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ECONOMIC AND LEGAL STATUS OF FOREIGN INVESTMENTS  
IN SELECTED COUNTRIES OF LATIN AMERICA

(Prepared by the Secretariat)

FOREIGN INVESTMENTS IN ARGENTINA

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/I. THE NATURE  
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## I. THE NATURE OF FOREIGN INVESTMENTS IN ARGENTINA

A. External public debt

The first foreign loan to Argentina was floated in London in 1824, but substantial borrowing abroad did not begin until the 1870's. Until the outbreak of the first world war most of the foreign borrowing by the Federal Government, the states and the municipalities was carried out in London, but some issues were floated in continental Europe, and sterling bonds issued in London were purchased by European investors. The nominal value of Argentine government bonds (including states and municipalities) quoted on the London Stock Exchange reached £75 million in 1890 and £82 million in 1913; subsequently it declined to £63 million in 1929.<sup>1/</sup> The last important flotation of bonds in the London market occurred in 1933 when short-term debts were converted into twenty-year bonds with a nominal value of £13.5 million.

The first issue of dollar bonds occurred in 1909, and the nominal amount of such bonds outstanding rose from \$25 million in 1914 to \$290 million in 1929. A substantial portion of these bonds was purchased by British and other investors outside the United States. Dollar bonds issued by the federal, state and local governments during the period 1923-1929 amounted to \$519 million.<sup>2/</sup> About \$250 million of these issued, however, were for the purpose of refunding the floating short-term debt (which amounted to \$95 million in 1923) as well as some outstanding long-term obligations.

<sup>1/</sup> See M. E. Greffier, La Acción del Capital Extranjero en el Desarrollo Económico de la América Latina (Buenos Aires: 1945), page 88. The figures include both sterling bonds and gold peso bonds.

<sup>2/</sup> See United States Department of Commerce; Handbook of Underwriting of Foreign Securities (Washington: 1930).

Table 1. Purposes of External Bond Issues of the Federal Government  
1924-1938 <sup>a/</sup>

(in millions of currency indicated)

<u>Loans denominated</u> <u>in</u>	<u>Military</u> <u>expenditure</u>	<u>Public</u> <u>loans</u>	<u>Governmental</u> <u>deficits</u>	<u>Conversion and refunding</u>		<u>Total</u>
				<u>Foreign</u> <u>issues</u>	<u>of</u> <u>Domestic</u> <u>issues</u>	
Pounds sterling	4.9	85.5	6.7	86.3	14.8	198.2
Dollars	-	25.0	77.0	128.5	23.3	253.8
French francs	-	350.0	-	-	-	350.0
Swiss francs	-	-	-	-	98.7	98.7
Spanish pesetas	100.0	-	-	-	15.5	115.5
Argentine gold pesos	-	42.2	16.0	-	-	58.2

<sup>a/</sup> This tabulation, which excludes most of the bonds issued by the provinces and municipalities, is based on data compiled from the Annual Reports of the British Council of the Corporation of Foreign Bondholders (London) for the years 1913 to 1942.

Table 2. External Funded Debt of the Argentine Federal Government,  
Selected Years, <sup>a/</sup>

(in millions of currency indicated at the end of the years shown)

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

<sup>a/</sup> Source: United Nations, Public Debt, 1914-1946 (1948), page 11.

A summary of the purposes of the loans raised abroad by the Federal Government up to 1938, the date of its last foreign bond flotation, is given in Table 1. It will be observed that a large portion of the issues represented conversion and refunding operations, a number of which were carried out in periods of financial stringency as an alternative to default and involved some reduction in nominal interest rates. Some defaults occurred during the few years preceding the financial crisis of 1890. The arrears were subsequently funded, however. Some of the refunding operations, nevertheless, represented a conversion of floating short-term debt into funded debt, and a few loans served to repay outstanding domestic debt. The loans devoted to public works projects were used mainly for the construction of railways, port facilities, road construction, sanitation works and other public facilities. Some of the securities issued by the provincial governments and municipalities were used for financing the construction of railways, schools, roads, bridges, and cold-storage plants. A portion of the loans raised for the nominal purpose of financing budgetary deficits was also used to pay for public works of various types.

During 1935-1937 a substantial reduction in the Federal Government's external dollar debt was effected by a series of redemption and conversion operations, but much of the debt redeemed was restored by a new dollar loan floated in 1938.

In 1942 the Argentine Government embarked on a policy of large-scale debt retirement with a view to the complete elimination of its external debt, employing for this purpose dollar and sterling balances accumulated during the war. The effect of this policy up to the end of 1946 is shown in Table 2. The outstanding dollar bonds of the federal government, the provincial governments and the

/municipalities,

municipalities, amounting to \$184 million at the end of 1945, were retired in 1946 and 1947. The Swiss franc bonds were completely redeemed in 1946. All sterling bonds have been retired except two small issues with a nominal value of £5.7 million at the end of 1949, which cannot be liquidated until 1953 and 1972 respectively under the terms of the original loan contracts. Substantial repurchases of dollar and sterling bonds had been made during the 1930's by Argentine banks and other Argentine interests, so that the amount actually held abroad was less than the nominal amount outstanding. <sup>1/</sup>

In 1914 the external debt of the federal government amounted to 51 per cent of the total government debt. Increasing reliance on domestic borrowing after the first world war is indicated by the fact that this proportion declined to 38 per cent in 1928 and 23 per cent in 1938. Debt service absorbed about 9 per cent of the Government's budget in 1928 and 8 per cent in 1937. The service of the external debt of the federal, provincial and municipal governments amounted to about 8 per cent of the value of exports in 1929 (year ending 30 September) and rose to 13 per cent in 1931 and 15 per cent in 1933. Following the recovery of world trade it again declined to 9 per cent of exports in 1939.

Despite the severe reduction in the value of exports which occurred after 1929 as the result of the world depression, the Federal Government fully maintained the service on its external debt in contrast with the governments of many other debtor countries. Most external bonds of the provinces and municipalities, however, went into default in 1932 and 1933 in respect of both

<sup>1/</sup> According to estimates published by the United States Department of Commerce, the amount of dollar bonds held in the United States was about 35 per cent of the nominal amount of such bonds at the end of 1945. A substantial part of the remainder, however, was held by British and other foreign investors.

interest and amortization. The responsibility for the service of many of these obligations was assumed by the federal government in the late 1930's. This followed an adjustment involving a reduction in the nominal amount of certain issues from \$95 to \$81 million and a reduction in interest rates from an average of about 6 to about 4 per cent. Subsequently the service on all provincial issues was fully met.

Concurrently with the liquidation of the external public debt, Argentina briefly assumed the role of a creditor nation after the last war, largely as the result of balance of payments difficulties encountered by certain of her trading partners. (It may be observed that a similar development occurred during and after the first world war.) Short and medium-term credits were extended under the provisions of bilateral payments agreements with several European and Latin American countries, including Spain, Chile, Bolivia, France, Belgium, Italy and Czechoslovakia. The theoretical maximum of such credits established during the period 1946-1948 was the equivalent of close to \$1,450 million (calculated at the official buying rate), but the amount actually utilized appears to have been in the neighbourhood of \$500 million.<sup>1/</sup> Of the credits authorized, only those to Spain, Bolivia, and Chile appear to have been of a long-term nature. The loan agreement with Chile failed to be ratified, however, and only a short-term advance of 76 million pesos (\$22 million) was made to that country. A long-term loan of 700 million pesos to Bolivia authorized in 1947 appears not to have been utilized. Credits granted to Spain during and after the war,

<sup>1/</sup> This estimate is based on data appearing in the Annual Report of the Central Bank of Argentina for the years 1947 and 1948. In the present report all conversions of pesos into dollars, unless otherwise stated, are made at the current official buying rate of 3.36 pesos per dollar. It may be observed that this results in a substantially larger dollar equivalent than if conversion were made at an average of the various buying and selling rates actually in effect, which vary from 3.36 to 9.02 pesos per dollar, following the revaluation of the peso in October 1949.

