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PAYMENTS IN INTER-LATIN AMERICAN TRADE

Annex III

LIBERALIZATION

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## LIBERALIZATION <sup>1/</sup>

### 1. General remarks

As this subject is relevant to trade policy and has a direct bearing on possible solutions of the payments problem, it is dealt with here as background material for the second session of the Central Banks Working Group. In order to achieve multilateral compensation and to advance, in the light of available experience, towards a payments union, two things must be done simultaneously and at the very outset: clearing operations, in so far as they are specifically related to payments, must be organized and machinery must be designed to bring into operation a progressive system of liberalization in order to promote and diversify trade. Such was the opinion of the group of experts on trade policy convened in Santiago, Chile, by the secretariat of the Economic Commission for Latin America at the end of August 1958. Obviously, the compensation of balances does not necessarily involve the liberalization of a substantial volume of trade. But the benefits of compensation will undoubtedly increase the greater the number of commodities it covers. If, when the time is ripe, it is desired to transform the compensation system into a payments union, such a union cannot be expected to produce satisfactory results unless the bulk of the trade between its members is conducted freely and without discrimination.<sup>2/</sup> Any organization of this type would lessen or undermine the beneficial effect it is designed to produce if, under it, trade were hampered by permits, quotas or other restrictions.

Liberalization has been and still is fundamental to the progress of the European Payments Union (EPU). Its members also belong to the OEEC which, since 1948, has been developing a system of specific agreements

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<sup>1/</sup> The term "liberalization" is used here in the sense usually given to it by the Organisation for European Economic Co-operation (OEEC), namely, the removal of trade barriers other than customs tariffs and, in this connexion, the right to obtain automatically the foreign exchange necessary for the purchase of imports.

<sup>2/</sup> Non-liberalized trade may be covered by bilateral agreements.

designed to abolish quantitative and administrative trade barriers. The OEEC preferred to concentrate on the removal of such barriers on the grounds that the economic and trade problems confronting each country as a result of quantitative restrictions were more serious than those arising from customs control. Although tariffs may be high, they do not completely debar imports of goods to which they are applied. On the other hand, the over-protection resulting from quantitative restrictions, particularly when they are tantamount to import embargoes, stunts the growth of productivity and puts an artificial brake on competition.

In pursuance of these and other aims, including that of consolidating the multilateral payments system, OEEC adopted two methods of abolishing restrictions. Firstly, it sought to remove them from commodities specified in advance. Secondly, it now requires participants to liberalize, on mutually non-discriminatory bases, a given percentage of their reciprocal trade. For this purpose, there is a schedule of goods divided into three sectors: foodstuffs, raw materials and manufactures. Liberalization affects a given percentage of the total - at the moment 90 per cent of the base year (1948) - and a minimum or consolidated percentage of each sector. Apart from the escape clauses, the system allows its members to increase restrictions on certain freely chosen commodities provided that the liberalization measures applied by each country when taken together reach the stipulated level and provided that they do not fall below the consolidated level in each sector of the schedule. The separate agreements designed for this purpose have been merged into a single instrument known as the "Code of Liberalisation".

Inter-European liberalization has created in contractual relationships a precedent which may be useful for Latin America. Countries members of both the General Agreement on Tariffs and Trade (GATT) and OEEC, reciprocally abolished controls normally designed to protect their balance of payments. However, they did not remove them from their foreign trade as a whole but only from that conducted with the other members of the system. Thus, in

/fact, liberalization

fact, liberalization created a preferential area within European trade.<sup>3/</sup> This geographically limited liberalization - considered by OEEC as a step towards the gradual liberalization of world trade - seems to have been tacitly accepted by GATT.

In this brief review of certain general aspects of liberalization outside the field of tariffs, one point of importance to Latin America remains to be stressed. It is common knowledge<sup>4/</sup> that the conditions in which tariffs are applied in the countries accounting for the bulk of inter-Latin American trade are such that these tariffs cannot be readily used to expand trade, because these countries' contractual relationships with countries of other regions are based on the most-favoured-nation clause. Such clauses sometimes restrict or eliminate from the tariff the margin necessary for stimulating intra-regional trade. The tariff advantages which might now be enjoyed by the Latin American countries would in many cases be automatically extended to almost all the rest of the world. They would be lost unless the Latin American countries created an intra-regional preferential tariff. At the moment, the removal of non-tariff barriers, apart from its intrinsic contribution to the rationalization and growth of Inter-Latin American trade, would do much to further the aim of liberalization. Such was the opinion of the group of experts previously referred to. In any case, for the time being it is the only means which is more or less available for the countries responsible for the bulk of trade on account.

