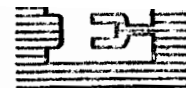


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PAYMENTS IN INTER-LATIN AMERICAN TRADE \*

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\* This document is a summary of the basic document for the session Inter-Latin American payments (E/CN.12/C.1/WG.1/8) and its annexes (E/CN.12/C.1/WG.1/8/Add.1, 2 and 3).

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## INTRODUCTION

1. The background to this summary of the inter-Latin American payments situation, its problems and possible solutions is as follows: (a) the instructions given by the States members of the Economic Commission for Latin America in Trade Committee resolution 1 (I); (b) the information provided and views expressed by trade policy authorities and central banks in reply to inquiries addressed to them by the secretariat; and (c) technical studies carried out by the secretariat.

2. The countries are divided into two groups as regards inter-Latin American payments: (a) those with bilateral accounts; and (b) those which carry out their transactions within the area in convertible currencies. Although, in their reciprocal trade, both groups are adversely affected by the lack of convertible currency at the disposal of the first group, it is the latter which, in a way, is most severely handicapped. The solutions worked out by this group for the transfer of balances in bilateral accounts among its members, as an advance towards multilateralism, would constitute the necessary preliminary step towards solving the payments problem in the region as a whole.

The success of any action in this connexion will depend largely on effective collaboration in two interdependent and, for the purpose at issue, indivisible fields: payments and trade policy. In consequence, it is essential to strengthen the habit of collaboration and to ensure its continuity by providing adequate machinery.

## A. INTERIM SYSTEM LEADING TOWARDS MULTILATERALISM

3. The basic points in the programme for simultaneous action in the two fields mentioned may be briefly described as follows:

(a) Payments: Development of an interim system to bridge the gap between the closed bilateralism of present accounts and multilateralism; and

(b) Trade policy: Implementation of measures designed to increase and diversify inter-Latin American trade by simplifying and stabilizing the systems for regulating such trade, and by liberalizing the flow of goods concerned.

/Exchange of

Exchange of information and circumstantial transfers

4. The system of multilateral payments which it is hoped to set up already exists in embryo. In fact, the clearing-account countries have taken the first step in the transition to multilateralism by establishing a service for the compilation and exchange of information between such accounts. This service, which still suffers from certain imperfections, has been in operation since July 1957. In the meanwhile, the secretariat of the Commission is centralizing and distributing this information.

Although only a short time has passed since its inception, the service has made it possible:

(a) to know the total amount of payments negotiated through each bilateral account and thus to assemble data of use for purposes of analysis and guidance in the possible establishment of the proposed multilateral system and for the payments which would gradually be made under it;

(b) to provide central banks with a monthly progress report on the different accounts, thereby enabling them to judge periodically whether the circumstantial transfer of the balances referred to in Trade Committee resolution 1 (I) may be effected.

It should be noted that, in the last few months, some circumstantial transfers took place between accounts; although on a moderate scale - involving some 3 million dollars - they were important in that they broke up the absolute bilateralism hitherto characteristic of such accounts.

Multilateral compensation of bilateral balances

5. It might be asked whether, in order to give the interim régime definite form a system should be set up for the multilateral compensation of bilateral balances. If this were done, both the bilateral accounts and their current credit system would remain in force. Before the corresponding agreement could be concluded, it would be necessary to count upon the support of at least four countries linked through clearing-accounts with all or virtually all the remaining participants. The purpose of the agreement - if approved by the authorities concerned - would be to provide for the compensation of balances under a system similar to that put into effect between 1947 and 1950 to pave the way for the intra-European

/multilateral payments

multilateral payments régime. Although the agreement would in itself set up a system, it might be possible, when planning the structure of the latter, to provide for its ultimate replacement by a payments union.

6. It should be observed that countries with only one bilateral account would not be in a position to offer balances with which to participate in the system, since, in order to do so, they would have to hold at least two such accounts.

7. Transfers within the system would be of two kinds. The purpose of those in the first category would be to reduce all the balances considered in each circuit by an equal amount. Since only the reduction of balances is involved, such transfers might become automatic, if the relevant regulations so provided. Nevertheless, in order to allow for the gradual adaptation of the system to certain features of inter-Latin American trade, the provisions of the agreement would permit some balances that a creditor country wished to reserve for specific purposes to be excluded from the first-category circuit.

