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Restrictions on the Movement of Funds Within Latin America*

Prepared by S. Makdisi

Approved by Irving S. Friedman

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Restrictions on the Movement of Funds within Latin America

The main purpose of this paper is to describe major restrictive practices[1] affecting directly or indirectly the movement of funds within Latin America, and to indicate briefly their objectives and effects on trade and payments. It begins with a summary in Section I. A brief review of major postwar developments in the Latin American restrictive systems is included in Section II. This is followed by the main section (Section III) where five types of restrictive devices are discussed in detail: import surcharges, advance deposits, multiple exchange rates, restrictions on trade and payments, and regulation of capital transfers.[2] It may be noted that the movement of funds within Latin America is subject, to a large extent, to the same restrictions as are applied to extra-area trade and payments; preferential treatment, where accorded, has been described in the appropriate context. Observations regarding the desirability of economic measures in individual countries for the implementation of free trade area policies are based on the situation existing at about the middle of 1962. Future developments in the various restrictive systems and in economic conditions in the countries concerned will, of course, also be affected by internal and external factors not related to the integration efforts.

I. Summary

1. Developments in the Latin American restrictive systems have resulted in the establishment of relatively free foreign exchange markets in a number of Latin American countries; they have also led to the gradual elimination and/or simplification of multiple currency practices and other restrictive devices in most of the remaining countries. Cuba is the leading exception: practically all Cuban foreign trade and payments are now subject to restrictions or strict controls. In a few cases reintroduction of exchange controls was recently found necessary. In most cases the trend towards liberalization has been achieved not at the cost of an increase in indirect controls but rather in conjunction with the implementation of stabilization programs. In those instances where intensification of some trade restrictions has accompanied the elimination of payments restrictions the ultimate objective was to maintain protection for local industries--a policy which did not negate all or most of the benefits achieved by over-all payments liberalization. It is important that the trend toward liberalization be maintained when attempting to harmonize external policies of individual members of the free trade areas.

1/ Excluding tariffs, export taxes, and a few other restrictions. Unless otherwise noted, this report reflects the situation existing in June 1962. Moreover, only a few references are made to Cuba's restrictive system since information about this country is limited.

2/ Bilateralism has been virtually eliminated from intra-Latin American trade.

2. The movement of funds within Latin America is to a large extent still subject to the same impediments as apply to extra-area trade and payments. However, preferential treatment has resulted from (a) the first round of LAFTA negotiations: exemptions from import surcharges and advance deposits and, in one or two countries, from licensing, are extended to a relatively small number of intra-LAFTA trade items; (b) the elimination of restrictions by the Central American group on a large number of items originating (but not necessarily trade) within the group; and (c) exemptions from surcharges extended by a few countries, e.g., Argentina and Paraguay, to all or a substantial portion of their imports from neighboring countries, and exemptions from advance deposit requirements extended by Brazil to all imports from LAFTA countries. Recent reforms in some of the exchange control countries whereby restrictive devices were simplified and the official rates of exchange made more realistic help in facilitating the implementation of LAFTA.

3. Quantitative restrictions are, perhaps, the most significant restrictive device now applied. The countries which apply these restrictions (Brazil, Chile, Colombia, the Dominican Republic, Mexico, and Venezuela) account for over one half of intra-Latin American trade. In Mexico import items subject to permits are estimated to cover about one half of the country's imports in terms of value. The original purpose of licensing was mainly to conserve foreign exchange but later it was increasingly utilized for protective purposes as well. In Venezuela the role of the official free market was greatly expanded in April 1962 tending to lessen the restrictiveness of the import system. Prohibitions and import licensing, along with tariffs, however, comprise an important protective device. In Brazil a substantial degree of quantitative restrictions applies to imports of manufactured products which are included in the "Special Category." In Colombia prohibitions and prior licensing for protective and payments purposes have had an important restrictive effect on the country's trade and payments with greater reliance being placed on the former than on the latter. In 1960 a large number of import items was included in the prohibited list while over one half of the actual imports was subject to licensing. In Chile exchange controls were temporarily reintroduced in January 1962 with increased quantitative restrictions. Prohibitions now play an important protective and restrictive role although until this date they had been steadily decreasing since 1956 when import licensing was abolished. Ecuador and Nicaragua also apply licensing controls, but their application is liberal and is mainly intended to enforce advance deposit requirements.