## 2. Selective programme

An examination of bilateral trade within Latin America shows that the principle of liberalization must be applied on selective bases by

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<sup>3/</sup> The OEEC Code of Liberalisation does not prevent its members from extending the liberalization measures it contains to non-European countries. Furthermore, the steps taken by the OEEC countries for the effective liberalization of their trade with the dollar area are significant (see OEEC, Libération des échanges de l'Europe avec la zone dollar, March 1956).

<sup>4/</sup> See Study of Inter-Latin American trade (E/CN.12/369/Rev.1), chapter IV.

countries holding accounts. Liberalization seems more suited to trade in many semi-manufactured and manufactured goods which, at the moment, countries are not competing with each other to produce. At the same time it would help to enlarge markets on a reciprocal basis. In sectors of great potential importance for trade - for example, certain railway equipment, tractors, lorries, jeeps, paper, electric domestic appliances, etc. - the need for inter-Latin American liberalization is already being brought to the attention of Governments by producers themselves.

It is rather outside this sector that the idea of selectivity is most firmly rooted. It is worthwhile to recall its origins. In the past, South American production and trade were characterized by a marked specialization in such foodstuffs as wheat, meat, fats and oils, tropical fresh fruit, temperate-zone fresh and dried fruit, dried pulses, seed potatoes, malted barley and a few others. The lack of co-ordination in the various efforts made over the years to ensure the economic integration of neighbouring countries is one of the reasons encouraging the development of national self-sufficiency in the above-mentioned products. While some of them have disappeared from trade, or almost, others still figure prominently. However, the continuity of this trade depends on the periodic negotiation of bilateral agreements - virtually between pairs of countries - based on the specific interests of one of the contracting parties and often of both, for the purpose of securing an outlet for surplus articles, sometimes known as "critical", whose sale on a third market appears difficult or impossible. These transactions, apart from their effect on the general economy of exporter countries, determine the level of economic activity in the zones producing the critical item, when it constitutes the main basis of such activity.

In some cases, these agreements have led to changes in the policy of self-sufficiency and have even prevented it from creating new exportable surpluses in traditional items with which the region is well enough supplied by other Latin American countries.

Admittedly, the interests involved could be easily reconciled by means of reciprocal liberalization agreements applied as a whole and under given conditions to foodstuffs, raw materials and manufactured goods. Nevertheless,  
/there are

there are certain countries which, for the reasons stated above, do not wish to weaken their bilateral powers of negotiation with respect to certain commodities. They point out that liberalization, especially in the case of foodstuffs, must necessarily be based on a selection of products made with due regard for the actual conditions obtaining on the region's producer and consumer markets.<sup>5/</sup>

### 3. Stages of liberalization

Any attempt to launch a liberalization movement between account-holding countries - in which other countries of the region wishing to do so may later participate on a reciprocal basis - would have to be carried out in two different but closely related stages: (a) the administrative, quantitative, exchange and financial control of certain imports and exports would have to be stabilized to a certain extent in order to pave the way for subsequent liberalization; and (b) incentives would have to be created for the intensification and diversification of trade in specific commodities.

### 4. Stabilization and consultations

A certain degree of simplification and stabilization in the administrative, quantitative, exchange and financial organization of foreign trade would be a powerful indirect incentive to inter-Latin American trade. This is no simple task. In general, the increasing balance-of-payments difficulties encountered by most countries of the area often make it impossible to apply general control measures systematically to foreign trade. So far as inter-Latin American trade is concerned, the instability of methods and procedures seems to be related to some extent to critical articles. The vicissitudes of the periodic negotiations designed to ensure their sale within the area, and, at times, the competition of foreign suppliers seem to encourage the more frequent use of non-tariff controls (amendments, additional regulations or mere internal instructions) to limit or prohibit certain imports.

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<sup>5/</sup> The idea of liberalizing quantities of merchandise in excess of the traditional volume of trade or in response to an increase in consumption might be very difficult or impossible to apply when, in the absence of tariff devices, complicated administrative procedures have to be adopted.