Once first-category transfers have been effected, those in the second category would come under consideration. Their object would be to transfer balances from one account to another, on the basis of movements, which, for some countries, might signify a reduction and, for others, an increase in their credit or debit position vis-à-vis other members of the system. Circuits in the second category would be voluntary, since they would not only involve the reduction of bilateral balances, in common with those in the first category, but also the increase of specific balances as a result of transfers from one account to another.

8. Bilateral accounts associated with the system would necessarily be those constituted in accordance with the Montevideo standard agreement, since this lays down certain conditions which must be fulfilled if compensation is to take place satisfactorily; one of these - parity between units of account and actual dollars for equal transactions - would be the pivot of the proposed organization.

The standard agreement is already in force in the following bilateral sectors, covering approximately 80 per cent of trade on account: Argentina-Brazil, Argentina-Chile, Argentina-Uruguay, Brazil-Chile and Chile-Ecuador.

/Inter-governmental

Inter-governmental contacts have been made which may shortly lead to the adoption of the standard agreement in the following sectors: Argentina-Mexico, Argentina-Peru, Brazil-Uruguay and Chile-Mexico.

The conclusion of such agreements, which would to a great extent standardize the principles and procedures to be observed in bilateral accounts, would fulfil the main conditions required, with specific reference to payments, to establish a system of compensation, apart from the conditions relating to the gradual liberalization of the respective trade movements, which will be discussed later.

In this connexion, it should be remembered that the beneficial effect on trade of a system of multilateral compensation would be intensified as more transactions and accounts were brought into the system. It is questionable whether, for this reason, it would be desirable to enlist the participation of a larger number of countries in the area, whether they have current clearing accounts or not. It should also be remembered that the fact that each member, generally speaking, maintains, within a relative equilibrium with other participants, credit balances with some countries and debit balances with others, instead of a similar position with all of them, would have a favourable effect on the results. It is therefore essential for the efficient operation of the system to keep a watchful eye on the accounts and to take effective steps to solve problems, such as that indicated above, in order to expand trade.

9. All countries in the area with clearing accounts based on the standard agreement would be eligible to enter the system. Conditions for immediate or eventual admission would be determined upon the establishment of the system on the basis of equality - both in respect of the formalities involved and in regard to the fundamental aspects - among all participants and in compliance with the principle of reciprocity as regards benefits and concessions.

The accession of a new member at a later date would be effected by negotiation between that member and the system as a whole.

/Liberalization

Liberalization

10. As already indicated, the establishment of a compensation system should be accompanied by effective collaboration among the member countries with a view to expanding and diversifying their trade. Although the customs tariff is judged to be the most suitable instrument for this purpose, the contractual agreements in force which prevent most of the countries in the area - at least for the time being - from using it to stimulate intra-regional trade, make it advisable to consider, in the meantime, the adoption of other measures of an administrative, quantitative, exchange and financial nature to regulate external trade.

The development of liberalization would take place in two stages. Firstly, as a gradual approach to liberalization, and in respect of specific trade items, an attempt would be made to simplify formalities, to stabilize the systems for regulating reciprocal trade and to make the obtaining of permits and other requirements as automatic as possible. Secondly, the movement of other commodities, or groups of commodities, would be slowly and selectively liberated, by the reciprocal abolition of restrictions or controls, such as import prohibitions, individual permits or licences, advance deposits, etc. The group of trade policy experts, which met at Santiago, Chile, at the end of August 1958, suggested that in order to facilitate a fair compromise between the interests of the different participants in the system, the type of incentive referred to above might, in certain cases, be matched by tariff incentives. Liberalization should be accompanied by arrangements for consultation designed to ensure stability and continuity, without prejudice to the necessary escape clauses, in the treatment accorded to liberalized items.

It is clear that to any country wishing to join the system for the multilateral compensation of balances in respect of accounts based on the standard agreement would also have to accept a system of gradual liberalization governed by the principle of reciprocity, since, as already stated, both régimes would be concurrent.

