 20 to 25 per cent below the previous one.

1/ For analysis of Chile's industrial development see Economic Survey 1949, Chapters IX, and Annex I.

/Import and Domestic

Import and Domestic Price Disparities

A second factor which has an influence on the propensity to import may be seen in the relationship between wholesale prices of locally produced goods and import prices expressed in domestic currency, which is shown in Table 35. 1/ The depreciation of the peso was so great in 1932 that it was several years before the relative increase in domestic wholesale prices approximated that of import prices. By 1934 the increase of nitrate exports, from which there were no foreign exchange receipts in 1932, was sufficient to ease the foreign exchange supply situation. This, together with more effective exchange control, stabilized the "export draft rate" and import prices. From 1935 to 1943 domestic and import prices were more or less in line with each other — although the money supply had increased by much more than domestic prices.

Since 1943 there has been a definite tendency for wholesale prices to rise more rapidly than import prices. In 1948 the index of wholesale prices of domestic products stood at 379 (1938 = 100) as compared with 316 for import prices and 629 for money supply. The consumer has benefited from overvaluation of the peso in purchases of gasoline and of certain food staples such as sugar, vegetable oils and coffee. For example, the index (1937 = 100) of wholesale prices of sugar was 347 in 1948, that for coffee 332, and gasoline 332. 1/ However, the cost of living index in 1948 was 446 with the same base year. Since this is considerably higher than the index of wholesale prices of domestic products, it indicates that the benefits of an overvaluated peso were not passed on to the consumers for imports as a whole.

The fact that wholesale prices did not increase more than those of imports during the period 1932-1939 would indicate that depreciation was the principal factor in reducing the propensity to import — especially during the first years (1932-1935) of inflation and expansion of economic activity. Exchange controls were tightened somewhat in 1934 and probably prevented further depreciation during the second half of the decade. It will be recalled that the export draft rate was allowed to fluctuate although demand was conditioned by knowledge of the limitation of import

1/ Dirección General de Estadística.

/licenses which

Table 35. Chile. Exports and Imports as Compared with National Income and Prices

1938 = 100

Year	Quantum of Exports a/	Terms of Trade a/	Quantum of Imports a/	Real exports b/	National Income at 1937 prices c/	Money Supply d/	Wholesale Prices e/	Exchange Rate f/	Import Prices in domestic Currency g/
1928	106	189	117	200	94	42	47	32	36
1929	111	198	160	220	112	42	46	32	36
1930	72	181	148	130	104	34	39	32	34
1931	67	128	101	86	82	31	36	32	36
1932	32	94	36	30	67	53	49	130	99
1933	46	96	33	44	82	62	66	129	129
1934	73	102	52	74	94	74	66	98	121
1935	75	109	64	82	97	85	71	95	97
1936	73	124	70	91	94	88	84	101	105
1937	106	143	83	152	97	95	105	102	107
1938	100	100	100	100	100	100	100	100	100
1939	91	119	91	108	107	123	91	102	94
1940	98	108	101	106	108	140	105	102	103
1941	109	104	99	113	114	173	119	107	113
1942	113	89	94	101	111	213	154	121	150
1943	104	78	83	81	123	269	164	121	167
1944	108	79	89	85	114	309	182	121	164
1945	109	78	93	85	125	359	204	121	189
1946	98	75	98	74	132	455	240	121	226
1947	99	83	123	82	137	551	319	121	244
1948	111	114	116	127	147	629	379	145	316
1949						722	438	145	

Notes:

a/ Calculated by ECLA's Secretariat using 1937 prices as weights. From 1928 to 1938 the quantum of imports was obtained by deflating the dollar value of imports by an unweighted index of U.S.A. and U.K. export prices. For the following years, calculated by ECLA's Secretariat.

b/ The terms of trade times the volume of exports.

c/ From 1930 on estimates by ECLA's Secretariat. For 1928 and 1929 based on an index of industrial activity intrapolated from T.C. Chang and J. Hartog: "Note on the Volume of Exports and Imports of Chile in the Inter War Period", International Monetary Fund, Research Department, Dec. 5, 1947. The same data have been used to construct charts I and II.

d/ Banco Central de Chile, Boletín Mensual # 250, January 12, 1948 and International Financial Statistics.

e/ See Note d, Table 32.

f/ The index refers to the rate applicable to imports. From 1937 to 1940 is

/a weighted average

Table 35 (Cont.)

a weighted average of the Export Draft Rate (80 %) and the D.P. rate (20%). For 1941 the proportion used was 50-50. From 1942 to 1947 includes only the D.P. rate and for 1948 and 1949, is an average of the Export Draft rate (12%), the D.P. or official rate (31%) and the Banking rate (57%).

g/ The unit dollar value of imports adjusted for change in exchange rates and tariffs. The adjustment was made by deflating an index of the value of imports in national currency, including duties by the quantum index.

Table 36. Chile: Import Prices, 1928-1949.

Year	Unit Value of Imports	Index of the Exchange Rate	Import Prices in domestic currency	Percentage ad Valorem equivalent of import duties
	a/	b/	c/	d/
1928	121	32	29	21.05
1929	120	32	31	22.54
1930	112	32	29	22.41
1931	92	32	29	26.67
1932	70	130	110	41.98
1933	78	129	118	58.97
1934	93	98	127	71.97
1935	95	95	89	40.04
1936	98	101	90	35.92
1937	104	102	97	34.30
1938	100	100	100	28.77
1939	96	102	94	30.40
1940	104	102	103	28.65
1941	112	107	113	28.23
1942	142	121	150	19.34
1943	164	121	167	17.10
1944	166	121	164	24.83
1945	173	121	189	22.55
1946	184	121	226	22.37
1947	222	121	244	21.56
1948	230	145	316	23.43
1949	237	145		32.30

a/ Up to 1938 based on an unweighted average of U.S.A. and U.K. prices. From 1938 on unit value index calculated by ECLA.
b/ See Note f. Table 35.
c/ See Note g. Table 35.
d/ Up to 1937 from Fernando Illanes Benitez: "Economía Chilena y el Comercio Exterior, página 150, Imprenta Chile, Santiago, 1944. From 1938-1948, Contraloría General de la República, Memorias and Dirección General de Estadística, Anuario Comercio Exterior.

licenses which might be granted by the Import License Commission. A number of items were subject to quotas but the bulk of permits were granted once the necessary foreign exchange had been secured by the importer. In fact, the most important function of the exchange control was to differentiate as between exports and to prevent capital flight.