Latin American trade is suffering from the effects of the growing instability of the rules and procedures governing it. Often abrupt changes in one country impede the flow of traffic and disrupt the movement of certain commodities for weeks and even months. When unexpected measures interfere with the fulfilment of agreements concluded under a given system of foreign trade control, retaliation by the countries affected, often designed to force new negotiations, disturbs the normal course of transactions. The damage thus caused to the economies of the countries involved emphasizes the need for measures which would obviate, or at least alleviate, this state of affairs.

The plan outlined in resolution 1 (I) for the gradual establishment of a multilateral payments régime is really tantamount to creating a system appropriate to inter-Latin American trade and adapted to its peculiar features. The factors which will affect the execution of the plan include the degree of permanency or continuity of the trade controls applied in each country. The objectives of this resolution will be unattainable if the present atmosphere of insecurity is maintained.<sup>6/</sup>

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<sup>6/</sup> It may be recalled that resolution 4 (I) contains the following recommendation with regard to the stability and growth of inter-Latin American trade:

"(a) That, as regards intra-regional trade in traditional or basic products (natural products, raw materials and foodstuffs), they endeavour to pursue a policy of gradual liberalization, either unilaterally or through bilateral or multilateral agreements, with a view to encouraging and facilitating such trade and to guaranteeing it greater stability and equilibrium;

(b) That such products be marketed among the Latin American countries at international prices and on terms similar to those prevailing for the region's trade with the rest of the world; and that, prices and other conditions being equal, the commodities in question be purchased as far as possible within Latin America, to the extent permitted by the foreign trade régime of the countries of the region;

(c) That, in accordance with prevailing world market conditions, countries which cannot meet their own needs purchase such products as far as possible from the usual sources of supply within Latin America, in so far as the producer countries are in a position to meet the requirements of their regular customers, and, in the case of countries maintaining payments agreements, when the payment availabilities created in the consumer countries so permit;

/If this



If this atmosphere does not improve, the progress achieved in the field of compensability will be undermined merely as a result of isolated acts. In short, if a certain amount of stability is to be imparted to non-tariff procedures relating to inter-Latin American trade, thus ensuring the success of the interim régime, it might perhaps be desirable for the countries likely to be affected to consult each other before amending the administrative and exchange procedures applied to liberalized commodities.

5. Comments on the system of consultations

When the control and development of trade between two or more countries depends primarily on customs agreements - the most suitable instrument for it -, one of the contracting parties cannot unilaterally alter the duties which have been bilaterally agreed upon. Any such change requires fresh negotiations. For reasons explained elsewhere,<sup>7/</sup> tariffs now play a minor role in channelling trade between Latin American account-holding countries. This role has been to a large extent taken over by administrative, quantitative, financial and exchange procedures. Hence it seems reasonable to advocate that, in the application of such procedures, the principle of fair dealing followed in tariff agreements should not be excluded.<sup>8/</sup>

6/ (Cont.)

(d) That, as far as possible, administrative procedures be facilitated and certain State import or export monopolies be eliminated, to the extent that they may exert an adverse influence on trade in traditional products, unless they should be justified by the supply requirements and domestic trade of the countries concerned;

(e) That, should trade agreements be concluded with respect to specific products, they be negotiated for periods long enough to ensure methodically organized production on the part of the exporter and regular supplies for the importer country;

(f) That adjacent countries agree among themselves on the measures necessary for the prevention of illicit commodity trade between them, and for the direction of such trade into the regular channels."

<sup>7/</sup> See Study of inter-Latin American trade, op.cit., chapter I, section 4 (c).

<sup>8/</sup> The experience gathered by Latin American members of GATT in the field of consultation may be useful. When a member of GATT, for reasons connected with its balance of payments or its economic development, proposes to apply restrictions on imports to which contractual duties apply, consultations are compulsory. The practical results obtained during such consultations suggest that, provided suitable rules are worked out, this method adequately safeguards the national interests of the country concerned.

If a system of consultations were established, advance notice would almost automatically be given of any intention to change existing arrangements in respect of liberalized articles. Such consultation might or might not oblige the consulting country, depending on what was agreed, to refrain from putting into effect any new or modified measures if the countries consulted objected. It would have the advantage of enlisting a certain degree of international co-operation for the study and solution of the problem involved. The harm which might be done to the common interests of a group of countries as a result of isolated action by one of them would thus be avoided or reduced.