4. Multiple exchange rates in Latin America have lost much of their former significance. At present they represent an important feature of the restrictive systems of Brazil, Chile, Colombia, Venezuela, and Uruguay. They are of lesser significance in Bolivia, Costa Rica, Ecuador, Nicaragua, and Paraguay. In Colombia and Venezuela, multiple currency practices serve a variety of objectives: securing fiscal revenue, diversifying the composition of exports, subsidizing essential imports, and relieving possible pressure upon the central bank's reserves. Some of these

purposes are also served by Chile's multiple rates, in conjunction with other controls. In Brazil and Uruguay the application of exchange taxes on export proceeds, and in the former country the making of quarterly contracts to sell exchange for specific imports, give rise to several effective rates. In Brazil multiple rates are used to redistribute revenue within the coffee and cocoa industries and to avoid short-term fluctuations of prices of a few essential imports in the face of possible changes in the exchange rate. In Uruguay, exchange taxes (retentions) serve as an important source of fiscal revenue. In all the countries which apply multiple rates (with the exception of Chile which reintroduced them recently) the restrictive system has been greatly simplified in recent years. Various reforms have brought the official rates closer to the prevailing market rate of exchange.

5. Advance deposits requirements are now maintained in Brazil, Chile, Colombia, Ecuador, Nicaragua, Paraguay, and Uruguay. Exemptions have been granted by Brazil, Chile, Paraguay, and Uruguay to imports of items appearing in their respective LAFTA concession lists. Nicaragua has extended exemptions to imports from the Central American group. Generally speaking, deposit requirements have not proved to be a very effective device in restricting imports. They are much more effective when they accompany domestic stabilization measures. Moreover, a number of countries which introduced them for restrictive purposes have had to retain them to avoid the inflationary impact of their release. Like surcharges they have proved to be a flexible tool, i.e., administratively they could be easily introduced or eliminated; their impact seems to be largely on extra-area imports.

6. The use of import surcharges has usually been limited to a relatively small number of countries. Along with advance deposits they have often been utilized to ease the process of transition from strict exchange controls to a liberalized exchange system. They are now applied in Argentina, Brazil, Chile, Costa Rica, Guatemala, Paraguay, and Uruguay. The over-all incidence of surcharges is at present probably highest in Argentina where they seem to have hindered the efficient development of certain local industries. Except in the case of Guatemala, the incidence of surcharges is relatively high on "nonessentials" and relatively low otherwise. Many essentials are exempt. Argentina and Paraguay also exempt imports from neighboring countries. All of the countries mentioned above (except Guatemala and Costa Rica) have, in addition, extended exemptions to imports of items appearing in their respective LAFTA concession lists. The application of these surcharges favors intra-area trade. The current policy of incorporating surcharges into the tariff schedule helps in avoiding the adverse effects that could arise from the frequency of changes in the surcharge rates.

7. In those Latin American countries where regulations on capital transfers are applied (Chile, Colombia, Ecuador, the Dominican Republic, El Salvador, Nicaragua, and Venezuela), foreign investments are usually guaranteed the remittance of profits and principal. In a few, transfers of domestically-owned capital funds are permitted but in others they are subject to restrictive licensing or are prohibited. However, where capital remittances through the free market are permitted the possibilities of transfer available to residents may in fact be greatly limited if the free

and official rates differ significantly. Special privileges have not been extended to Latin American capital. But as part of the implementation of the objectives of LAFTA, intraregional capital transfers should perhaps be encouraged. The maintenance of monetary stability along with the elimination of restrictions on capital movements would help the repatriation of Latin American capital and would also encourage future intraregional capital movements all of which would contribute toward building a firmer basis for Latin American economic integration.