Tariffs

The present tariff system of Chile is regulated by Law No. 4321 of 27 February 1928 and its numerous modifications. The duties, as given in the "Arancel" constitute the minimum tariff. Higher rates are applicable to imports originating in countries that discriminate against Chilean products. Most duties are specific and expressed in gold pesos per unit of volume or weight. To liquidate the duties in Chilean current pesos a surcharge corresponding to the degree of devaluation from 1928 to date is used. In 1936 an ad-valorem duty was established for all imports, with certain minor exceptions and with a higher rate for luxury imports.

The tariff law when enacted was clearly protectionist but has lost much of its importance because of greater reliance on quantitative restrictions. For instance, the prohibited list of imports at present in force includes all textile manufactures, the imports of which were limited in earlier years by means of high duties.

Protectionism has not been the only objective of the tariff schedule. Government revenues and "social welfare" have played an important part in the determination of the duties. This can be clearly seen from the observation of ad-valorem equivalents of different types of goods. In 1937 the duties on raw materials and equipment were lower than the average for all dutiable merchandise, while consumer goods bore higher rates. However, certain raw materials, such as fuels, had heavy duties because they are good tax revenue producers. The free list was largely made up of raw materials such as raw cotton, oilseeds, phosphate fertilizers, and newsprint, but it also contains foodstuffs such as livestock and bananas.

In the postwar years, although the same structure of rates has been maintained, the great differences among rates applicable to different merchandise has been reduced; however, it should be recalled that the

/practice of multiple

Table 38. Chile: Customs duties, average ad-valorem equivalents for selected goods, 1937-1945-1949, (per cent of c.i.f. value).

Raw Materials	1937	1945	1949
Crude petroleum	51.8	23.8	29.7
Gasoline	285.2	200.6	158.4
Steel bars	33.9	35.5	37.0
Tin-plate	24.0	26.6	29.1
Sodium carbonate	60.7	52.2	50.0
Caustic soda	40.3	36.8	37.0
Woodpulp	25.6	17.8	24.5
Rayon pulp	-	16.0	22.3
Rubber	14.6	16.5	27.1
Raw cotton a/	9.7	4.2	3.4
Wool unwashed	26.8	51.0	37.8
Wool - washed	51.8	53.5	30.7
Machinery			
Drills for mines	14.9	15.2	23.9
Steam and gasoline shovels for mines	14.9	17.2	23.5
Threshing machines	23.4	21.8	23.4
Textile machinery	18.7	20.3	22.4
Internal combustion motors	14.8	15.6	23.0
Electric motors	14.6	17.0	23.0
Generators	13.8	17.1	23.4
Tractors - Caterpillar	n.a.	n.a.	20.4
Tractors - John Deere	n.a.	n.a.	21.4

Foodstuffs	1937	1945	1949
Coffee	25.4	38.2	36.4
Tea	77.0	53.4	34.1
Sugar	115.4	25.8	38.8
Oilseeds	-	3.7	2.8
Edible oil	120.8	83.5	62.6
Cattle	76.1	32.6	11.3
Textiles			
Cotton Osnaburg	35.8	14.9	10.6
Coarse shirting and sheeting	77.5	20.8	16.1
Dyed cotton poplin	101.4	39.9	34.2
Woollen fabrics	60.7	41.9	36.7
Durable Consumer Goods b/			
Chevrolet automobile	n.a.	n.a.	71.6
Cadillac "	n.a.	n.a.	74.7
Hillman "	n.a.	n.a.	57.8
Radio receiving sets	51.7	51.4	68.5
Cutlery	49.6	31.6	61.3
Bicycles	58.8	33.2	58.3
Refrigerators	35.9	50.6	67.2

a/ Although raw cotton and other raw materials are included in the free list, they are subject to certain minor taxes.

b/ The ad-valorem equivalents for this group in 1949 are considerably overestimated because these goods were imported at the "gold rate" of about 120 pesos to the dollar and the duties were not corrected in national currency in the same proportion. For instance, the duty actually paid on an automobile - US$ 2000 c.i.f. is less than 50 per cent of the c.i.f. value.

Source: Prepared by the Superintendencia de Aduanas, Departamento de Estadística, at the request of the United Nations Economic Commission for Latin America.

practice of multiple exchange rates is much more significant now than in the 'thirties.

The tariff has also been used as a balance of payments device. From 1928, when the average ad-valorem equivalent on all imports was around 21 per cent, it increased to over 70 per cent in 1934, both because of higher specific duties and because of the reduction in world prices. Later on the average ad-valorem equivalent fell off and by the end of the 'thirties settled somewhat about 30 per cent. (See Table 36, page 114). Recently, however, the surcharge, which according to the rate of exchange of 60 pesos to the dollar should be 1140 per cent, has been reduced to 440 per cent as a means to compensate the effect of currency devaluation on the cost of living.

There is no information available with respect to the ad-valorem equivalent on dutiable merchandise for the whole period. Data for the years 1937, 1945 and 1949 are presented in the following table.

Table 37. Chile: Customs revenues and average ad-valorem equivalents for selected years

(Thousands of current pesos)

Year	Total Value of Imports a/	Value of Non-dutiable Imports	Non-dutiable Imports as Per cent of Total Imports	Total Revenue Collected	Ad-valorem equivalent on Total Imports	Ad-valorem equivalent on Dutiable Imports
1937	2,188,932	176,154	8.0	751,015	34.3	37.3
1945	4,612,188	907,337	19.7	1,144,980	24.8	30.9
1949	10,929,505	699,191	6.4	3,419,072	32.3	33.4

Source: Prepared by the Superintendencia de Aduanas, Departamento de Estadística, at the request of the United Nations Economic Commission for Latin America.