Consultations are also necessary before certain administrative decisions are taken. For example, a country might adopt corrective measures to prevent certain private firms from continuing to derive illicit benefits from exchange differences by over-invoicing imports. Other countries, unaware of the reason for such measures, might then tend to take retaliatory action. A system of consultations would obviate the possible disadvantages of one-sided action.

Furthermore, the competent authorities in the various countries have no means of co-ordinating procedures for classifying trade items within the different exchange rates. Quite often, exporting countries apply the most encouraging exchange rate to a given item, while importing countries do the opposite. Although competing trade interests in certain articles may sometimes make co-ordination difficult, consultations would throw light upon each individual case and the disruptions and suspicions arising from unilateral action would be avoided.

The method of consultation has its good and bad points. Generally speaking, one of its main disadvantages is that each country is bound to defend its own interests as regards the adoption of decisions regarding foreign trade. Moreover, the execution of such decisions would perhaps be delayed if prior consultations had to be held with third parties. Again, advance disclosure of the measures under study might sometimes have serious repercussions (financial speculation, concealment of stocks, abnormally increased demand for foreign exchange in a given sector, etc.). While bearing in mind such considerations, it should not be forgotten that,

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in the field of inter-Latin American trade, consultations aimed at making the administrative and exchange system more stable would be mainly concerned with items included in the selective liberalization agreements. It is unlikely that trade in such items would reach sizeable proportions for some time. In the meanwhile, the experience necessary for dealing with them later would be gained from the consultations.

6. Creation of direct incentives: advance deposits

There are various methods of regulating foreign trade, apart from tariffs, which would encourage the liberalization of Latin American trade by providing direct incentives. These methods, which are usually not very numerous in each country, vary according to the structure of the foreign trade régime. They consist mainly of prior permits, quotas, licences (certificados de necesidad) and import embargoes. Another very important device has recently been added: the advance deposit. If certain movements of goods were exempted from these requirements or prohibitions, incentives of varying strength would be created for trade with other countries of the region.<sup>2/</sup> In some cases, the incentive would take the form of a reduction in the c.i.f. price paid by the importer.

To achieve liberalization all the above methods might have to be used in varying degrees in each country, so as to obtain the necessary measure of reciprocity within a gradually advancing programme. However, for the moment, advance deposits would seem to provide quite a strong incentive.

Normally, the advance deposit system forms part of an anti-inflationary policy and also reflects the tendency to replace direct trade and balance-of-payment controls with indirect ones. It requires the importer to deposit in national currency a sum equivalent to a given percentage of the value of the merchandise to be imported. Because this sum, which is returned after a certain period, has lain immobilized, the importer increases the

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<sup>2/</sup> According to the regulations in force in Argentina, commodities such as coffee, cacao and maté may only be imported from bordering countries.

price charged to the user by a variable amount in respect of interest. This additional charge depends on the amount of the deposit and the time during which it is kept.<sup>10/</sup>

The implications of this requirement in a number of countries will now be examined.

(a) Argentina

The advance deposit system has been in force in Argentina since January 1958.<sup>11/</sup> For imports covered by official exchange market permits the deposit is 20 per cent of the f.o.b. value; for those in respect of which payment is negotiated through the free market it is 100 per cent. The term of deposit is 120 days.

Imports from Bolivia, Brazil, Chile, Paraguay and Uruguay<sup>12/</sup> do not require advance deposits. Nor do certain shipments - fuels, newsprint, some types of machinery and imports for use by official bodies - whatever their origin. As from 1 August 1958 imports payment for which is negotiated half through the official and half through the free market have also been exempt.

(b) Brazil

Properly speaking, the advance deposit system does not exist in Brazil. But there is a requirement which to some extent affects the cost of the merchandise to the importer through added interest charges in the same way as the deposit scheme in Argentina and Chile: the importer must deposit the agio derived from the exchange auction within five days after the auction.

(c) Chile

The Chilean exchange system authorizes the International Exchange Commission (Comisión de Cambios Internacionales) to demand an advance deposit as the principal means of controlling imports. It is equivalent

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<sup>10/</sup> In the case of purchases within the region, the advance deposit would mean an increase in price for the importer never less than 15 per cent of the c.i.f. value and often double this amount.

<sup>11/</sup> In compliance with Central Bank Circular 3116 of 17 December 1957.