/principally for

principally for the purchase of wheat, reached 743 million pesos by the end of 1947.<sup>1/</sup> Of this amount 400 million was funded in 1946. In April 1948 Argentina negotiated an agreement with Spain providing for a total credit (including the amount funded) of 1,750 million pesos, to be made available in amounts up to 350 million pesos annually until 1951. Repayment is to be made, so far as possible, by Spain's exports to Argentina, and sums uncovered by such exports are to be placed in a peseta account to Argentina's credit, which may be drawn upon for investments of various types in Spain. Any balance outstanding after 1956 is to be refunded by a long-term loan.

Concurrently with the granting of these credits, Argentina experienced a deficit in its current account with the United States which, in view of the retirement of the dollar debt and the nationalization of United States-owned utilities, resulted in the accumulation of a large volume of commercial arrears. This commercial debt in dollars is estimated to have reached about \$250 million, in early 1949, and is currently reported to be about \$150 million, of which \$100 million represents arrears on account of commodity imports and another \$50 million arrears arising from transfers due on account of foreign investments and various services, such as air transport. In August 1949 the Government of Argentina agreed to allocate 30 per cent of current receipts of dollar exchange to the payments of these arrears.<sup>2/</sup> On May 17, 1950 it was announced that the

<sup>1/</sup> It may be observed that according to the Food and Agriculture Organization, Commodity Series No. 10, Grain Bulletin (Washington, January 1949), page 87, the export price in Argentina of one metric ton of wheat during October-December 1948 was the equivalent of \$178 as against the United States export price of \$91 during the same period.

<sup>2/</sup> See United States Department of State, Press Release No. 439, 1 May 1950.

United States Export-Import Bank had agreed to extend a loan of \$125 million to a consortium of Argentine banks, subject to the unconditional guarantee of the Bank of Argentina. The loan is to be used to pay United States exporters amounts in arrears. It is to be repaid in twenty semi-annual installments beginning in June 1954 and will bear interest at the rate of 3.5 per cent annually. This credit represents the first instance of the extension of substantial financial assistance to Argentina by a foreign government. Loans of \$50 million and \$60 million were authorized in 1940 by the United States Export-Import Bank and the Stabilization Fund of the United States Treasury but were not drawn upon.

B. Direct investments

According to an estimate by the Central Bank of Argentina, foreign capital invested in the country, exclusive of the external public debt, amounted in 1941 to 7,304 million pesos (\$2,430 million at the official buying rate in that year). The distribution of these investments by industry and by the country of origin is shown together with the external public debt in Table 3.

British investments (mainly railways) constituted more than 60 per cent of the total, and United States investments about 15 per cent. As noted in the footnotes to Table 3 it is believed that the amount attributed to Belgium by the Central Bank represents shares in the Argentine Electric Company (Compañía Argentina de Electricidad). This is a successor to a Spanish concern formerly controlled by a holding company (Sofina) incorporated in Belgium. The company's present ownership is distributed among several nationalities, including important Spanish and United States holdings.<sup>1/</sup>

In particular, the investments of German residents appear to have been considerable. The estimate in Table 3 does not include the large investments

<sup>1/</sup> See George Wythe, Industry in Latin America (New York, 1949) page 96.  
owned by

Table 3. Foreign Capital Invested in the Argentine <sup>a/</sup>  
 (in millions of pesos)

Group	British	United States	French	Belgian	German	Other <sup>b/</sup>	Total
Highways	3,323	-	400	-	-	-	3,723
Electric installations	30	-	46	-	-	-	76
Highways	242	31	-	-	-	40	313
Telephone, radio	-	338	-	-	-	32	370
Electric power, gas, water works, sanitation	119	197	-	959 <sup>c/</sup>	-	-	1,255
Cooking houses (frigorificos)	150	146	-	-	-	-	296
Other "industry" <sup>d/</sup>	292	258	7	8	7	16	588
Agriculture and livestock	62	-	1	4	-	-	67
Commerce	210	73	3	3	10	15	314
Real estate	68	-	1	30	-	-	99
Banking	33	8	21	5	18	50	135
Insurance	38	1	2	-	1	1	43
Other miscellaneous	3	2	-	-	-	-	5
Sub-total	4,570	1,504	481	1,009	36	154	7,304
Public debt	872	717	-	-	-	163	1,752
Total	5,442	2,221	481	1,009	36	317	9,056

Source: Data prepared by Banco Central for congressional committee investigating anti-Argentine activities, and published in Cámara de Diputados, Comisión Investigadora, Informe No. 2, (5 September 1941). This table is reproduced in United Nations, Balances of Payments, 1939-1945, (Geneva, 1948) page 24.

Includes Dutch, Swiss, Italian, Spanish, Uruguayan, Paraguayan and Brazilian investments.

This figure represents mainly the capital of the Argentine Electric Company, a successor to a company formerly controlled by a Belgian holding company (Sofina). A large part of the shares of the subsidiary are owned by Spanish and United States interests.

Presumably manufacturing.

/eliminated.

owned by residents of foreign origin in Argentina. One estimate, including such investments, places German holdings at the equivalent of \$540 million in 1940.<sup>1/</sup> Another indication of the extent of German holdings (again including assets of some resident Germans) is the fact that the Argentine Government seized assets of German and Japanese enterprises amounting to more than 550 million pesos (\$134 million) at the end of 1945.<sup>2/</sup>

French investments, which were almost entirely in railways in 1941, were considerably larger before the first world war, and included important holdings in port facilities, real estate and banking.

The recent acquisition by the Argentine Government of the British and French-owned railways and the repatriation of some of the foreign investments in public utilities has greatly reduced the volume of direct investments in Argentina and at the same time increased the relative importance of United States investments. In December 1946 three French-owned railways totaling 2500 miles in length, were acquired for 5,500 million French francs (\$46 million at the prevail rate of exchange). In March 1948 the British-owned railways, representing over 15,000 miles of track were acquired for £150 million. Payment was made by the transfer of £40 million of Argentina's sterling balances and a commitment to ship to the United Kingdom during 1948 products valued at £110 million. In March 1947, the Argentine subsidiary of the United States-owned International Telephone and Telegraph Company was purchased by the government for \$95 million. Investments by non-resident German nationals have probably been almost entirely

<sup>1/</sup> J. F. Rippey, "German Investments in Latin America", The Journal of Business of the University of Chicago, (April 1948).

<sup>2/</sup> See United Nations, Balances of Payments 1939-1945 (Geneva, 1948) page 25..

eliminated. A more detailed account of the British and United States investments follows.