Influence of Quantitative Controls on Imports 1946-49

When the Development Corporation, which had been established in 1939, began to put its industrialization programme into effect, it declared that in order to carry out "the development plan it was indispensable to have foreign exchange" and that "the analysis of the figures of the balance of payments of the country made it illusory to expect..... that the plan

/could be financed

could be financed with the normal supply of foreign exchange of the country". 1/ As matters turned out, it was not possible to finance development of industries producing for the domestic market with foreign capital. In fact there was a substantial net outflow of capital. From 1939 to 1948, Chile received credits totalling 98 million dollars from the United States Government Export-Import Bank. A total of 51.3 million dollars of these credits had been disbursed by the end of 1948, of which 18.8 million had been repaid, leaving 32.5 million dollars which represented the net balance of capital movement from this source. This net inflow of capital was more than offset by payments on the public debt contracted prior to the world economic crisis. During this same period 1939-48 there was a reduction in private foreign investments of approximately 130 million dollars of British investments and over 80 million dollars of United States investments. 2/

Nevertheless the industrialization programme went forward with the result that industrial production was about 40 per cent higher in 1948 than in 1939. The inflationary process was also greatly accelerated, as may be seen from Table 35. The currency was devaluated in 1941-42 by a little less than 20 per cent and again in 1948 by another 20 per cent, but not by nearly as much as internal prices. The inflation had also largely neutralized any limiting effect which tariffs might have had on imports.

Since neither custom duties nor the exchange rate could act as a deterrent, the full burden of restricting imports fell upon quantitative controls after the war. In view of the greatly increased demands of industry for raw materials and capital goods, it also became necessary to apply the principle of selectivity much more strictly than had been done before.

An important change in the licensing system had been initiated in 1939 due to the fact that large quantities of merchandise were accumulating

1/ Corporación de Fomento de la Producción, "Cinco Años de Labor, 1939-1943".

2/ United Nations Economic Commission for Latin America, Economic and Legal Status of Foreign Investments in Latin America, Document E/CN.12/166/Add 1).

/in the customs,

in the customs, for which no foreign exchange was available. In March of that year a prior import permit system was established. The successful operation of the new procedure was dependent upon granting import permits up to a sum which would not exceed the available exchange and which would prevent the shipment of merchandise prior to the granting of an exchange permit. The outbreak of the war obviated any difficulty along this line but in 1946, with the reopening of trade channels, the prior permit license system was put to a severe test, resulting in imports of 80 million dollars worth of goods in excess of available exchange. The following year an attempt was made to correct this situation by putting into effect a foreign exchange budget by which import permits were to be made against allocations by categories earmarked from anticipated foreign exchange receipts. The National Foreign Trade Council, which had replaced the Exchange Control Commission and the Import License Commission, was directed under law to authorize exchange transactions in accordance with the "annual foreign exchange budget" which was to be prepared by the Central Bank and the Trade Council and approved by the President of the Republic. Service charges and net capital movements had of course to be taken into account in preparing the budget.

The 1947 exchange budget contemplated a deficit of 14.5 million dollars in the current account to be financed by a net inflow of capital. By August 1947 import permits already exceeded by over 5 million dollars the budgeted appropriations for the entire year. The situation was made all the more serious by the failure to provide for certain essential imports. This led the Government to augment the budget by 35 million dollars and to establish a prohibited list of imports made up principally of luxury items and products which could be locally manufactured. The actual imports of the year were 17 per cent higher than budgeted and the balance of payments in the current account closed with a deficit of more than 50 million dollars, which was over three times that contemplated in the budget. The country was therefore compelled to utilize 33.6 million dollars of its relatively small gold and foreign exchange reserves to cover the deficit. Nevertheless by the end of 1947 there were 28 million dollars worth of merchandise at the customs, for which payment was pending.

/More stringent controls

More stringent controls were applied in 1948 with the result that the exchange budget was exceeded by less than 14 million dollars, which was offset by an increase of exports over those anticipated in preparing the budget. The exchange budget does not include imports of luxuries and certain non-essentials financed by the sale of gold under the "gold law", which amounted to an estimated 10 million dollars in each year. 1/

The decline of copper prices from 23.5 to 16.5 per pound during the first half of 1949 created a serious problem for the country. The budgeted imports were already considered as a minimum to maintain industrial production, to continue development projects under way and to meet consumer needs for essential foodstuffs and fuel. By July it was evident that receipts from sale of exports would be from 45 to 50 million dollars below what had been anticipated. Therefore import permits for the dollar area were drastically reduced — during the second half of the year permits from the dollar area amounted to only 31 per cent of the total granted as against 68 per cent during the first six months. Furthermore, the list of items prohibited to be imported was greatly expanded. In October 1949 the Government received a loan of 25 million dollars from the Export-Import Bank, of which 15 million was to be available during the remainder of the year, to finance imports of equipment indispensable for the maintenance of the economic activity of the country.

During the period 1928-39 there was a significant change in the composition of imported goods — consumption goods which made up 52 per cent of the total in 1928 was reduced to 38 per cent in 1939, while raw materials increased from 26 to 36 per cent of the total. The percentage share of capital goods increased during the early depression but this was probably due to higher prices in relation to foodstuffs and raw materials.

1/ See Table 43, page 131, on Chile for balance of payments and Table 45 page 133, for the exchange budgets of 1947 to 1950.

/The principal effect

Table 39 . Chile: Percentage Composition of Imports by Value
Selected Years

	1928	1931	1936	1939	1940	1944	1947	1948
I. Raw Materials and Fuels	32	34	42	44	49	51	44	51
A. Raw Materials	26	26	35	36	38	41	36	37
B. Fuels	6	8	7	8	11	10	8	14
II. Consumption Goods	52	42	38	38	33	35	37	27
A. Necessities	39	28	25	22	20	27	24	19
B. Durable	10	11	10	12	110	5	11	7
C. Luxuries	3	3	3	4	3	3	2	2
III. Capital Goods	16	24	20	18	18	14	19	22
A. Machinery and Tools	10	17	15	14	11	10	14	17
B. Transportation equipment	6	7	5	4	7	4	5	5
Total	100	100	100	100	100	100	100	100

Source: Banco Central de Chile: Estudio sobre los términos de Comercio Exterior de Chile, pages 21 and 22. Mimeographed, September 1948. For 1928 and 1931 see Banco Central: Balanza de Pagos, 1946, page 64.