II. Developments in the Latin American Restrictive Systems

In the last decade or so four major developments in the Latin American restrictive systems may be discerned:

First, the increase in the number of countries which have established free foreign exchange markets. Thus, at the beginning of 1962, 12 countries1/ had virtually no exchange controls compared to 8 in 1950.

Second, the gradual elimination and/or simplification of multiple currency practices. At the beginning of 1962, 6 countries2/ relied significantly on multiple rates compared to 12 in 1950.

Third, the gradual elimination of bilateral payments agreements, particularly among the Latin American countries themselves. As of June 1962 there existed 2 intra-Latin American payments agreements compared to 16 in 1955.

Fourth, the continued limitation of imports through quantitative restrictions or otherwise.

The underlying trend toward freer exchange systems in Latin America has not been maintained consistently throughout the postwar period. At the beginning of the nineteen fifties the Latin American exchange systems could be divided into three groups: the first would include those countries which had already established relatively free foreign exchange markets, i.e., had removed direct exchange controls on both current and capital accounts. Included would be Mexico, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras,3/ and Panama. These countries imposed few

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1/ Inclusive of (1) El Salvador, which on May 1, 1961 introduced temporary controls over capital transactions while leaving current transactions unrestricted, (2) Uruguay, which applies export retentions giving rise to varying rates for exchange received by exporters and maintains surrender requirements, and (3) Costa Rica, which requires the surrender of export receipts, with the exception of those earned by the foreign-owned banana companies. The latter, however, sell exchange to cover local requirements, paying a 10 per cent tax.

2/ Chile reintroduced multiple rates in January 1962 after having maintained a uniform rate of exchange since mid-1959.

3/ Honduras required the surrender of export receipts and maintained a small spread between the official and selling rates. Otherwise no exchange restrictions existed.

quantitative and cost restrictions such as licenses and surcharges; in one or two, quotas were imposed, while others relied to a small extent on bilateral agreements. The second group would comprise Peru, Uruguay, and Venezuela where the main features of the system were multiple rates, surrender requirements and import licensing, leaving capital transfers and invisible payments largely unrestricted. Peru, however, did conclude several bilateral agreements. The third group, including Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Nicaragua, and Paraguay, maintained comprehensive exchange controls, characterized by multiple rates, surrender requirements, and control of capital transfers in addition to quotas, licenses, export taxes, and in some cases advance deposits.

Now, early in 1962, the first group includes, in addition, Argentina, Bolivia, Costa Rica, Paraguay, Peru, and Uruguay. Furthermore, most of the remaining countries, while retaining multiple rates and/or other exchange and trade restrictions, have nonetheless achieved noticeable progress in simplifying and/or liberalizing their exchange systems. These developments at the national level have been reinforced recently by multilateral moves to reduce restrictions on intra-Latin American trade. They began with the ratification in December 1960 and April 1961, respectively, of the General Treaty on Central American Integration and of the Treaty of Montevideo which established the Latin American Free Trade Association.[1] In 1959/60 intra-LAFTA trade accounted for roughly 40 per cent of inter-Latin American trade, while the Central American group accounted for about 4 per cent.