#### British investments

No official British estimate of British investments in Argentina is available, but the nominal value of securities in Argentine enterprises traded on the London Stock Exchange reached a maximum of £387 million in 1933.<sup>1/</sup> Railways accounted for three-fourths of this amount, the same proportion as in the estimate by the Argentine Central Bank. British investments in Argentine railways occurred largely in the latter part of the nineteenth century; by 1913 the nominal value of the total investment in railways had reached £215 million. With the liquidation of the British railway investments the value of investments quoted on the London Exchange dropped to £63.8 million, about the same as the value of non-railway investments in 1913. The value of non-railway investments reached £111 million in 1929, but subsequently declined gradually to its present level. Some of this decline represents transfers to United States and other foreign ownership rather than repatriation.

#### United States investments

United States direct investments in Argentina, which were very small before the first world war, underwent a great expansion in the period 1920-1930, particularly in the second half of the decade. By 1929 the book value of such investments had reached \$332 million (see Table 4). Unlike British investments,

<sup>1/</sup> This figure is an estimate published by the South American Journal (London) and includes an unspecified amount of portfolio investments and also securities held by non-British nationals. On the other hand, it excludes direct investments not represented by securities quoted on the London Exchange. The figure given by the South American Journal for 1941 is about 25 per cent larger in the Central Bank's estimate, but the relative importance of the various industrial groups is the same.

United States direct investments continued to grow slightly in the 1930's, although at least part of this growth was due to the involuntary reinvestment of earnings arising from inability to remit earnings after the introduction of exchange control in 1931. The increase of 50 per cent in the value of investments in public utilities between 1929 and 1940 is particularly striking. This trend was reversed after 1940, as indicated by the decline of \$40 million between then and 1943. The decline has been accelerated in the post-war period, following the purchase of an American-owned telephone company, which is reflected in an outflow of \$91 million recorded in the period 1945-1947.

A net outflow of United States capital amounting to \$27 million occurred during the four years 1945-1948. The outflow occurred chiefly in 1946, during which year the liquidation of investments in the telephone system occurred, and in 1947 and 1948 a net inflow of \$43 million and \$15 million respectively was recorded (including reinvested earnings of branches but not of subsidiaries).

The industrial distribution of the net capital movement during the period 1945-1947 inclusive was as follows:<sup>1/</sup>

(millions of dollars; minus sign represents net outflow from Argentina)

Manufacturing	27
Distribution	8
Petroleum	9
Public utilities	-91
Miscellaneous	5
Total	-42

The estimated reinvested earnings of subsidiaries, amounting to \$27 million in 1945 and 1946 (the only years for which recent data are available) offset the net outflow of \$27 million during the years 1945-1948; the value of direct

<sup>1/</sup> United States Department of Commerce, Survey of Current Business, (November, 1949), pages 22-23.

investments at the end of 1948 may thus have been about the same as in 1943. It may be added that the estimate of reinvested earnings of subsidiaries does not include a large amount of dividends of such enterprises, the transfer of which was blocked by the exchange control authorities.

Table 4. United States Direct Investments in Argentina  
(in millions of dollars)

	<u>1929</u>	<u>1936</u>	<u>1940</u>	<u>1943</u>
Manufacturing	82.0	84.2	79.1	101.0
Distribution	52.9	28.4	24.4	26.9
Agriculture	-	-	-	0.2
Mining and smelting	<u>a/</u>	<u>a/</u>	<u>a/</u>	12.2
Petroleum	29.8	<u>a/</u>	<u>a/</u>	38.6
Public utilities and transportation	147.8	155.5	222.1	181.8
Miscellaneous	<u>19.3</u>	<u>80.2</u>	<u>62.4</u>	<u>21.2<sup>b/</sup></u>
<b>Total</b>	<b>331.8</b>	<b>348.3</b>	<b>387.9</b>	<b>381.9</b>

Source: United States Department of Commerce, American Direct Investments in Foreign Countries, (Washington, 1930, 1938, 1942); United States Treasury Department, Census of American-Owned Assets in Foreign Countries, (Washington, 1947).

a/ Included in "miscellaneous".

b/ Includes \$12.3 million for "finance".

## II. ECONOMIC SIGNIFICANCE OF FOREIGN INVESTMENTS

### A. Industrial distribution

Railways. More foreign capital was invested in the construction of railways than in any other sector of the Argentine economy. The first line was established in 1857, and by 1907 more than 22,000 kilometers of track had been laid. At the end of 1949 the length of track was 43,000 kilometers, of which the former British and French investments accounted for three-fourths. The rest of the lines were established by the Argentine State Railway Department, a branch of the Government, but a large part of the governmental lines were also financed by foreign capital through foreign loans. With the repurchase of the British and French lines in 1946, as previously noted, the entire railway system has passed into the hands of the Government.

Apart from their general economic importance, the foreign railways played a part in recruiting immigrant labour from Europe, particularly toward the end of the nineteenth and the beginning of the present century. They also assisted in the process of colonization by settling immigrants on lands granted by the government. The influx of immigrants in turn facilitated additional investment of capital from abroad, attracted by both agricultural and industrial opportunities.

Public utilities. A large number of the public utilities in Argentina were established by foreign enterprises. Several important enterprises have now been transferred to Argentine ownership, but until recently foreign enterprises were dominant in the electric power industry, the telephone system and urban transportation.

Some of these enterprises were originally established by Argentine  
/interests and

interests and acquired by foreign investors during the financial reorganization following the economic collapse of 1890.

German investments were important in the early development of the electric power industry. These were largely taken over by a Spanish enterprise during the first world war that was the predecessor of the Compañía Argentina de Electricidad (C.A.D.E.) which now accounts for about 60 per cent of the output of electrical energy. The ownership of this enterprise is dispersed among investors in several countries including Spain, Belgium and the United States. A largely Swiss-owned enterprise, Compañía Italo-Argentina de Electricidad, accounts for about 14 per cent of the output, and subsidiaries of the United States-owned American and Foreign Power Company account for 12 per cent. Several of the American and Foreign Power Company's subsidiaries, having a book value of 134 million pesos, were expropriated by the government during the years 1945-1948, and the question of compensation is being litigated in the Argentine courts.<sup>1/</sup>

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

<sup>1/</sup> According to the Annual Report for 1948 of the American and Foreign Power Company (New York), the Company has offered to negotiate with the Argentine government for a solution of the difficulties arising from these expropriations "through the sale of the properties or otherwise". It has been announced that negotiations to this end are proceeding.

ownership of the country's telephone system.

The first tramway line was established in Buenos Aires by British interests in 1863. Soon thereafter several foreign-owned tramway companies were formed, which were subsequently merged into a British-controlled enterprise. This enterprise also operates one of the Buenos Aires subway lines. In 1936 the government established a "mixed" transportation company with which the British concern was merged. It has been reported that the Argentine Government has been negotiating for the purchase of the British shares in this enterprise.

The government has also recently purchased a British-owned concern engaged in producing and distributing gas in Buenos Aires and a British-owned waterworks in one of the provinces.

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

Other manufacturing.<sup>1/</sup> The expansion of industrial production that occurred in Argentina in recent decades has been undertaken largely by domestic enterprise, but foreign concerns have played an important part in several industries. Apart from meat-packing, foreign enterprises have been predominant in the manufacture of tires, rayon pharmaceuticals, electrical equipment and certain types of metal

<sup>1/</sup> For an extensive account of foreign enterprise in Argentine manufacturing see George Wythe, Industry in Latin America (New York, 1949), pages 99-120

products, and has been important in the textile, sugar, tobacco and paper industries.

United States and British interests control almost the entire production of rayon goods, and it is estimated that about two-fifths of the capital invested in the major textile firms is foreign-owned. Branches of United States companies account for most of the large-scale output of pharmaceuticals and soap.