The principal effect of the import quotas since the war has been to maintain the composition with, however, some shifting from consumption goods to raw materials and capital goods. 1/

The possibilities of effecting further changes in the composition of Chile's imports in favour of capital goods and raw materials for economic development are rather narrowly limited. When this limit is definitely reached, restriction of imports must directly affect capital accumulation. This was clearly recognized by the Minister of Economy in a report to the National Congress in November 1948, in which he stated that "the selective limitation of imports has a floor beyond which it is not possible to go without threatening the normal development of the economy". 2/

The production of the new steel mill and its related industries will no doubt be an important factor in increasing the availability of locally produced goods in replacement of imports, but requirements for heavy machines and equipment, as well as transport and communications and raw materials, will surely increase as development goes forward. Chile, like the other Latin American countries, obviously cannot become self-sufficient within the limits of its present export capacity. In the long run it must in one way or another expand its exports if it is to meet the needs of an expanding economy and its obligations abroad.

Exports and Exchange Policy

We have seen in the previous section that the burden of equilibrating Chile's international accounts has been placed on quantitative import controls since 1939 and that the burden has become progressively greater and more difficult since the war. The chief role of exchange rates, on the import

1/ See appendix A of this section for an analysis of import permits requested and granted, by categories of goods and by currencies.

2/ Ministerio de Economía y Comercio, "Exposición sobre la Balanza de Pagos hecha por el Ministro de Economía, Don Alberto Baltra Cortés, ante el Honorable Senado del 30 de Noviembre de 1948", page 8. Talleres gráficos "La Nación S.A.", Santiago, 1948.

/side, has been

side, has been to give domestic investment capital and certain essential consumer goods the benefits of an overvaluated currency. Regardless of whether an exchange rate plays a direct role in achieving equilibrium in the balance of payments by restricting imports, it should not be a deterrent to exports. If exports are restricted or are not expanded to their full potentialities the country is losing to that extent the means of payment for much-needed imports of raw materials and capital goods, as well as desired consumer goods. Has the decline in Chile's real exports been in any way attributable to the exchange rate policy? One of the purposes of multiple exchange rates for exports has been to adjust rates to differential costs of production of export commodities in relation to world market prices. In this way, the country retains a larger share of the benefits of increased productivity of foreign-owned industries — provided of course the rates do in fact reflect changes in cost of production. This objective could also be accomplished by direct taxes on income or production or by profit-sharing by the Government. The copper and nitrate industries in Chile are subject to all three of these methods of "taxation". The tax on copper implicit in the exchange rate represents, to the extent of peso overvaluation, a tax on cost of production and guarantees a steady source of revenue for the government regardless of profitability so long as exports are not curtailed, whereas the receipts of a direct tax on income will fluctuate according to profits earned. Inasmuch as the overvaluation of the peso has risen constantly, although at an uneven rate, since 1932 and has therefore exerted a constantly greater pressure on cost of production, it is probable that the exchange rate has been partly responsible for the marked increase in productivity of the large copper mines.

The low rate applicable to imports of machinery, materials and supplies used in production has encouraged capital investment of the large mines in order to offset the increased costs (in national currency) of labour. As wages rise in response to the inflationary process, dollar costs of the large mines go up proportionately since the conversion rate stays the same. The investment of the industry represents imports

/of capital goods

of capital goods into the country and to that extent reduces imports for other purposes. On the other hand, the country retains the benefits of increased productivity through a low exchange rate and taxes, and thus the general level of productivity is raised. Whether a lower level of capitalization in mining would have resulted in a transfer of capitalization, equivalent to the amount not utilized in mining, to domestic industries and whether this would have brought about equal savings from increased productivity is debatable. The important fact is that there has been a net increase of the general level of productivity in the country.

Because of its weaker competitive position in world markets and because of its apparent inability to increase productivity as much as the large copper mines, the nitrate industry has had to receive more favourable treatment. The small copper producers and agricultural producers for export have been in a similar position due to low productivity and to the fact that their cost of production are paid entirely in national currency and are closely linked to the internal price structure.

Table 40 shows the changes in the volume and composition of Chile's exports since 1930-49.1/ The most important point to be noted is the increase in volume of exports of copper and the increasing percentage which copper is of total exports. The position of nitrates has been determined almost completely by the market situation in which synthetic nitrates have played an increasingly important role. However, the prospects for the nitrate industry are favourable. Production efficiency has been greatly improved in recent years; cost of production has been reduced to a level where nitrate prices can compete with the synthetic product; demand is increasing and Chilean nitrates are obtaining a larger share, especially in the non-dollar area. Exports of the small copper mines and agricultural products have experienced losses since the beginning of the war both in volume and percentage of values of total exports.

1/ See Graph II for changing relationship between real exports and internal economic activity.

/Copper Exports

GRAPH II

CHILE

REAL EXPORTS, AND ECONOMIC ACTIVITY, 1923-1948.