/Compensation agent

Compensation agent

11. In order to conclude a compensation agreement, an agent is required to perform certain functions. The agent, whose duties and terms of reference would have to be clearly defined, would be responsible to the Governments participating in the system. The Governments would operate the system or supervise it in accordance with the agreement previously concluded between them for that purpose. With this end in view, and in order to carry out the functions which they would reserve for themselves, the member Governments would form a committee according to the procedure and conditions laid down in the said agreement.

12. The group of trade policy experts considered it advisable that one committee composed of high-ranking officials should be responsible for governmental direction and policy of both the liberalization and the compensation systems.

Points to be clarified at the second session of the  
Central Banks Working Group

13. Apart from considering the general desirability and expediency of establishing a compensation system, the background document Payments in inter-Latin American trade (E/CN.12/C.1/WG.1/8), prepared by the secretariat and summarized here, sets forth the main points which should be clarified at the second session of the Central Banks Working Group. They are as follows:

(a) Should an attempt be made to increase within the region the number of sectors covered by accounts whose essential structure does not imply increased bilateralism but rather an approach to multilateral compensation?

(b) Should consideration be given to the following amendments to the rules contained in article 12 of the standard agreement?

i) The inclusion of a provision for transfers between accounts even when the balances in question do not exceed the limit of bilateral credit;

ii) Modification of the principle requiring the settlement of non-compensable balances in actual dollars.

(c) Within the multilateral clearing system in respect of bilateral /accounts, should



accounts, should a single type of membership be envisaged or two types: full membership (i.e. countries having accounts with all or nearly all the other members while at the same time fulfilling all the other conditions laid down for entry into the system) and associate membership (countries which for any reason are not full members).

(d) If associate membership were sanctioned, could countries outside the area also participate in the system as associate members?

(e) Should first-category compensations be automatic but subject to regulations designed to exclude certain balances? On what basis should such regulations be established?

(f) If, for such first-category compensations, it were possible to use in specific cases balances from more than one country, without discrimination, what criteria would be used in selecting the balance for inclusion in the circuit?

(g) Who would be authorized to propose second-category compensations?

(h) With what frequency would circuits be formed?

(i) What would be the agent's duties and powers? What margin of discretion would he have in fulfilling certain of his functions?

(j) Who would act as agent?

(k) Among the countries which have already adopted the standard agreement in various sectors of their trade, are there now at least four ready to start immediate talks with a view to the preparation and conclusion of an agreement establishing the system for the methodical transfer of balances on account?

14. In the light of the material assembled in this document and in order to facilitate the exchange of information on bilateral accounts, it might be useful to clarify the following points at the second session of the Central Banks Working Group:

(a) Would it be possible for banks holding accounts to start sending to the ECLA secretariat data (already sent by some) concerning total receipts and payments on account set out under appropriate headings?

(b) Would it be feasible to amplify gradually this information so as to include goods and services corresponding to payments negotiated through accounts?

/(c) Pending

(c) Pending the establishment of a multilateral system for clearing bilateral balances, would it be desirable to institute some procedure to facilitate consultations between central banks regarding the possibility of making circumstantial transfers of balances between accounts where the monthly statements prepared by the central office indicate that such transfers are practicable?

(d) In organizing circuits of circumstantial transfers between three or more accounts, would it be possible - after appropriate consultation and whenever it became necessary to complete one of these circuits - to include balances arising from clearing-account trade with countries outside the region?

(e) In view of what has been said above, would it be possible to report to the secretariat every month the state of accounts with countries outside the region, with the prior consent of such countries, if necessary? (Certain central banks already send this information to the secretariat.)

It should be stressed that the above points, with the exception of point (c), would also be relevant if the system for the multilateral transfer of bilateral accounts were established.

## B. THE PAYMENTS UNION

(Its main objectives and features)

15. Without excluding the possibility of an intermediate stage between the payments union proper and the system for compensating account balances, it may be said that the union is the final goal, always provided that trade between its members under the stimulus of increasing liberalization becomes predominantly free from restrictions and discrimination. Obviously, the aim of the union is to avoid restrictions in trade between the participating countries which might arise from the bilateral settlement of payments. To achieve this aim, the union would replace bilateral or account compensation by a system establishing the balance of each country with respect to all the others together and not with each one of them separately. At the same time, it would provide credits to maintain and stimulate the process of trade liberalization.