Subsidiaries of several leading German chemical concerns also were important before and during the last war. A United States enterprise accounts for an important part of the production of cement. United States and French enterprises are predominant in the production of automobile tires and other rubber products. Most of the production of the quebracho extract used in leather tanning, is controlled by British enterprises. A number of branches of United States mass-production industries were established in the 1920's and the 1930's, producing automobiles, harvesters and other agricultural equipment, and other manufactured goods. In most cases, however, these concerns assembled imported parts. Even during the 1940's several new United States enterprises were established, for the manufacture of such products as radios, pharmaceuticals, and firebrick, and several established firms have expanded their operation. Several of these enterprises have participated jointly with Argentine capital, particularly in the weaving of rayon, the assembly of automobiles and the production of chemicals and plastics. Before the last war about 80 per cent. of the new automobiles sold in the country were assembled locally, mainly in United States-owned branch plants. Import restrictions in recent years, however, have resulted in the temporary closing down of these plants.

No quantitative estimate of the relative importance of foreign and domestic enterprises at

enterprises at present is available, but in view of the growth of industrial production during the past several years, it is apparent that the proportion of such production attributable to foreign enterprises must have substantially declined.

Extractive industries. Mining has been relatively little developed in Argentina, and the investment of foreign capital in extractive industries has been confined largely to the production of petroleum. Until 1915 the extraction of petroleum was a governmental monopoly. British and United States companies entered the field shortly thereafter and by 1922 accounted for an investment estimated at about 110 million pesos. The relative proportion of production by the governmental agency, Yacimientos Petroliferos Fiscales (Y.P.F.), and the private companies, which are largely foreign-owned, has varied in recent decades. During the 1930's the private companies were responsible for the bulk of the production, but the Y.P.F. overtook the private companies in the 1940's and has accounted in recent years for more than 70 per cent of production.

Refining, developed mainly since the late 1920's, has been undertaken both by foreign companies and by the Y.P.F. In recent years five United States-owned refineries have accounted for about 30 per cent of the country's refining capacity, and the British-owned companies for about 20 per cent. The proportion of foreign-owned refineries is to be substantially reduced under a programme initiated in 1947, calling for an expansion of the YPF's refining facilities of 50 per cent of the country's previous capacity. The Y.P.F. has recently employed United States enterprises for some drilling operations as well as for the erection of refineries.

In an effort to stimulate the production of lead, zinc and other nonferrous

/metals the

metals the government has recently established so-called "mixed" companies financed jointly by governmental and private capital, but foreign enterprises have not participated to an appreciable extent in this development. A number of such enterprises have been established by enterprises sponsored by the military authorities, under legislation adopted in 1941.

Banking and insurance. Branches of foreign banks have played an important part in Argentina's financial system. Italian and British banks were particularly important among the foreign banks, and British banks played a pioneering role in establishing the commercial banking system in the late nineteenth century. In 1946 eleven of the total of about ninety banks operating in Argentina (including two German-owned banks subsequently liquidated) were owned by foreign interests. At the end of 1946 the nine remaining foreign-owned banks accounted for about 16 per cent of the deposits of all banks, approximately the same percentage as at the beginning of the war, indicating that foreign banks kept pace with domestic banks in the expansion of credit during and after the war. The status of both domestic and foreign banks has been greatly affected by the nationalization of the Central Bank and related legislation in 1946 which greatly curtailed the independence of operation of private banks. Under the government's present policy no new foreign banks may be chartered, but the existing foreign banks are permitted to continue operations on an equal footing with domestic institutions.

It is reported that 42 of the 170 insurance companies operating in Argentina in 1947 were foreign-owned.<sup>1/</sup> The proportion of premiums paid to Argentine companies in that year was 83 per cent against 73 per cent in 1943. Formerly almost all life reinsurance was placed with foreign companies, but in recent

<sup>1/</sup> See Institute of International Finance, New York University, The Economic Situation in Argentina, (New York, 1949), page 35.

years this practice has almost ceased. These developments are the result of special legislation introduced in 1947 which prohibits the insurance of persons and properties in Argentina with foreign companies and, with certain exceptions, reserved to Argentine companies all insurance of exports and imports undertaken at the risk of Argentine enterprises. This law also established the Argentine Mixed Reinsurance Institute (Instituto Mixto de Reaseguros), half the capital of which is subscribed by the Government and half by Argentine insurance companies. Argentine insurance companies were also given more favourable rates than foreign companies on reinsurance placed with the Institute as well as preferential tax treatment.

#### B. Foreign investment and the balance of payments

Since the last decade of the nineteenth century Argentina has had a surplus of exports over imports except in a very few years. The size of this surplus has varied greatly, however, and in several years a small export surplus combined with large payments for the service of the external debt and of profits on foreign investments as well as other service items resulted in a substantial deficit on current account.

The evolution of the balance of payments after the outbreak of the first world war may be conveniently divided into three periods, as indicated by the net increase or decrease in the country's foreign indebtedness. From 1914 to 1920 external debt decreased in almost every year and loans were, in fact, extended to France and the United Kingdom. This trend was reversed in 1922, and between 1922 and 1940 there was an almost uninterrupted increase in the foreign indebtedness, except in the years 1934-1937 during which exports expanded while imports were restrained by exchange control.

In the first part of the 1920's the deficit on current account was financed  
/to a large

to a large extent by the accumulation of short-term debt, which was subsequently refunded. In the latter part of the decade the deficit was financed largely by a rapid inflow of long-term capital. Even during this period, however, the outflow of interest and dividends exceeded the capital inflow, as is shown in Table 5. The third phase may be said to have begun in 1941, with the growth of export surpluses stimulated by the war which in turn facilitated the almost complete repatriation of the external debt and the repurchase of some direct foreign investments. This, combined with an increase in the Argentine merchant fleet of about 50 per cent between 1939 and 1946, greatly reduced the deficit on account of "invisible" current items. In 1947 the balance of payments entered a new phase, characterized by a sharp increase in imports, the rapid dwindling of gold and foreign exchange reserves and the subsequent intensification of exchange control and quantitative restrictions on imports.

The service on the external debt and income on foreign equity investments reached a peak of 489 million pesos (\$198 million) in 1929, which was 20 per cent of the value of exports in that year. When exports declined precipitously in the early 1930's the service of the external debt was largely maintained, as observed above, and in 1933 the value of interest and dividend payments recorded in the balance of payments was 426 million pesos (\$110 million), or 47 per cent of exports. Since service on the debt was payable in foreign currencies, the decline in the dollar equivalent between 1929 and 1933 represents largely a reduction in the yield on direct investments, due partly to a drop in earnings and partly to the depreciation of the peso. In 1939, when exports had recovered from the depth of the depression (although being far from the pre-war peak reached in 1937), interest and dividends on foreign investments represented 27 per cent of exports.

/Table 5.