1938=100

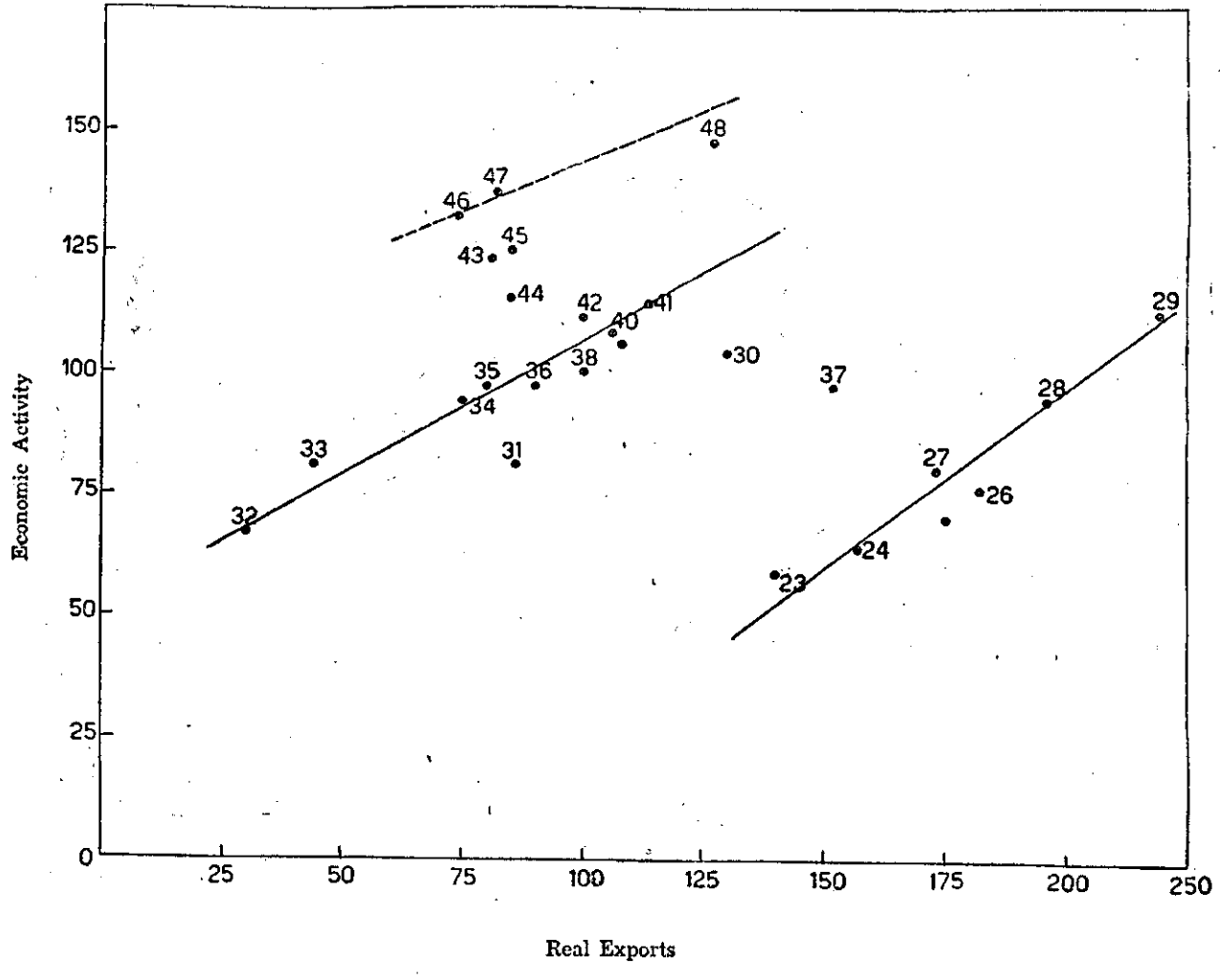

Table 40 . Chile: Changes in Volume and Composition of Exports
1928 - 1948

Year	Percent of Total value of Exports at Current Prices			Changes in Value at 1938 prices		
	Nitrate and iodine	Copper Standard and Electrolitic	Other Exports	Nitrate and iodine	Copper Standard and Electrolitic	Other exports
1928	51	31	18	180	82	92
1929	46	40	14	184	90	73
1930	46	34	20	113	61	84
1931	45	37	18	93	65	58
1932	20	41	39	15	29	52
1933	25	37	38	43	47	59
1934	32	33	35	82	72	96
1935	31	38	31	82	77	81
1936	28	38	34	89	72	90
1937	21	53	26	102	118	99
1938	22	48	30	100	100	100
1939	22	49	29	101	97	78
1940	20	55	25	91	103	78
1941	16	54	30	81	137	76
1942	14	66	20	77	144	63
1943	15	61	24	67	147	63
1944	14	60	26	69	145	66
1945	19	51	30	103	134	87
1946	18	51	31	90	111	82
1947	14	62	24	106	126	56
1948	17	60	23	108	131	72
1949						

Sources: Calculated by the Economic Commission for Latin America with data from the Dirección General de Estadística; Anuario de Comercio Exterior.

Copper Exports 1/

Copper prices rose gradually during 1939-45; then from 1945 to January 1949 prices doubled, from 11.7 to 23.5 cents per pound. Costs (see Table 41) rose more rapidly than prices after 1941, having reached an index of 242 (1938 = 100) in 1948 as compared with 227 for prices. But the level of costs did not increase nearly as much as the general level of domestic costs -- wholesale prices, for example, rose to 366 and cost of living to 430 from 100 for 1938. This is explained by increased productivity and by the circunstance that the large copper companies are permitted to import freely with their own exchange receipts; therefore wages, which make up approximately 30 per cent of total costs, account for practically the entire amount that must be paid locally in national currency. In 1948 the total cost of production was 16,885 U.S. cents per pound; of this amount 12.327 U.S. cents (including taxes) were returned to the country at the 19.37 exchange rate. It is estimated that the costs would have been 1.83 U.S. cents per pound less if the rate of exchange had been 43 pesos per dollar, which was the prevailing rate for most other exports in 1948.

Although costs have increased more than prices, the industry has been profitable and has apparently expanded as rapidly as market conditions would permit. The average annual net profits after taxes was 2.97 U.S. cents per pound from 1939 to 1948. The sharp decline of prices in 1949 not only worsens the terms of trade for the country but may force readjustments in the rate and tax structure for the large mining industry in order to prevent the closing down of "marginal" mines and a consequent drop in production and exports.

The cost of production of small and medium copper mines reflect the full force of the inflationary process. These mines are also at a disadvantage in that their output must be refined in the United States, and since the refining costs are more rigid they influence total costs

1/ See Annex F of the Economic Survey of Latin America 1949 for a complete discussion of this problem and an analysis of the long-term trends of copper production, costs and prices.

/inversely when

Table 41. Chile: Copper Prices and Costs, 1938-1949

1938 = 100

	Large Copper Mines		Small and Medium mines			
	Prices a/	Cost b/	Prices	Exchange rate	Export Price Domestic currency c/	Wholesale prices d/
1938	100	100	100	100	100	100
1939	111	99	126	100	126	98
1940	111	110	114	123	140	107
1941	112	105	119	124	148	125
1942	120	135	157	124	195	171
1943	121	135	158	124	196	188
1944	121	149	145	124	180	194
1945	121	151	145	124	180	206
1946	142	159	178	124	221	239
1947	208	243	251	156	392	307
1948	227	242	268	172	462	366
1949			223	172	384	

Source: Economic Survey of Latin America, 1949, Chapter XIX

a/ Since the exchange rate applicable to this product has not changed the index represents the export price in domestic currency.
b/ Including taxes paid in Chile.
c/ Prices in U.S. cents times the exchange rate.
d/ Costs are not available, but probably have risen faster than wholesale prices.

inversely when copper prices decline. The exchange rate has been used to adjust changes in costs to market prices. Despite such favourable treatment exports of the small and medium mines have fallen off during the past ten years. Apparently the pressure of higher costs has had no influence on their efficiency, which is very low, and makes it increasingly more difficult to compete in the market.