1/ The Treaty of Montevideo requires each contracting party to negotiate annually with the other contracting parties tariff reductions equivalent to at least 8 per cent of the weighted average of the tariff in force for third countries. Tariffs include customs duties and any other surcharges equivalent in effect, whether of a fiscal, monetary, or exchange character. The first annual negotiated concessions became effective January 1, 1962 for the seven original members (all except Colombia and Ecuador, i.e., Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay). Colombia's negotiated concessions became effective in April 1962, while Ecuador will negotiate with the other members in August 1962. The General Treaty (signed by El Salvador, Guatemala, Honduras, and Nicaragua) specifies the immediate removal of all tariffs and other charges on a large portion of commodities originating in member countries. The remaining commodities (which in fact include many of the items actually traded) will be liberalized within five years. They are included in special lists. Restrictions on the first group of items, i.e., those not included in the special lists, have already been removed. The Central American countries have also agreed on equalizing external tariffs, integrating their industrial projects, and establishing a Central Bank for economic integration. All these agreements are being implemented. On August 2, 1961 a Preferential Trade Agreement was signed by Costa Rica, Panama, and Nicaragua providing for free or preferential treatment of trade among the contracting parties; it also provides for exemption from quantitative restrictions other than those agreed upon by the parties concerned. All three countries have now ratified this agreement.

The present review excludes Cuba where developments in its restrictive system have taken a trend different from those elsewhere in the Latin American region. All Cuban foreign trade is now under direct state management and all exchange transactions are carried out through the National Bank.[1] All exchange proceeds must be surrendered to the Bank whose approval is required for exports and transfers abroad of foreign exchange, checks, securities or other monetary instruments.

III. Major Restrictive Devices

Import surcharges

Surcharges constitute an important restriction in Argentina, Chile, Uruguay and, to a lesser degree, in Brazil, Guatemala, and Paraguay.[2] Apart from Guatemala and Paraguay, the bases for determining variations in the rates levied are the degree of essentiality of the import and its competitiveness with local production; the less essential and the more competitive the import, the higher the surcharge it bears. Many essentials are exempted. As a source of revenue, surcharge payments are important in Argentina where in 1958-61 they accounted for roughly 18 per cent of government receipts; they are less important in the other five countries.

In Argentina, surcharges were applied in conjunction with the 1959 exchange and stabilization program to ease the process of transition toward a liberal and unified exchange system. Since then, changes have been made in the applicable rates on various import categories resulting in a net reduction in their over-all incidence.[3] Surcharges remain, however, an effective restrictive device and with respect to certain categories they are still high. They are payable on the c.i.f. value of all imports other than certain essential goods,[4] e.g., principal metals, rubber, newsprint. The rates prevailing until December 31, 1961 were as follows: 20 per cent on numerous raw materials, drugs, iron and steel bars, etc.; 40 per cent on semiprocessed articles or raw materials produced locally; 100 per cent on spare parts, tools, and industrial machinery manufactured locally but not in sufficient quantities; 150 per cent on processed articles produced locally, the import of which is not essential, and on industrial machinery manufactured locally; and 200 per cent on nonessential products and luxuries, e.g., whisky, transistor radios, textiles, and ready-made clothing of cotton and wool.[5] However, on January 24, 1962 surcharges were increased on various groups of imports, excluding the import of items

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1/ Refer to Law 930, February 23, 1961.

2/ With the exchange reform of September 3, 1961 Costa Rica imposed temporary import surcharges of 15 per cent and 30 per cent, respectively, on imports of specified less essential and luxury goods pending the promulgation of a new tariff.

3/ Excluding temporary additional surcharges levied during 1962.

4/ Until January 4, 1962 imports of fuels were also exempted. On this date they became subject to a 20 per cent surcharge.

5/ The 200 per cent surcharge includes a temporary 50 per cent surcharge.

which appear on the Argentinian LAFTA concession list. Imports of specified machinery which until then were exempted from surcharges, were subjected to a 40 per cent surcharge. Moreover, imports of a large number of goods which are either produced locally or are considered of a nonessential nature were subjected to an additional temporary 100 per cent surcharge to be eliminated at the end of 1962. Furthermore, on April 9, 1962 an emergency 20 per cent additional surcharge was imposed on all imports with a few exceptions, including imports of items appearing on the Argentinian LAFTA concession list.