Table 5. Inflow of Capital and Outflow of Interest and Dividends,  
1922-1931<sup>a/</sup>

(in millions of United States dollars)

Year	Capital movement			Interest and dividends Outward balance	
	Long-term (Outward)	(Inward)	Short-term (Outward (-) or in- ward (+) balance)		Total balance
1922-23	15.9	40.9	+ 7.4	+ 32.4	- 128.5
1923-25 <sup>b/</sup>	8.0	70.7	+ 22.6	+ 85.3	- 136.6
1925-26	5.3	51.8	- 15.1	+ 31.4	- 142.8
1926-27	9.9	152.5	- 8.4	+ 134.2	- 169.2
1927-28	3.6	110.0	+ 24.3	+ 130.7	- 181.8
1928-29	11.1	59.8	- 10.9	+ 37.8	- 188.4
1929-30	3.0	178.7	- 8.3	+ 167.4	- 157.8
1930-31	48.3	42.4	+ 7.3	+ 1.4	- 117.2

<sup>a/</sup> Source: League of Nations, Balance of Payments, 1930, (Geneva, 1932), page 14. The data are for years ending September 30 and are taken from a private Argentine compilation.

<sup>b/</sup> Average of 1923-24 and 1924-25.

/Table 6.

Table 6. Balance of Payments of Argentina<sup>a/</sup>  
(in millions of pesos at official buying rates)

	1938	1946	1947	1948
<b>I. Current transactions</b> (receipts (+) and payments (-))				
Exports	+ 1,371	+ 3,918	+ 5,428	+ 5,465
Imports (including non-monetary gold)	- 1,485	- 2,251	- 5,263	- 5,341
Service of public debt <sup>b/</sup>	- 114	- 77	- 29	- 19
Other investment income <sup>c/</sup>	- 252	- 374	- 240	- 34
Freight earnings and past receipts)	- 25	+ 231	+ 249	+ 183
Government and miscellaneous net )		- 31	- 199	- 70
Balance on current transactions	- 505	+ 1,416	- 54	+ 184
<b>II. Capital movements and monetary gold</b> (inward (+) or outward (-) movement)				
External public debt	+ 121	- 442	- 334	-
Private long-term investments	- 68	- 660 <sup>d/</sup>	- 180	- 2,052
Short-term capital	+ 461	- 743	- 1,538	+ 1,868 <sup>e/</sup>
Monetary gold		+ 504	+ 2,566	
Total	+ 514	- 1,341	+ 514	- 184
<b>III. Errors and omissions</b>	- 9	- 75	- 460	- <u>f/</u>

a/ Data for 1938, 1946, 1947 from International Monetary Fund, Balance of Payments Yearbook (Washington, 1949). Data for 1948 from Annual Report of the Central Bank of Argentina (Buenos Aires, 1949). The International Monetary Fund's estimate of the value of imports in 1946 and 1947 includes an upward adjustment of the Central Bank's estimates by 200 million and 756 million pesos respectively. No similar adjustment has been made of the trade figures for 1948.

b/ Includes regular amortization in 1938 and may include some amortization in 1946 and 1947.

c/ This may include some private capital movements on account of direct investments and portfolio securities.

d/ Of this amount 331 million represents repatriation of foreign direct investments and 329 million appears to represent outward movement of Argentine funds.

e/ This is assumed to represent mainly the change in gold, net short-term assets, and long-term loans (other than external funded debt) of the Government, the Central Bank, and the commercial banks. It includes a net deficit of 37 million pesos stated by the Central Bank to represent the lag between trade transactions and payments made abroad on account of such transactions.

f/ The statistics published by the Central Bank do not state the amount of the residual "errors and omissions" nor do they indicate in which of the specified items the residual is included.

The significance for the balance of payments of the large-scale repatriation of external debt and direct investments in 1946-1948 is indicated in Table 6. The savings on the service of the public debt represent about 80 million pesos (\$24 million) per annum. The British railways had paid no dividends on ordinary shares for many years, but the payments on debentures of the repatriated railways are estimated to have been about 100 million pesos (\$30 million) yearly. If allowance is made for other repatriations, the effect on the balance of payments may be estimated to be a saving of perhaps 200 million pesos annually. In addition, the expansion of the merchant fleet has entailed savings on freight charges.

As the result of these capital transactions, the increase in imports and the purchase of ships for the Argentine merchant fleet, the gold and foreign exchange reserves accumulated during the war were rapidly reduced. Thus, sterling balances, which reached a peak estimated at £152 million after the war fell to £2 million in 1948.<sup>1/</sup> The gold reserve which had reached \$1,197 million at the end of 1945 declined to \$142 million in May 1949; the total gold and foreign exchange reserve dropped from a peak of \$1,696 million at the end of 1946 to \$115 million in June 1949.<sup>2/</sup>

It should be observed, however, that the drop in the payment of income on foreign equity investments from 374 million pesos in 1946 to 34 million pesos in 1948 is not due so much to the liquidation of the British railway and other investments as to the stringent exchange control restrictions imposed by the authorities to counter the deterioration in the external economic position which occurred in that year. Thus, despite the increased earnings of Argentine

<sup>1/</sup> This estimate appears in The Economist (London, 11 February 1950), page 334.

<sup>2/</sup> Data from International Monetary Fund, International Financial Statistics, (April 1950) page 33. /subsidiaries of

subsidiaries of United States concerns, remittances of dividends by these enterprises (which represent the bulk of United States direct investment in Argentina) declined from \$11.3 million in the first half of 1947 to \$7.3 million in the second half of the year and practically ceased during the second half of 1948.<sup>1/</sup>

The dollar stringency, of which this decline was one manifestation, arose not merely from the increase in imports and the repatriation of some United States investments, but in considerable measure from Argentina's inability to meet its deficit with the dollar area by its net earnings of sterling and other inconvertible currencies. Thus, in 1947 Argentina had a trade surplus of 2,100 million pesos with the sterling and other non-dollar areas and a deficit of 1,200 million pesos with countries in the dollar area, while in 1948 the surplus in inconvertible currencies was 1,700 million pesos while the deficit in convertible currencies was 1,600 million pesos. In the brief period of sterling convertibility in mid-1947 a substantial part of Argentina's sterling resources had been used for payments in the dollar area. It is possible that British investments would not have been repatriated at such a rapid rate as actually occurred had a greater measure of sterling convertibility been maintained.

During 1949 Argentina's balance-of-payments deficit in convertible currencies was considerably reduced, while a similar tendency emerged with respect to its surplus in inconvertible currencies. The trade deficit with the United States, which had been \$535 million in 1947 and \$199 million in 1948, dropped to \$44 million in the first nine months of 1949. The trade surplus with the United Kingdom was only \$11 million in the first nine months of 1949. As

<sup>1/</sup> See United States Department of Commerce, Survey of Current Business, (Washington, November 1949), page 23.

previously indicated, the accumulated arrears due to imports from the United States have been reduced somewhat in recent months, and it is reported that the Argentine authorities have agreed to allow the resumption of limited remittances to the United States of the earnings of direct investments in Argentina.<sup>1/</sup> Mention has been made already of the long-term loan of \$125 million authorized by the United States Export-Import Bank in May 1950 to finance the payment of these arrears.

C. The yield of investments

In recent years the average profitability of foreign equity investments appears to have been substantially lower in Argentina than in Latin America as a whole. This is probably due largely to the high proportion of investments in railways and public utility enterprises, the yields of which have generally been much smaller than those of investments in manufacturing and, particularly, in the extraction of minerals.<sup>2/</sup> This tendency has been accentuated by the strong inflationary pressure that has characterized the Argentine economy during the war and post-war years, since the rates charged by the railways and utilities have tended to lag behind the general rise in prices and costs. With the recent repatriation of foreign investments in railways the average level of profitability

<sup>1/</sup> See New York Times, 2 May 1950, page 1. There is no indication, however, of the amount of such remittances that will be permitted. It is reported, also, that the United States oil companies depending on imported oil will receive larger allocations of exchange for this purpose than in the past year.