Agricultural Exports

It has been estimated that from 1937 to 1949, agricultural production costs went up by 311 per cent. During the same period the export price index in domestic currency rose 447 per cent. However, export prices in domestic currencies are not the prices paid to the farmer. Expert opinion agrees that in general a considerable proportion of the benefits of higher exchange rates has not been passed on to the farmer. This is indicated by the fact that the wholesale price index for certain agricultural exportable products has not increased as much as the index of export prices in domestic currency, or as much as the general level of agricultural costs. (See Table 42). In the second place, most exchange rate concessions have been granted after crops had already been marketed by the farmer. It may be that in general farmers have been informed too late of the changes in the exchange rates to take them into account in their production plans; furthermore, the uncertainty of future rates in the face of the rate of increase of internal prices and costs may have offset whatever influence an adjustment in the exchange could have had on agricultural production.

The disparity between export prices in domestic currency, wholesale prices and costs, and poor timing and implementation of the exchange rate policy has given this type of export the character of a speculative business and may explain in part the reduction in production and exports of these commodities. In many cases production has fallen off substantially as compared with that before the war.

Another factor which may explain the decrease of these exports is that before the war Germany was Chile's best customer for these products. The system of cuotas has also had deterrent effects because exportable quotas are frecuently fixed too late to permit timely marketing operations.

/Livestock products

Table 42. Chile: Changes in Agricultural Production Costs, Export Prices and Exchange Rates, 1938-1949

1938 = 100

	Wholesale Price of Agricultural Exportable Products a/	Agricultural Production Costs b/	Unit Value of Agricultural Exports	Exchange Rates	Unit Value of Agricultural Exports in Domestic Currency
1938	100	100	100	100	100
1939	108	104	124	100	124
1940	144	108	111	100	111
1941	142	125	122	124	151
1942	179	138	154	124	191
1943	247	170	201	124	250
1944	248	184	210	124	261
1945	271	206	224	124	278
1946	417	210	296	124	367
1947	493	268	336	124	416
1948	579	336	317	169	536
1949	539	391	270	233	629

a/ Unweighted average of April 30 quotations of the Central Bank, includes barley, oats, beans, chick-peas, lentils and peas.

b/ Economic Survey of Latin America 1949.

Livestock products are an important item in Chile's exports and have received the benefit of a favourable rate of exchange. Sheep raising is concentrated in the extreme southern part of the country and it is interesting to note that its production costs have not been seriously affected by domestic inflation. The reduction in the volume of exports of this group can be explained largely by a diversion towards the domestic market. The consumption of wool in the country went up by 80 per cent and of hides by 14 per cent from 1938 to 1949. 1/

In summing up, it would seem that the exchange rate policy has not affected the flow of exports of the large mining companies but perhaps has hampered exports of the small and medium mines and has not stimulated the expansion of exports of agricultural products. Undoubtedly the large mining companies have counter-balanced the effect of overvaluation of the currency by increasing efficiency. On the other hand, the exceedingly low productivity of small mines and of agricultural producers has not been improved. In the case of agricultural exports, at least, it would seem that the amount available for export is governed almost entirely by internal production and market conditions. Certainly a favourable rate has not stimulated higher productivity or production for export — nor is there any evidence that a lower rate would have induced higher efficiency. Chile's experience would seem to suggest that internal policies directed toward improving agricultural production would have a greater influence on exports than does manipulation of the exchange rate.

Insofar as the exchange rate has any influence, it is probably in the certainty that the rate can be managed to make it suitable to the marginal cost producer. This creates the psychology of solving the problems of producers by continued devaluation and creates a shelter for inefficiency. With current production methods most of the Chilean exports other than those of the large copper, nitrate and iron mines require a low standard of real wages, and whenever this standard is raised the burden is passed along to other groups within the economy through depreciation.

1/ Estimates based on production of woollen cloth and shoes.

Table 43. Chile. Balance of Payments, selected years

(Millions of U.S. dollars)

	1938	1947	1948
Large Mining Companies			
Sales abroad	99.8	227.3	284.6
Disbursment abroad			
Imports with own exchange)		- 32.2	- 40.4
Profits retained abroad)	-45.2	- 44.5	- 56.3
Administration, freights and)			
other expenses)		- 11.3	- 10.9
Capital Movements		1.9	- 27.5
Total	54.6	141.2	149.5
Other Goods and Services			
Exports	40.9	70.5	68.6
Imports (C.i.f.)	- 102.8	-251.1	-235.2
Investment income	- 14.1	- 13.0	- 7.2
Other	7.5	6.0	9.0
Total	- 68.5	-187.6	-164.8
Other Non-compensatory Transactions			
Donations	...	.6	.3
Private Capital Movements	1.5	1.4	13.5
Government Amortization and other repayments	...	- 9.8	- 12.4
I.M.F. and I.B.R.D., subscriptions in gold	...	- 8.9	.1
Export-Import Bank Loans (Fomento)	...	11.0	17.2
Total	1.5	- 5.7	18.7
Errors and Omissions	17.6	- 3.3	3.1
Surplus or Deficit (-)	5.2	-55.4	6.5
Compensatory Official Financing			
Argentina Loan	-	17.2	4.8
Compensation Account with Brazil	-	4.6	- 1.3
I.M.F. resources used	-	8.8	-
Foreign Exchange	- 5.2	5.3	-10.9
Gold	-	19.5	.9
Total	- 5.2	55.4	- 6.5

Source: International Monetary Fund, International Financial Statistics. November 1949, page 141.

Table 44. Chile: Actual and Budgeted Imports 1947-1948.