The Argentinian authorities, however, have extended several exemptions which, at least until the very recent temporary changes, somewhat reduced the applicability of various surcharges. For example, certain imports originating in neighboring countries and in Peru, a relatively small number of items appearing on the Argentinian concession list to LAFTA, imports of machinery and materials for certain industries, are (or were) exempted from the surcharges. In addition, surcharges of less than 100 per cent paid on imports of certain raw materials and semifinished items which are subsequently incorporated into exports are either reimbursed after six months or granted alternative preferential treatment. The importance of these exemptions is partly indicated by the fact that in 1959-61 roughly two thirds of Argentine imports were exempted.1/

In Chile, the authorities have similarly made use of surcharges, along with advance deposits, since 1959 when the exchange markets were unified and import prohibitions eliminated.2/ There exist presently 13 different surcharges, ranging from 0.1 per cent to 200 per cent, and paid at the time of clearance of the goods through customs. They are applicable on all permitted imports with the exception of goods imported by large mining companies, agricultural spare parts, certain capital goods, and imports from LAFTA of some items which appear on the Chilean concession list.3/ Needed imports such as metallic minerals, natural products, antibiotics, pharmaceutical specialties, and industrial oils are subject to the lower ranges of the surcharges, i.e., 0.1 to 20 per cent. Other less "essential" or more competitive imports, e.g., skins, wheat flour, some fabrics, varnishes, aluminum sheets, tin and lead scraps, paper, motorboats and office machinery are subject to the higher ranges.

In Paraguay, surcharges payable on the c.i.f. value and collected by the Central Bank were first made use of in 1959 on a limited scale. They are now levied on all imports except (a) those originating in Argentina, Bolivia, Brazil, and Uruguay; (b) those items included in the Paraguay

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1/ Of course, the more effective the rates the greater is the curb on imports subject to surcharges so that the proportion of imports exempted is not a completely satisfactory indicator of the importance of the exemptions granted.

2/ A dual market was reintroduced in January 1962 with increased restrictive measures (see below p. 15).

3/ In January 1962, the list of prohibited imports was reintroduced and made to include many "nonessentials" and "luxuries" (see below p. 25).

concession list which are exempted from such payments;[1] and (c) governmental imports. Otherwise, wheat and petroleum imports are subject to a 15 per cent and other imports to a 24 per cent surcharge.

In Uruguay, surcharges were first applied in 1956 when reforms initiated that year provided a free certificate market for imports and exports. They were retained along with advance deposits when the exchange and monetary reforms of December 17, 1959 resulted in the elimination of other import restrictions and in the establishment of a freely fluctuating market rate. Essential imports, such as sugar, salt, coffee, timber, iron and steel, industrial raw materials, paper, and imports from LAFTA of certain items that appear in the Uruguay LAFTA concession list are exempted.[1] Other imports subject to surcharges require registration with the Bank of the Republic, accompanied by an assurance from the bank handling the import financing of the availability of the necessary foreign exchange at the time of customs clearance. The surcharges are collected by the Bank and levied as follows: 40 per cent on goods not produced locally; 75 per cent on competitive imports;[2] and 150 per cent on luxuries.

In Brazil, imports of goods classified in the "Special Category" are effected on the basis of licenses issued to holders of "promises of licenses" which are purchased at auctions. The prices paid for these promises represent surcharges on imports. They usually fluctuate freely but on January 30, 1962 a minimum was established at Cr$662.60 per US$1.

Finally, Guatemala maintains a 100 per cent surcharge on imports from specified countries with which it has a trade deficit. The list of these countries is periodically changed. Should a country of the Central American group be included in it, the surcharge will not be applicable to items which do not appear in the special lists.[3] The surcharge is waived if goods from these countries are imported on Guatemalan ships.

The use of surcharges has usually been restricted to a relatively small number of Latin American countries. In terms of value of intra-regional trade, however, a different picture is seen; in 1959-61 the countries which presently apply surcharges accounted for roughly 40 per cent

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1/ Other concession items are subject to reduced rates.