<sup>12/</sup> Central Bank Circular 3140 of 16 January 1958.

to a certain percentage of the value of the goods.<sup>13/</sup>

Depending on the extent to which they are considered essential, imports are divided into ten groups, to which percentages ranging from 5 to 5 000 apply. However, as a result of the balance-of-payments situation, many of the groups with lower percentages have been scaled upwards in order to curtail drastically the demand for foreign exchange.<sup>14/</sup> The minimum term of the deposit is 90 days, except in the case of certain essential goods, when it is 30 days. The deposit may not be used to buy foreign exchange to pay for the merchandise imported.

In order to encourage importers to make greater use of balances of non-convertible currency held in bilateral accounts, Chile relaxed the deposit system for goods shipped from Argentina, Bolivia, Brazil, Ecuador, France, Spain and Yugoslavia by allowing advance deposits to be used for the purchase of exchange. For this purpose, the Central Bank, where the deposit is placed, transfers it to a commercial bank.

(d) Paraguay

In Paraguay, goods are classified into five groups (ranging from 5 to 400 per cent) for the purposes of the advance deposit system.

Deposits are calculated on the basis of the f.o.b. value in guaraníes at the rate of exchange prevailing on the free market at the time of deposit. The deposit must be lodged in a bank authorized by the Central Bank and for the account of that Bank before the goods are shipped. It is returned when the papers necessary for customs clearance are handed over.

Imports on behalf of State or other official agencies, autonomous organizations, as well as public and joint public and private enterprises

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<sup>13/</sup> Article 9 of Decree 6793, dated 1 September 1956, contains the amended text of Acts 12084 and 9839.

<sup>14/</sup> Chile's principal source of earnings from abroad - copper - has been declining as a result of the drop in copper prices. At the beginning of 1956 the price was 47 dollar cents per pound; at the beginning of 1957, 31 cents; in May 1958, 22.5; and at the beginning of August 1958, about 26. Although production rose from 215 million pounds in 1956 to 257.3 million in 1957, earnings copper in the latter year fell by nearly 40 million dollars.

are exempt from advance deposits. So are imports of wheat and flour, fuels derived from petroleum, newsprint and printing ink for newspapers.

(e) Uruguay

Until the introduction of the emergency exchange system in November 1957, the advance deposit fluctuated between 30 and 150 per cent for imports effected through the official market. Nearly always the deposit required for imports in free dollars was 50 per cent more (of the c.i.f. value) than for imports in other currencies. Thus, imports of raw materials for industrialists, whose requirements had been certified, and of foodstuffs considered to be of vital necessity required an advance deposit of 80 and 30 per cent when effected in free dollars and other currencies respectively. For imports through the free commercial market the deposit was 50 per cent regardless of the currency involved.

Under the emergency system instituted in November 1957, only imports of absolutely essential goods are authorized. In fact, therefore, the system of advance deposits is not applied at the moment.

7. The case of Brazil

The structure of the Brazilian exchange system after the reform of August 1957 appears to leave only a small margin for negotiating with other Latin American countries liberalization agreements designed to remove non-tariff restrictions. It is therefore important to examine carefully those few elements which might be used for this purpose in the case of Brazil. Such an examination will also be of interest from another point of view. Brazil traditionally imports on the basis of clearing accounts with other Latin American countries large quantities of certain commodities subject to seasonal changes and marked fluctuations in value from year to year (see table 1). Hence, it may be assumed that if it were considered desirable to promote the diversification of imports, for example by concluding reciprocal trade agreements in respect of manufactured goods, Brazilian participation in such agreements might perhaps be influenced by the extent to which administrative or exchange measures of liberalization could be applied in the case of Brazil.

With regard to the data given in table 1, it should be added that,

/Table 1

Table 1

BRAZIL: IMPORTS FROM ARGENTINA, BOLIVIA,  
CHILE AND URUGUAY, 1955-57

(Value in millions of dollars)

Commodity	1955		1956		1957	
	Value	Per centage	Value	Per centage	Value	Per centage
Wheat	131.8	73.7	79.9	62.4	57.9	59.4
Others	46.9	26.3	48.0	37.6	39.6	40.6
	178.7	100.0	127.9	100.0	97.5	100.0

Source: Department of Currency and Credit (Superintendência da Moeda e do Crédito) of Brazil.

of the total of almost 40 million dollars in respect of Brazilian imports other than of wheat from Argentina, Bolivia, Chile and Uruguay in 1957, Argentina fruit and Chilean fertilizers amounted to about 25 million. All the remaining imports from the above four countries reached only 15 million dollars, in spite of the fact that the supply of foreign currency offered for auction on Brazilian exchanges always exceeded demand. The difficulties which Brazil had to overcome in order to diversify imports from the southern zone of the region and thus reduce their predominantly seasonal character may be gathered from table 2.