Million U.S. dollars

Imports	1947			1948		
	Budgeted	Actual	Excess over Budgeted	Budgeted	Actual	Excess over Budgeted
Mining	12.3	18.4	6.1	7.1	29.3	22.2
Fish & Forestry	1.1	1.9	.8	1.9	1.7	- .2
Livestock	13.8	18.3	4.5	13.4	18.0	4.6
Agriculture	23.1	20.5	-2.6	27.1	21.3	- 5.8
Raw cotton	n.a.s	6.6	- -	11.2	11.4	+ .2
Others	n.a.s	13.9	- -	15.9	9.9	- 6.0
Foods	25.4	34.6	9.2	19.1	25.7	6.6
Sugar	n.a.s	29.5		18.6	20.7	+ 2.1
Others	n.a.s	5.1		.5	5.0	+ 4.5
Beverages	.4	.5	.1	.2	.3	.1
Tobacco	.2	.1	- .1	.1	.1	- -
Textiles	34.8	31.5	-3.3	19.5	26.6	7.1
Chemicals	22.6	29.5	6.9	35.6	37.4	1.8
Metals	18.4	23.8	5.4	19.9	26.2	6.3
Machinery	24.5	36.9	12.4	30.9	45.6	14.7
Transportation	18.8	29.6	10.8	16.0	19.7	3.7
Misc. Manufactures	15.2	19.6	4.4	14.0	16.1	2.1
Precious Metals	.1	4.0	3.9	.1	.6	.5
Sub total	210.7	-	-	204.4	-	-
Purchases financed by borrowing	20.1	11.0	9.1	20.0	17.2	-2.8
Purchases of large mining enterprises	-			25.5	40.4	14.9
Defense Purchases	-			5.0	- -	- -
Grand Total	230.8	269.2	+38.4	254.9	268.6	+13.7

Source: Budgeted imports from Diario Oficial, January 28, 1947 and February 20, 1948. Actual imports from Dirección General de Estadística, Anuario de Comercio Exterior.

Note: n.a.s.- non available separately.

Table 45. Chile: Foreign Exchange Budget [a]

(millions US.dollars)

	1947	1948	1949	1950
Total Receipts	238.0	257.7	284.5	227.4
Merchandise	221.7	243.0	271.7	220.4
Services	16.3	14.7	12.7	6.9
Total Payments	252.5	276.3	301.5	244.6
Merchandise	232.8	255.2	279.3	220.5
Services	19.7	21.1	22.3	24.0
Surplus or Deficit	- 14.5	- 18.6	- 17.0	- 17.2
Inflow of Capital (net)	12.1	18.1	17.0	17.2
Donations	2.4	.6	-	-

a/ Totals do not add up because of rounding.

Source: See Table 44.

CHILE. APPENDIX A

The Effects of Quantitative Controls on the Demand for and the Composition of Imports and on the Demand for Individual Currencies, 1944 to 1949

Until recently Chile lacked statistics showing the total value of requests for foreign exchange presented to the Foreign Trade Council, the value of those granted and those which were rejected. Information on these matters is valuable in order to know the extent to which the demand for foreign exchange fluctuates, the extent to which quantitative controls limit demand and the effects of those limitations on the commodity and currency composition of imports.

As a complete study including all individual requests would have been materially impossible — approximately 65,000 requests for foreign exchange for all purposes are presented every year — it has been necessary to use a sampling procedure. The sample was made by selecting every tenth individual request arranged in order of precedence. The results necessarily reflect the short-comings of the sampling procedure, but it is believed that it represents the facts fairly well. The tables accompanying this Appendix refer to the data in the sample. Data for the universe would be roughly ten times as large as the sample.

On the basis of the information obtained by sampling the following conclusions can be drawn:

a) Quantitative controls have played a very powerful role in checking the total value of imports. The dollar value of requests rose continuously from 1944 until 1948 and declined by about 15 per cent in 1949. In the latter year an administrative practice was iniciated whereby all requests for exchange were subject to a preliminary examination and those which could not be considered for approval were immediately rejected without registration. Requests thus rejected do not appear in our calculations. It is highly probable that the decrease in the value of registered requests has been due to this practice. Imports

/of large

of large mining enterprises are not subject to permits, except when goods are on the prohibited list. Consequently they do not appear in these calculations.

During the first two years of the period under consideration approximately 13 per cent of import permits requested were rejected, but in latter years the proportion rejected rose and reached a maximum of 61 per cent in 1947. It is estimated that 20 per cent of permits granted are not utilized and that there is a lag of about three months between the concession of the permit and the arrival of the merchandise in the country. These facts, together with an overstatement of demand for imports on the part of importers for bargaining purposes, explain the differences between import permits granted and actual imports. The latter factor does not seem, however, to be a very important element. In fact, an examination of the treatment given to requests shows that in the majority of cases they are granted or rejected in toto, which must be known to importers.

b) Quantitative controls, as they have been used in Chile, have not substantially modified the commodity composition of the value of requests for imports.

The value of import permits granted for capital goods, raw materials and fuels rose faster than the value of import permits granted for other types of goods, but this did not result as a consequence of discrimination against other types of goods. In fact, the commodity composition of the value of permits granted was practically equal to that of permits requested, except for a slight discrimination in favour of capital goods, raw materials and fuels. In this connection, however, the effect of prohibition of certain import items must be kept in mind.

The figures in Table A-2 and A-3 bear out the statement that "overvaluation of the currency has played an important role in that it has stimulated investment producing for the domestic market". 1/ Overvaluation, together with other factors, has modified the structure of demand for imported goods. Quantitative controls have been the most

1/ See Part II, page 35.

/important tool

important tool for maintaining overvaluation, but they have not tended directly to further accentuate the distortion in the structure of demand.

c) Quantitative controls have reduced dollar imports proportionately less than imports from other currency areas. The value of requests for dollar imports rose faster than the total value of requests and the proportion of permits granted for imports from the dollar area was higher than the proportion of permits granted for imports from other currency areas.

Table A-1 Chile: Value of import permits requested, granted and rejected, 1944 - 1949

Years	Value of import permits requested	Value of import permits granted		Value of import permits rejected	
	1000 dollars	1000 dollars	Per cent of requested	1000 dollars	Per cent of requested
1944	17,696	15,313	86.53	2,383	13.47
1945	22,385	19,550	87.34	2,835	12.66
1946	37,278	26,054	69.89	11,224	30.11
1947	61,655	23,803	38.61	37,852	61.39
1948	66,216	38,772	58.55	27,444	41.45
1949	56,930	40,213	70.64	16,717	29.36

SOURCE: United Nations Economic Commission for Latin America.