<sup>2/</sup> For example, in the period 1945-1948 the average yield of United States investments in public utilities in Latin America was 3.0 per cent of invested capital, while investments in manufacturing and in mineral extraction and smelting yielded 18.5 per cent and 19.2 per cent respectively. (See United States Department of Commerce, The Balance of Payments of the United States, 1946-1948, Washington, 1950, page 94)

of the remaining investments should, therefore, tend to rise.

According to data published by the United States Department of Commerce, the ratio of "income received" in the United States to capital invested in United States direct investments in Argentina in recent years was as follows compared with Latin American as a whole:<sup>1/</sup>

<u>Year</u>	<u>Argentina</u>	<u>Latin America</u>
1938-1940 (average)	3.9 (per cent)	(not available)
1943	4.0	6.6
1946	5.3	9.7

From 1940 to 1947 income received in the United States from direct investments in Argentina averaged about \$20 million annually, though the amount was lower in 1943 and 1945. In 1946 total earnings rose considerably above this level, but subsidiaries reinvested \$18 million of earnings, leaving the amount transferred about the same as in previous years. In 1947 income received in the United States dropped to \$5 million as the result of the tightened exchange control. Expressed as a percentage of invested capital, total earnings, including reinvested earnings of subsidiaries, were 6.3 and 9.9 per cent in 1945 and 1946 respectively (the latest years for which data are available), while the corresponding figures for Latin America as a whole were 11.2 and 13.2 per cent.

Data on the earnings of foreign investments in different branches of industry are not available for recent years, but statistics for earlier years indicate that the average rates mentioned above conceal a considerable range of variation. In 1929, for example, a sample of eighteen leading United States enterprises in Argentina revealed a profit rate of 15 per cent.<sup>1/</sup> According to

<sup>1/</sup> See D. M. Phelps: The Migration of Industry to South America, (New York, 1936), pages 290-296.

one estimate, the earnings of foreign oil companies in the years 1936-1943 averaged 19.7 per cent of invested capital, although the yield during the preceding few years was considerably less.<sup>1/</sup> In the 1920's the four major United States meat-packing enterprises earned an average of about 10 per cent of invested capital (including reinvested earnings), with substantial deviation from that averaged in particular years.

Information on the earnings of British investments in Argentina comparable with that on United States investments is not available. Statistics have been published, however, on interest and dividends earned on securities of Argentine enterprises quoted on the London Stock Exchange.<sup>2/</sup> Expressed as a percentage of the par value of the securities, the average dividends on railways and other investments (excluding government bonds) in selected years were as follows:

<u>Year</u>	<u>Railways</u> (per cent)	<u>Other</u> (per cent)
1913	4.8	6.1
1929	5.5	6.1
1938-1940 (average)	1.6	3.8
1943	1.8	4.1
1946	2.3	3.9
1949	-	3.3

Since a large portion of British-owned railway securities and a significant volume of other securities have earned no dividends since the early 1930's, the yield on enterprises earning dividends has been somewhat larger than the figures given. The yield of railway securities has been lower than that of other investments for a long period. In fact, after 1932 the average return of British investments in Argentine railways fell below that of Argentine sterling bonds.

1/ See Charles A. Warren: American Economic Emancipation, (Buenos Aires, 1948), page 264.

2/ These appear in the South American Journal (London).

An important factor affecting the yield of investments in Argentina is the revision of exchange rates which occurred in October 1949. At that time the free market rate, at which transfers of income and capital of foreign investments are effected, was changed from 4.81 pesos per dollar to 9.02 pesos per dollar, the present rate. This represents a depreciation of 47 per cent against the dollar and 23 per cent against sterling even after allowing for the devaluation of sterling, and thus implies a considerable reduction in the foreign exchange equivalent of peso earnings on existing investments, and accordingly a corresponding reduction in the burden on Argentina of remittances on account of existing investments. One issue which is raised by the change in rates is whether the transfer of earnings on investments which were blocked at the time of the devaluation may be effected at the pre-devaluation rate or at the new rate.<sup>1/</sup>

The effect of the devaluation on future investments is less easy to appraise. The peso proceeds of new United States capital<sup>2/</sup> entering Argentina are almost twice as large as before the devaluation. Thus, to the extent that the capital transferred is spent on local products or services in Argentina, the deterrent effect of the devaluation that results from the reduction in the dollar equivalent of the investment yields should be offset or more than offset. If the capital represents reinvested earnings of an existing enterprise, however, and is used for the purchase of non-Argentinian goods, the immediate effect of

<sup>1/</sup> It is reported that the Argentine Government has agreed to permit two United States companies engaged in air transport to remit at the pre-devaluation rate the proceeds of sales made prior to devaluation. (See United States Department of State, Press Release No. 439, 1 May 1950).

<sup>2/</sup> The case of United States capital is considered here since the dollar was not devalued in 1949 and since at present little capital is available for investment from other countries.

the devaluation would be unfavourable since it would raise the peso price of the imported goods. Similarly, an enterprise importing capital equipment directly without prior transfer of dollars into pesos would be adversely affected, since the dollar equivalent of a given amount of earnings would be less than before devaluation.

These conclusions do not take into account the ultimate effect of the devaluation on the supply of dollars in Argentina. If this supply increases, remittances of investment yields may be more readily permitted, and the investor may thus be in a better position than if remittance (albeit at a favourable rate) would have perforce been kept at a very low level.

### III. GOVERNMENT POLICY AND FOREIGN INVESTMENTS

The beginning of the 1930's may be said to have marked a dividing point in Argentina's policies affecting foreign investment as well as in its economic policy generally. The relatively unrestricted system which had prevailed since the mid-nineteenth century has been gradually replaced by a regime of direct and indirect controls and by an increased measure of direct governmental participation in the economy. It is beyond the scope of the present report to describe in detail the evolution of this new policy, and the following brief account is confined largely to the current situation.

#### A. Entry and status of foreign capital

All incoming long-term capital (for investment over a prospective period of more than six years) is subject to approval by the exchange control authorities. No official statement appears to have been issued regarding the specific criteria by which the entry of such capital is governed, although official expressions of policy have stressed the desirability of attracting foreign investments in manufacturing. Exchange control regulations introduced in July 1947 provide that some degree of participation by Argentine capital may be required as a condition for the admission of long-term investments from abroad, but the extent of such participation is not specified, and the absence of an appreciable inflow of new capital recently has prevented any conclusion from being drawn regarding the application of this policy in the future.<sup>1/</sup> Certain features of exchange control regulations of 1947 were modified in 1948, but the provision relating to participation by Argentine capital appears to have remained.

The legal framework affecting the entry of foreign capital for direct

<sup>1/</sup> The regulation is contained in Circular No. 788 of the Central Bank of Argentina, dated 8 July 1947.

investment — apart from the general licensing of incoming capital by the exchange control authorities — is laid down by several provisions of the new Constitution adopted on 16 March 1949. Article 40 of the Constitution provides that "the State may intervene in the economic domain and monopolize any given industry or activity to safeguard the general interest..."<sup>1/</sup> Two sectors are specifically reserved in whole or in part for state enterprise, the import and export trade and public utilities.