/Table 2

Table 2

BRAZIL: AGIOS IN IMPORT AUCTIONS (WEIGHTED  
AVERAGE IN CRUZEIROS PER DOLLAR)

	1957		March
	September	December	1958
<u>General category:</u>			
Actual dollar	68.32	66.79	117.50
Dollar, area of limited convertibility	66.38	64.28	111.88
Dollar, Argentina a/	61.44	54.53	93.17
Dollar, Bolivia a/	-	52.81	94.00
Dollar, Chile a/	-	53.34	90.66
Dollar, Uruguay a/	61.46	52.95	92.02
<u>Special category:</u>			
Actual dollar	158.67	226.22	302.92
Dollar, area of limited convertibility	204.59	174.75	237.38
Dollar, Argentina a/	61.99	-	273.00
Dollar, Bolivia a/	-	-	-
Dollar, Chile a/	66.41	-	213.00
Dollar, Uruguay a/	61.00	175.00	-

Source: Department of Currency and Credit of Brazil.

a/ Agreement dollar established as the unit of account in the relevant  
agreement between Brazil and the country indicated.

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On the basis of the exchange auctions held in March 1958, it may be seen that imports of items in the general category were effected from convertible-currency areas with an agio of 117.50 cruzeiros per dollar. On the other hand, currencies for imports in the same category from Argentina and Uruguay cost Brazilian importers agios of 93.17 and 92.02 cruzeiros per dollar respectively. In other words, the cost of this exchange was over one-fifth less than the cost of convertible currencies bought for similar imports. Yet, in practice, this theoretically strong incentive was not enough to stimulate imports from Argentina and Uruguay to the extent that the foreign exchange accumulated in the respective bilateral accounts would have justified.

It is therefore questionable whether the postponement of agio payments can provide an incentive for imports from other Latin American countries. What difference would there be in the resulting costs of merchandise for the Brazilian importer?<sup>15/</sup>

Assuming that the importer is allowed to recover the agio after a period of 120 days, for example, and considering that interest and commission in the domestic banking market work out at something like 13.5 per cent per year for importers unwilling to borrow money from more costly private sources, the approximate difference would be not less than 4.5 per cent. The incentive seems very weak. The question then arises: what other methods could be adopted to induce Brazil to take part in a reciprocal system to promote administrative and exchange liberalization?

One such method might perhaps be to classify within the special category goods from the region included in the relevant liberalization

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<sup>15/</sup> According to article 67 of Decree 42320, dated 16 December 1957, imports which are financed with foreign loans and which consist of equipment for petroleum prospecting or extraction or for activities considered as essential for the economic development of Brazil may be purchased on credit on which interest is charged for the payment of the agio. For this purpose, subject to a prior guarantee, importers may discount a document in the Banco do Brasil for the purpose of paying the agio to the Exchange Department (Carteira do Cambio), which deposits it in the appropriate Treasury account.

agreements. For this purpose, the so-called specific auctions, authorized by article 48 of Act 3244, which, in August 1957, amended the Brazilian customs and exchange system, could be held. In practice, the price of foreign exchange for the importer will then be reduced to the level of the so-called "exchange cost" at auctions necessary for the fulfilment of bilateral agreements.

#### 8. Possible forms of the liberalization system

To conclude this background study of liberalization, the following is a summary of some of the suggestions made by the group of experts on trade policy, which met at ECLA Headquarters at the end of August 1958.

The convening of this series of meetings was the first step taken by the secretariat in carrying out its intention of holding successive consultations with different groups of experts from those Latin American countries where specific common problems exist. The purpose of the first series of meetings was to discuss the general and particular causes of the decline in the reciprocal clearing-account trade of Argentina, Brazil, Chile and Uruguay. In this trade, exports had dropped from 425 million dollars in 1955 to 320 million dollars in 1957.

In its search for ways of means of solving the problems deriving from the sharp contraction noted in trade between the four countries in question, the group considered in principle the possibility of applying practical procedures based on joint action which, by their very nature, affect the area as a whole.