2/ Uruguayan industrial production comprises mainly textiles, processed foodstuffs, and construction materials. Major agricultural production includes wheat, linseed, oats, barley, corn, and rice.

3/ These lists include items to be liberalized within five years. Refer to footnote 1, p. 5.

of intra-Latin American trade. Surcharges have maintained protection for local production and have been readily utilized for temporary balance of payments purposes as evidenced by the experiences of the countries under consideration.1/ Their incidence, as noted above, is relatively high in connection with so-called "nonessential" imports, i.e., goods either produced locally or considered luxuries by the authorities. They are relatively low on "essential" imports, e.g., needed raw materials, food items, and capital goods not available locally, many of which have, in fact, been exempted. The degree of incidence varies from one country to another, being currently highest in Argentina.

There are vaious aspects to the impact of surcharges on the trade and payments of the countries applying them, and consequently on intra-Latin American trade and payments. On this question three brief observations will be made. First, it is probably true that the incidence of surcharges applied in the five countries other than Guatemala is greater on extra-area than on intra-area trade. Factors which may be mentioned in support of this statement are: (1) imports from neighboring countries are exempted in the case of Paraguay, and a large number of such items are exempted in the case of Argentina; in addition, the countries considered here are LAFTA members whose reciprocal concession lists include the elimination of surcharges on a number of items traded within LAFTA;2/ and (2) many items subject to high surcharges are largely imported from outside Latin America, e.g., textiles, alcoholic beverages and machinery which competes with local production in the case of Argentina; textiles and construction materials in the case of Uruguay; tin bars and ingots; textiles, and wheat flour in the case of Chile. These facts suggest that the system of surcharges in the countries which apply them (accounting for exemptions granted) discriminates in favor of intra-regional and against extra-regional trade.

1/ The use of surcharges has been partly motivated by the decreasing effectiveness of customs duties. Two factors are responsible for the growing ineffectiveness of duties: (1) trade agreements that have either bound existing rates or caused them to be reduced; (2) the administrative impracticability of changing tariffs as a short-term regulator. As a result, tariffs tended to become less effective in the face of general price level increases where duties are specific or where the basis for taxation of imports is in an overvalued official rate of exchange.

2/ The number of concessions negotiated in 1961 among LAFTA members, however, is smaller than might at first appear. According to one source (The Review of the River Plate, CXXXI, April 30, 1962, p.151) if the Brussels Nomenclature were adopted, the number of items receiving concessions would be reduced from over 2500 to roughly 1400, including a large number of agricultural goods already subject to bilateral agreements. Add to that the fact that a large number of the industrial goods included in the concession lists are not traded at all.

Second, in Argentina, and to a lesser extent in Uruguay, the high level of surcharges on imports competing with local products seems to have hindered the development of efficient local production by shielding inefficient plants. In Argentina, for example, highly protective rates appear to have retarded the mechanization of agriculture and the efficient developments of certain industries. In Uruguay, the incidence of surcharges is not so high as in Argentina but the problem of inefficiency exists as evidenced by the keen U.S. and European competition local industry is facing in spite of relatively high surcharges. Such competition, is beneficial to the extent that it forces local producers to become more efficient. The case for lowering the surcharge wall in Argentina may be strengthened by the implementation of LAFTA: regional integration may assist local industries by widening the market for their products and allowing them to reap the economies of scale, thereby enabling them to withstand foreign competition with an even lower degree of protection.