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

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

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

The Constitution does not specify the activities coming under the head of "public services". As has been indicated above, steps were taken prior to the establishment of the 1949 Constitution to nationalize the railways, the telephone

<sup>1/</sup> Extracts from the Constitution are taken from a translation published in The Review of the River Plate (Buenos Aires, 25 March 1949). /system and some

system and some enterprises generating electric power.

In his Annual Message to Congress in May 1949 the President of the Republic stated that the administration would continue the policy of nationalizing all public utilities, including transportation facilities, electric power plants, and telephone, telegraph and water systems. He stated that until the process of nationalization was completed, concession contracts governing the operations of the remaining foreign enterprises in these fields would be revised to avoid excessive profits, to facilitate participation by Argentine capital and to provide certain facilities.<sup>1/</sup>

With respect to minerals, water power and other sources of energy, the Constitution (Article 40) vests the title to such resources in the State, but is silent regarding the question of foreign participation in their exploitation. However, the government has pursued a policy of not granting new concessions to foreign enterprises for the extraction of petroleum, and the output of the Y.P.F., the government's agency, as previously observed, now constitutes more than 70 per cent of the total and has been increasing. There are no legal restrictions on the refining of oil by foreign enterprises, but the recent expansion of the government's refineries and the limitation on imports of crude oil by foreign companies, as an adjunct of exchange control, has imposed limits on the scope of their operations. Another indication of governmental policy in the extractive industries is the fact that the discovery of coal deposits in the Rio Turbio area in 1949 was followed by a governmental decree providing for

<sup>1/</sup> According to press reports, the President's Annual Message to Congress in May 1950 made no reference to further nationalization of public utility enterprises beyond that already undertaken. (See New York Times, 2 May 1950). However, with the exception of electric power the bulk of such industries has already been nationalized.

/their expropriation.

their expropriation.

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

As regards the status of foreign enterprises once admitted to operate in Argentina, whether as branches or as locally incorporated concerns, there appears to be no formal legal discrimination against them in the Constitution or in any general legislation.<sup>1/</sup> This policy was expressed in a statement in March 1950 by one of the Ministers, who affirmed the government's policy of according foreign investments the same status as domestic private investments.<sup>2/</sup>

In this connection it may be noted that the 1949 Constitution (Article 68, paragraph 16) confers on the Congress the power "to provide for ... the importing of foreign capital ... by means of laws granting temporary privileges and rewards ..." thus establishing, in principle, the possibility of discriminatory treatment in favour of specific foreign enterprises.

There is no general requirement in Argentine legislation that any fixed percentage of domestic nationals must be employed by an enterprise, whether domestic or foreign. However, "mixed" enterprises in which the government participates jointly with private investors must employ a specified minimum percentage of Argentine nationals which is specified in the special charters

<sup>1/</sup> Article 31 of the Constitution of 1949 provides that "foreigners" who are permitted to enter the country shall enjoy all the civil rights of Argentine nationals. It may be presumed that "foreigners" include juridical as well as natural persons.

<sup>2/</sup> See The New York Times, 17 March 1950, page 5.

required by such enterprises. During the 1930's the government pursued a restrictive immigration policy in order to encourage the employment of Argentine nationals, but this was discontinued and is not applied at present.<sup>1/</sup>

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

"The price of expropriation of public service concessionary undertakings shall be the original cost of the assets involved in operations, less the sums that may have been amortized during the period fulfilled since the granting of the concession, and sums in excess of a reasonable profit, which shall also be considered as repayment of the capital invested."

The definition of what constitutes a "reasonable profit" has not been officially stated. In the expropriation of the Rio Turbio coal deposits the compensation paid was equivalent to the value of the original investment plus 20 per cent.

Most of the recent measures of nationalization have been effected through voluntary agreement with the owners of the property in question. In the case of the British railways the purchase price, although considerably below the nominal value of the securities, was higher than the market value of the securities at the time of purchase, which had been depressed for some years prior to nationalization.

<sup>1/</sup> It is reported that an investigation made in 1935 indicated that less than 1 per cent of the employees of the major United States owned enterprises were United States nationals. (See George Wythe, Industry in Latin America, New York, 1949, page 98.

Several suits for compensation are in various stages of adjudication before the Supreme Court of Argentina in respect of the expropriated subsidiaries of the American and Foreign Power Company, a United States enterprise. In this connection it may be observed that in respect of the provisions of the Economic Agreement of Bogotá (signed at the Ninth International Conference of American States in 1948) Argentina recorded its understanding that the principles contained therein relating to compensation in the event of expropriation of foreign investments "do not in any way indicate that international treaties or agreements shall prevail over the Constitution of the American countries, nor that foreign investments shall be subject to any jurisdiction other than that of their own courts".

#### B. Exchange Control

Exchange control was introduced by Argentina in October 1931, following the severe drop in exports during the world depression. The system has undergone many changes since its inception and at present involves a complex set of exchange rates applicable to both the purchase and sale of foreign exchange by the Central Bank. Imports are subject also to licensing according to a system of priorities.

The position of foreign investments under the regime of exchange control has varied since the establishment of the system. As previously observed, the service on the external debt, with minor exceptions, was met according to schedule. Following the establishment of dual exchange rates in 1933, remittances on account of equity investments were required to be made at the free market rate, which was less favourable to investors than the official rate. Subsequently a special rate was established for the foreign-owned railways, the income of which (expressed in sterling) had been severely reduced, partly because rates charged were not adjusted sufficiently to compensate for the depreciation of the peso after 1929.

Remittances on account of direct investments do not appear to have been significantly hampered by exchange controls during the 1930's, and during the early 1940's the unhampered transfer of income on investments was facilitated by the maintenance of large export surpluses. In the middle of 1947, however, severe restrictions were imposed on outward transfers on account of foreign investments as the balance of payments position deteriorated. These restrictions were somewhat relaxed, in principle at least, under new regulations introduced in June 1948, establishing the system which is presently in effect.

As noted above, all capital entering for the purpose of "long-term" investments, defined as those made for a prospective period of more than six years, must receive prior approval by the Central Bank. As a consequence of changes which have occurred in the regulations, the remittance abroad of capital and earnings of foreign investments depends on the original date of entry of the capital. The income from capital entering after January 1948 as well as the capital itself may be transferred without prescribed limit at the free market rate, subject, however, to the important qualification of the "availability of exchange".<sup>1/</sup>

Capital which entered the country before January 1948 is accorded less favourable treatment under the regulations. If the capital entered the country in the period between the introduction of the severe restrictions in July 1947 and the modification of controls in January 1948 it remains subject to the restrictions in effect during that period. Under these regulations the annual transferable yield on short-term investments (with a maturity of less than 12 months) was limited to

<sup>1/</sup> The present free market rate, established after the revaluation of the peso in October 1949, is 9.02 pesos per dollar; the "basic" buying rate is 3.36 pesos and the selling rates vary from 3.73 pesos to 9.02 pesos per dollar.

5 per cent of the value of the capital; that on medium-term investments (with a maturity up to six years) was limited to 7 to 12 per cent, depending on the period of the investment; and the amount authorized to be transferred in respect of both income and capital of investments for more than six years was to be established on a case-by-case basis by the Central Bank.

With respect to capital which entered the country before July 1947, which includes the bulk of existing investments, no maximum limit is imposed on the amount of earnings which may be transferred, but each remittance is subject to authorization by the Central Bank according to availability of exchange. No specific provision has been made, however, regarding the transfer of the capital of such investments. It is reported that accumulated arrears of profits, interest, and dividends, the transfer of which has been blocked, are regarded by the control authorities as capital.