In the group's opinion, liberalization involved the progressive and co-ordinated simplification of control and quota systems, with a view to stabilizing the balance of advantages and to providing stimuli to reciprocal trade by means of:

- (1) Automaticity;
- (2) Selectivity (liberalization by commodities or groups of commodities);
- (3) Elimination of administrative, quantitative, exchange and financial barriers;

/(4) Non-discrimination

- (4) Non-discrimination among participating countries;
- (5) Reciprocity;
- (6) Priority in the regional market for imports from the region itself;
- (7) Joint action in face of external factors which imply unusually strong competition;
- (8) Escape clause (safeguard to cover special situations);
- (9) Provision for the accession of new members on terms compatible with the balance of the system;
- (10) An operational organ for the liberalization system; a procedure for consultation; decisions to be unanimous.

Other recommendations made by the group may be summed up as follows:

(a) To ensure the efficient operation of the system, a time-limit should be fixed, with reference to a base period, for the liberalization of a given percentage of trade among participating countries.

(b) The instruments whereby the system is to be instituted should be drawn up in such a way as to enable the administrative authorities in each country, in the course of implementation of the agreement concerned and pursuant to decisions taken in common with the other members, to extend or modify the lists of articles liberalized or the percentages of liberalization in relation to the base period.

(c) In view of the structure of inter-Latin American trade, it would seem appropriate to aim at a balance of advantages between member countries on the basis of reciprocity, traditional commodities and manufactured goods being taken together for this purpose; in the case of the latter, it would still be possible to envisage the subsequent introduction of whatever ad hoc system experience and the quantum of trade in such goods might gradually suggest.

The following opinion was generally held: liberalization measures should be applied rapidly and simultaneously, although due recognition should be accorded to special situations.

In this connexion, it was pointed out that, when the system of liberalization under discussion is applied, in the case of commodities

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subject to special terms of purchase - like wheat, whose incidence on the region's trade is of fundamental importance for the maintenance of proper equilibrium - maximum automaticity should be allowed to prevail in the purchasing arrangements concerned, so that imports can be kept at a level consistent with the effective consumer capacity of the purchaser country.

Finally, it was felt that, during the preliminary phase, in order to secure the necessary balance of advantages between systems of foreign trade controls, it would be wise for practical reasons, to seek a satisfactory method of offsetting customs concessions and incentives deriving from administrative, quantitative, exchange and financial measures.

#### 9. Export credit

In connexion with a possible liberalization programme, at least some mention must be made of the question of domestic credit to facilitate certain transactions. The progress being achieved by various Latin American countries in the field of industrialization offers good prospects for the growth of intra-regional trade through the inclusion of manufactured goods, including capital goods in some cases, provided that, as has already been pointed out, co-operation between the countries concerned as regards trade policy and payments leads to the removal of certain obstacles. These include the financing of credit designed to facilitate the purchase of manufactured goods by importers on an instalment basis and also instalment sales by exporters, as is usual with such items as railway equipment, farm tractors, etc.

The Inter-American Bank for Economic Development, which if founded, would have the support of the United States,<sup>16/</sup> could be a factor of great importance in this field as it would serve as a special credit agency, particularly for capital goods. However, the

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<sup>16/</sup> Statement made in the Inter-American Economic and Social Council, on 1 August 1958, by Mr. C. Douglas Dillon, Under-Secretary of State.

domestic monetary policy of each country could also be directed towards assisting exporters to compete on equal credit terms when effecting certain transactions within the region.

It is common knowledge that some Latin American countries have lost the opportunity of supplying railway equipment and similar goods to other countries within the region which invited bids because they have been unable to offer the same credit facilities as those granted by traditional suppliers.

In this connexion, Argentina has taken some steps which may yield good results. By virtue of an amendment to its basic charter, adopted in April 1958, the Argentine Banco Industrial was empowered to give its financial support to exports of industrial and mining products by granting credits to producers in amounts equivalent to the cost of the goods sold abroad and on short and medium terms which coincide with the payment facilities offered by Argentine exporters to foreign buyers. Taking advantage of these credit facilities, an Argentine industrial firm has already negotiated with Cuban importers a contract for the provision of telephone equipment to the value of about 2.5 million dollars.

In Brazil, these operations are conducted through the Ministry of Foreign Trade.<sup>17/</sup> The Council of the Department of Currency and Credit is responsible for laying down the general policy and determining the source of the funds involved.

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<sup>17/</sup> Act 2145, of 29 December 1953, and article 86 of Decree 42820, of 16 December 1957.