Table A-2. Chile: Value of import permits requested and granted by commodity groups 1944 to 1949

	Capital goods			Raw materials			Fuels		
	Requested	Approved	Percent Approved	Requested	Approved	Percent approved	Requested	Approved	Percent Approved
	1000 dollars			1000 dollars			1000 dollars		
1944	4,011	3,658	91.2	3,401	3,113	91.5	372	372	100.0
1945	6,575	6,071	92.3	4,225	4,059	96.1	328	328	100.0
1946	13,007	9,456	72.7	4,848	4,296	88.6	670	513	76.5
1947	21.795	9.101	41.8	11,977	4,554	38.0	921	798	86.7
1948	21,007	12,316	58.6	21,987	12,522	57.0	3,666	3,492	95.3
1949	21,667	14,739	68.0	15,993	12,295	76.9	1,588	1,588	100.0

	Consumption goods			Textiles			Luxury goods		
	Requested	Approved	Percent Approved	Requested	Approved	Percent Approved	Requested	Approved	Percent Approved
	1000 dollars			1000 dollars			1000 dollars		
1944	5,698	4,572	80.2	1,922	1,784	92.8	2,291	1,814	79.2
1945	5,857	5,082	86.8	2,470	2,199	89.0	2,930	1,811	61.8
1946	7,509	5,358	71.9	4,900	3,673	75.0	6,343	2,706	42.7
1947	8,849	4,589	51.9	11,926	3,190	26.7	6,195	1,572	25.4
1948	10,283	5,865	57.0	6,758	2,710	40.1	2,515	1,399	55.6
1949	9.597	6.172	64.3	4,857	3,145	64.8	3,229	2,274	70.4

Source: United Nations Economic Commission for Latin America.

Table A- 3 . Chile: Value of import permits requested and granted by commodity groups 1944 to 1949

Percents of totals

	Capital Goods		Raw Materials		Fuels	
	Percent of value of permits requested	Percent of value of permits granted	Percent of value of permits requested	Percent of value of permits granted	Percent of value of permits requested	Percent of value of permits granted
1944	22.67	23,89	19,22	20,33	2.20	2,43
1945	29.37	31.05	18,87	20,76	1,46	1,68
1946	34.89	36.2[illegible]	13,[illegible]	16,69	1,[illegible]	1.97
1947	35,35	38.25	19,43	19,13	1,49	3,35
1948	31.72	32,97	33,20	32,[illegible]	5.54	9.00
1949	38,[illegible]	36,[illegible]	28,[illegible]	30,5[illegible]	2.7[illegible]	3.95

	Consumptios Goods		Textiles		Luxury Goods	
	Percent of value of permits requested	Percent of value of permits granted	Percent of value of permits requested	Percent of value of permits granted	Percent of value of permits requested	Percent of value of permits granted
1944	32,20	29.86	10.86	11.65	12.95	11.84
1945	26.17	26.00	11.03	11.25	13.09	9.26
1946	20.14	20.77	13.15	14.10	17.02	10.38
1947	14.34	19.28	19.34	13.40	10.05	6.69
1948	15.53	15.13	10.21	6.99	3.80	3.61
1949	16.86	15,35	8.53	7.82	5.67	5.65

Source: United Nations Economic Commission of Latin America.

Table A-4: Chile: Value of imports permits requested and granted by currencies, 1944 - 1949

In dollars equivalents

	Dollars 1000		Pounds 1000		Argentine $ 1000		Chilian $ 1000		Swiss Francs 1000	
	Requested	Granted	Requested	Granted	Requested	Granted	Requested	Granted	Requested	Granted
1944	10,209	9,257	1,183	1,057	5,119	3,932	655	633	281	204
1945	13,472	11,874	1,319	1,141	5,919	5,163	1,049	969	431	214
1946	25,420	17,930	4,853	3,415	4,088	2,628	1,207	760	839	547
1947	42,742	16,806	7,214	2,406	4,795	2,372	3,417	1,071	1,270	551
1948	49,494	30,629	7,119	3,514	4,855	2,083	630	493	755	373
1949	37,337	28,708	10,649	6,240	4,265	2,004	56	17	335	149

	Pesetas 1000		Swedish crowns 1000		Cruzeiros 1000		Franch francs 1000		Others	
	Requested	Granted	Requested	Granted	Requested	Granted	Requested	Granted	Requested	Granted
1944	79	67	74	74	67	67	6	-	23	22
1945	61	57	130	128	1	1	1	1	0	0
1946	700	569	56	25	9	5	40	23	66	52
1947	1,341	200	325	196	269	70	108	11	174	120
1948	2,323	976	175	60	33	2	82	65	750	577
1949	3.241	2.343	190	131	0	-	71	69	786	552

Source: United Nations Economic Commission for Latin America.

Table A-5. Chile: Currency composition of import permits requested and granted, 1944-1949

	Dollars		Pounds		Argentine pesos		Chilean pesos		Swiss francs	
	Percent of Permits requested	Percent of Permits granted	Percent of Permits requested	Percent of Permits granted	Percent of Permits requested	Percent of Permits granted	Percent of Permits requested	Percent of Permits granted	Percent of Permits requested	Percent of Permits granted
1944	57.69	60.46	6.69	6.90	28.93	25.67	3.70	4.14	1.59	1.33
1945	60.19	60.74	5.89	5.84	26.44	26.41	4.69	4.96	1.93	1.09
1946	68.19	68.82	13.02	13.11	10.96	10.08	3.24	2.92	2.25	2.10
1947	69.32	70.61	11.70	10.11	7.78	9.96	5.54	4.50	2.06	2.32
1948	74.75	79.00	10.75	9.06	7.33	5.37	0.95	1.27	1.14	0.96
1949	65.58	71.39	18.71	15.52	7.49	4.98	0.10	0.04	0.59	0.37

	Pesetas		Swedish Crowns		Cruzeiros		French francs		Other currencies	
	Percent of Permits requested	Percent of Permits granted	Percent of Permits requested	Percent of Permits granted	Percent of Permits requested	Percent of Permits granted	Percent of Permits requested	Percent of Permits granted	Percent of Permits requested	Percent of Permits granted
1944	0.45	0.43	0.42	0.48	0.38	0.44	0.03	-	0.12	0.15
1945	0.27	0.29	0.58	0.66	0.01	0.01	0	0	0	0
1946	1.88	2.57	0.15	0.09	0.02	0.02	0.11	0.09	0.18	0.20
1947	2.17	0.84	0.53	0.82	0.44	0.29	0.18	0.05	0.27	0.49
1948	3.51	2.52	0.26	0.15	0.05	0.01	0.12	0.17	1.13	1.49
1949	5.69	5.83	0.33	0.33	0	-	0.12	0.17	1.38	1.37

Source: Economic Commission for Latin America

GRAPH I

CHILE

ECONOMIC ACTIVITY AND THE VOLUME OF IMPORTS, 1923-1948

1938=100