16. As Latin America is only on the threshold of the interim régime, it

/might be

might be premature to consider now the final goal of the payments union. However, on reflection, it will be seen that there are sound reasons for bearing in mind the principal features of the union when examining the interim régime.

Preliminary discussion of this matter has therefore been included in the agenda of the second session of the Central Banks Working Group. The first reason for doing so is that so far the region has not been directly confronted with the need to give serious thought to the structure of a possible multilateral system or the differences between such a system and a system for compensating balances as the next step towards multilateralism. The time seems ripe for conducting such an examination in order to pave the way for future advances of broader scope. The second reason is that it is desirable forthwith to initiate the study of the problem of capital, possession of which would make the union more effective.

Moreover, in setting up the agency for the system of compensating balances and also the inter-governmental committee which will supervise it, it should be remembered that the possible transfer of both bodies - which would gather experience in a field new to the Latin American countries - to the payments union at a later stage would be of considerable help to the latter in its establishment and operation.

The third reason is in line with governmental proposals for a gradual expansion of markets as a step towards the subsequent formation of a regional market. If, in accordance with these proposals, the regional market is to be open to all Latin American countries, one sine qua non of its operation will be the existence of a multilateral payments régime under which the participants would incur no exchange risks. Hence, while still allowing prudent advances to be made towards the establishment of a common market, an analysis of the essential aspects of the multilateral payments régime proper will help to clarify certain problems which must gradually be solved before the regional market is established.

17. The payments union<sup>1/</sup> must provide a means not only for the automatic

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<sup>1/</sup> For a fuller description of the technical aspects of the payments union see document E/CN.12/C.1/WG.1/9.

multilateral compensation of bilateral balances but also for the liquidation of the net balances resulting from the credit and debit transactions of each member with all of the others. In this way the bilateral positions will be transformed into credits in favour of or against the union and, when the position of each participant vis-à-vis the union as a whole is established, it will be unnecessary to secure equilibrium in bilateral relationships. Thus, from the payments point of view, for each member the country of destination of its exports or the country of origin of its imports within the area will be immaterial.

Furthermore, through its liquidation mechanism, the union will provide credit facilities which will enable its members to cope with seasonal or temporary fluctuations in their balance of payments vis-à-vis the system and thus to maintain and increase their intra-regional trade.

If at the outset all the countries of the region do not participate in the union, provision will have to be made for subsequent accession, always provided that the new members accept its rules and observe the liberalization principles inherent in the system. New members will also have to undertake to adopt the internal measures necessary for the maintenance of relative equilibrium in their balance of payments with the area and to bring their procedures for regulating trade with the other members into line with the requirements necessary for the effective operation of the union.

In practice, too, the union will serve as an instrument for examining and solving, so far as possible, certain trade and payments problems. The regular meetings convened by the union will help to provide a form for friendly co-operation and the mutual conciliation of interests.

In joining the system, each country will fix in agreement with the union a quota establishing the limit of credit which it will grant to the union and obtain from it. It will also pledge its share of the capital, should this consist in whole or in part of contributions from members. The size of the credit quota and the capital contribution will of course depend on the procedure for liquidating balances and on the credit facilities granted to members.

As the union will act as debtor or creditor vis-à-vis its members, and will also hold and administer capital, it will have to be given its  
/own juridical

own juridical personality.

If the European example is followed, the constituent agreement will not stipulate a definite period during which the union will remain in force. Each member would undertake to join for a two-year period which would be extended, for example, for one-year periods. Such a procedure would facilitate periodic reviews of the system in the light of the conditions in which its members would like to see it operate. Consideration of these conditions would be proposed by the members themselves when the time came for renewing their membership.

The administration of the union might be entrusted to two bodies: a board or committee of representatives of member Governments empowered to take certain decisions necessary for the smooth working of the agreement and for the formulation of policy, and an agent, one of whose functions would be to assess each country's position and to see that its payments were made in accordance with the appropriate regulations.