Third, it is desirable to differentiate between the balance of payments and trade aspects of trade policy, and to confine the application of surcharges to the latter aspect. The utilization of surcharges for balance of payments purposes and hence the frequency of changes in their applicable rates on account of changes in the payments situation, can have a disrupting influence on the flow of intra-regional trade, particularly that a free trade area is being implemented. For example, the imposition of additional temporary surcharges by the countries under review does not apply to intra-LAFTA trade, thereby causing a possible shift from extra-LAFTA to intra-LAFTA sources of supply when available. But this shift may also be temporary if, with the elimination of the additional surcharges, importers in these countries find it profitable to resort to their original extra-area sources of supply. Producers in the other LAFTA countries as well as importers in the countries which apply surcharges are thus faced with an element of uncertainty arising from the application of a frequently changing policy regarding surcharges on extra-area imports. This uncertainty may be reduced when the separate levies on imports are incorporated into new tariff schedules currently being worked out.1/

Advance deposits on imports

Advance deposits for some or all imports are presently required in Brazil, Chile, Colombia, Ecuador, Nicaragua, Paraguay, and Uruguay. The essential features of this device are common to all these cases, i.e., importers are required to deposit in local currency a certain proportion of

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1/ The question of stability in trade policy is not, of course, confined to the application of surcharges, but relates to other restrictions as well. In the majority of the countries under consideration, however, surcharges comprise an important tool of their trade policies.

the cost of the import before the importation is effected, and this deposit is released some time later, usually after the import has arrived. From the point of view of the importer, this amounts to a requirement that some part or all of the bill for imports be paid for in advance, and thus it clearly has some inhibiting effect upon imports and the consequent flow of import payments. The extent of this restrictive effect differs widely among countries, depending upon the essential features of the requirements in force. There have also been widely different experiences in Latin America with other incidental effects of this device.

Ecuador may be selected as an example of a country employing advance deposits in a relatively uncomplicated form. Private importers are required to deposit in sucres either 25, 50, or 100 per cent,(depending upon the item imported) of the c.i.f. value of all imports at the time that the import license is applied for.1/ This deposit is held by the Central Bank until customs clearance is effected, when it is released against payment for the goods. It should be noted that this implies a minimum period during which the deposit is sterilized equal to the time taken in shipment of the goods, although in practice this period is usually longer. Importers in Ecuador are also required to pay consular fees and import taxes at the time of applying for the import license, thus augmenting the amount that must be put down before the import is shipped.

In Colombia, the advance deposit requirements are essentially similar to those described above. A nominal advance deposit of 1 per cent is required for certain specified imports. Advance deposits on other items range in 5 categories from 5 to 100 per cent,2/ with a special advance deposit requirement of 500 per cent for imports of gold and silver coins. The advance deposits must be paid in local currency at the time that the import is registered, and as a rule the deposit is returned 90 days after the merchandise is cleared through customs or, if the import is received in installments, at the time of the last shipment. However, Colombia's exchange system requires payment for imports to be effected through purchase of exchange certificates, and when the advance deposit is to be used for this purpose, it may be released 45 days after customs clearance.

1/ This applies to all nongovernmental imports except those under the Agricultural Surplus Agreement with the United States which are exempt from advance deposit requirements. Licenses are usually freely issued.

2/ For the period April 5-June 30, 1962, these requirements were temporarily raised to range from 20 to 200 per cent.

Nicaragua requires an advance deposit of 100 per cent of the c.i.f. value of imports on Lists II and III (i.e., all except those in the most essential category), payable at the time of application for the import license and released when payment for the goods is effected. In the case of List III imports (i.e., the least essential category), the import license is not issued until 30 days after the deposit is made. Thus, for List III imports, the deposit usually remains sterilized for the time the goods are sailing plus 30 days, while for List II imports the usual period is equal to the time the goods are in transit. Certain imports under the Industrial Development Law and government imports, essential imports on List I, and imports from the Central American group which do not appear in the special lists, are exempt from the Nicaraguan advance deposit requirements.

In Uruguay, an advance deposit of 100 per cent is required only for those goods which are subject to the highest (150 per cent) surcharges category. Exemptions from this requirement, however, were granted to imports of items which appear in the Uruguayan LAFTA concession list. The advance deposit must be made with the Bank of the Republic at the time of registration of the import; it is returned 9 or 12 months later, depending upon the item imported.