In recent years certain types of foreign enterprises have been adversely affected by the exchange control and direct control over imports referred for their operations in Argentina. These controls, however, have been established to limit certain types of imports regarded as less essential and, in principle, do not involve discrimination against foreign enterprises as such.

### C. Taxation

With minor exceptions foreign-owned enterprises are subject to the same Argentine taxes as domestic enterprises. Domestic corporations and foreign corporations with permanent establishments in Argentina are subject to a normal tax of 15 per cent on business incomes plus a tax of 5 per cent on dividends remitted abroad. The latter tax corresponds to the normal tax on dividends and other income received in Argentina. In October 1949 a surcharge of 20 per cent /was added to the

was added to the tax due under the normal rates. Remittances or credits of any class of income from an Argentine source to a company abroad are also subject to a tax of 20 per cent, withheld at the source. For tax purposes losses of one year may be offset against the profits of the succeeding four years.

For purposes of taxation all foreign-owned enterprises with permanent establishments in Argentina are assumed to be corporations unless proof to the contrary is submitted. When such proof is given, the enterprise is subject to taxation on the same basis as an individual receiving income from Argentine sources. This involves a normal tax of 5 per cent on net taxable income plus a surtax ranging from 2 per cent on incomes between 5,000 and 10,000 pesos to 22 per cent on incomes of more than 1 million pesos. These rates are also subject to a surcharge of 20 per cent, pursuant to the law of October 1949. Non-resident persons and enterprises deriving income from farming, stockraising and ownership of real estate are subject to a surcharge of 30 per cent of their normal tax liabilities.

In addition to the normal tax on business incomes, an excess-profits tax is levied at present on all profits exceeding 12 per cent of invested capital (capital plus reserves). The rate varies from 10 per cent on profits between 17 and 22 per cent of invested capital to 30 per cent on profits in excess of 32 per cent. New foreign investments, however, are exempted from the excess profits tax.

To encourage the reinvestment of earnings in manufacturing enterprises, special reductions in taxes on business incomes are offered. These vary from a reduction of 10 per cent in respect of taxes due on income reinvested in fixed assets equivalent to 30 per cent of taxable profits to a reduction of 80 per cent

/on reinvested

on reinvested profits equivalent to 90 per cent or more of taxable profits.

Normally taxes are levied only on incomes derived from Argentine sources.

In respect of international shipping, news services, and motion picture distribution, however, an allocation of net income due to operations in Argentina is made on the basis of a fixed percentage of gross income from operations in Argentina.

Foreign insurance companies are subject to a special tax of 4 per cent on net premium received in addition to their normal tax liabilities.

In May 1950 it was announced that Argentina and the United States had agreed to negotiate an agreement for the elimination of double taxation in the near future.<sup>1/</sup> This will eliminate some areas of uncertainty as to tax liability, but it may be observed that existing United States tax legislation substantially eliminates the double taxation of income on United States investments in Argentina by allowing most taxes paid in Argentina to be offset against taxes due to the United States Government.

If account is taken of the surcharge of 20 per cent introduced in 1949 and of the excess profits tax (which does not apply to new foreign investments), the nominal rates of taxation applicable to business incomes in Argentina appear to be approaching the level of comparable United States taxes. A United States enterprise registered under the so-called Western Hemisphere Corporation Act of 1942 is subject to a tax of 24 per cent of income earned in Argentina (plus a tax of about 6 per cent on dividends received by the parent corporation in the United States). For enterprises not so registered the normal rate of taxation is 38 per cent. Since in most cases, at least, the level of Argentine taxes on business income still remains somewhat less than that of United States taxes under the

<sup>1/</sup> See United States Department of State, Press Release No. 439, 1 May 1950.

United States system of tax credits, Argentine taxes do not appear to be at present a significant factor affecting the profitability of United States investments in that country.<sup>1/</sup>

D. Other Aspects of Policy

Comercial policy. The establishment of exchange control, quantitative restrictions on imports, and the governmental export and import agency IAPI have reduced the importance of import duties as an element in Argentina's commercial policy. Before 1931 such duties were the main measure of governmental policy affecting imports and may have had a tendency to stimulate foreign investment in certain branches of manufacturing sheltered by tariffs.

In 1931 an additional duty of 10 per cent (ad-valorem) was levied on most imports in order to combat the disequilibrium in the balance of payments. After 1931 imports were subject increasingly to direct controls, but tariff increases have also been authorized in recent years. In 1944 a decree empowered the government to change existing import duties by as much as 50 per cent, to impose quotas on imports in order to protect domestic manufacturing enterprises, and to grant subsidies to domestic concerns to foster industries of "natural importance" particularly from a military point of view. In 1947 a new law authorized the government to impose new tariffs up to 25 per cent (ad-valorem) on imports previously free of duty, to raise existing tariffs by 50 per cent and in particular cases of urgency to raise existing duties by as much as 100 per cent.

Direct controls. In addition to the direct controls on imports and exports and foreign exchange transactions, to which reference has been made, the government in recent years has instituted a wide variety of direct controls on prices, profits

<sup>1/</sup> For a more extended discussion of this question see United Nations, Survey of Policies Affecting Private Foreign Investments (Document E/1614/Rev.1, 8 March 1950), pages 14-19, 32-36. /and credit,

and credit, mainly in order to combat inflationary pressure. The amount and nature of new investments is also subject to a measure of control through the operations of several governmental lending agencies under the supervision of the Central Bank. While it is difficult to appraise the consequence of these controls for the "climate" affecting private foreign investments, it seems probable that they have had some deterrent effect. Although the inflationary conditions which have given rise to many of these controls tend to be associated with relatively high levels of profitability, these conditions, in turn, have led to a pressure on the balance of payments which, with the attendant exchange controls, has been unfavourable to an inflow of new long-term capital.

Government participation in industry. The foregoing discussion has indicated that several important sectors of the Argentine economy may be regarded as closed, in varying degrees, to private enterprise, both domestic and foreign, as the result of direct governmental participation in industry. Among the industries so affected are railways, telegraphs, telephones and other communications and most public utilities. In the field of electric power there has been an expansion of governmental ownership, but the precise extent of future governmental participation is undefined. In petroleum production and refining foreign enterprises have declined greatly in importance and this trend appears likely to continue. The scope of foreign enterprise in banking and insurance has also been limited. For practical purposes, therefore, the outlets for future direct investments in the Argentine economy appear to be largely confined to manufacturing and, perhaps, commercial enterprises. Direct governmental participation in manufacturing has also occurred, both through "mixed" enterprises and through several enterprises under the bureau of military factories (Dirección General de Fabricaciones /Militares).

Militares). However, many of these enterprises are relatively unprofitable and therefore cannot be said to replace potential private investment.

Official declarations of policy in recent years have been critical of the tendency of foreign capital in the past to find an outlet in public utilities and commercial enterprises to an extent that is regarded as excessive. Such declarations have stressed the government's desire to attract foreign investment primarily in manufacturing enterprises. An appraisal of the prospect of attracting foreign investments into manufacturing is outside the scope of the present report. It may be said, however, that in the past foreign capital has tended in many countries to shun investments in manufacturing particularly for the local market.<sup>1/</sup>

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<sup>1/</sup> In this connection see United Nations, International Capital Movements During the Inter-War Period, Sales No.: 1949.II.D.2., pages 28-34.

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has identified the following information regarding the above mentioned case.

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