In Paraguay also, there is a flat 100 per cent of f.o.b. value advance deposit requirement applied to imports of certain specified commodities. In this case, there is no import licensing for most commodities, so that the deposit may be effected any time before the goods arrive in the country. If the deposit is made after the date of shipment, it is returned after a minimum of 180 days; if before, after a minimum of 120 days. For certain imports imported from Spain through the Spanish free zone in Paraguay, the deposit is held only for 90 days; all imports from Argentina, Bolivia, Brazil, and Uruguay, as well as imports of items included in the Paraguayan LAFTA concession list, are exempt from the advance deposit requirements.

In Chile advance deposit requirements were formally reestablished on June 18, 1962, the rates being 10, 100, 200, and 1,000 per cent of the c.i.f. value of the imports, depending upon their essentiality. Exemptions, however, have been extended to imports from LAFTA countries, imports by the Government and by the large copper, iron and nitrate organizations, and imports through the Free Zones. The deposits must be made at the time of import registration with the Central Bank where they will be retained for 90 days.[1/] This system replaced the one introduced in January, 1962 whereby the prepayment

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1/ They must be constituted in 5 per cent or 7 per cent U.S. dollar bonds issued in accordance with Article 7 of Law No. 14171 or Article 79 of Law No. 13305 (see the Bank of London and South America, Limited, Fortnightly Review 14 July 1962, p. 604.)

of surcharges on all permitted imports operated similarly to import deposit requirements.[1]

In Brazil importers can acquire exchange to effect import payments only after they close an exchange contract with an authorized bank. Within five days an advance deposit equal to 100 per cent of the exchange contract must be paid to the Bank of Brazil. Importers receive 150-day Bank of Brazil notes bearing a 6 per cent interest for 30 per cent of the deposit. Imports originating in countries which are members of the Latin American Free Trade Association, as well as a considerable number of specified import commodities, are exempt from the deposit requirement.[2]

It is noted that two of the countries under consideration (Brazil and Paraguay,) have suspended deposit requirements on a large portion of their Latin American imports. Others (Uruguay and Chile) have waived this requirement on imports of items that appear on their respective LAFTA concession lists. Furthermore, in all of them relatively high advance deposit rates are applied on "nonessential" items and low rates on "essential" items. These considerations suggest, as in the case of surcharges, that the incidence of advance deposit requirements seems to discriminate in favor of intra-regional and against extra-regional trade. In any event, advance deposits have not proved to be a very effective restrictive device except where very large deposits have been required. In countries where advance deposits are now employed in conjunction with a number of other more direct controls over imports, it is difficult to assess the impact of the deposit requirements. In other countries the effect of the advance deposit depends on the possibility open to importers to borrow the amount to be deposited; on the interest rates

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1/ For a brief period (December 27, 1961 to January 15, 1962) during which all exchange operations were suspended, an advance deposit of 10,000 per cent was required forall imports. This amounts virtually to a prohibition of imports.

2/ The short description given above of advance deposit requirements at present used in Latin America by no means exhaust the possible variations of this device. For example, in Chile, advance deposits at one time had to be made in dollars, as a means of inducing the dishoarding of privately held foreign exchange; some time later, they had to be made in special bonds issued by the Treasury, as a means of creating a market for these bonds. In the past, several countries (e.g., Argentina, Chile, Paraguay, Uruguay) have made temporary use of advance deposits on a substantial scale in connection with the institution of stabilization programs, with the intention of absorbing domestic liquidity at the same time checking a possible upsurge of imports following the elimination of other kinds of import restrictions. Recently, however, the use of advance deposits has generally been on the decline in Latin America.

charged for such borrowings and on the period of time during which the deposit remains with the authorities.1/ Experience in many Latin American countries has shown that the inhibiting effect upon imports of this device is fairly erratic, and it usually affects the small importers more than the large ones whose credit standing is good.

In several countries, advance deposits have been first imposed in an attempt to reduce imports, but have had to be retained later because of their monetary effects. When an advance deposit requirement is first imposed, there is usually a withdrawal of liquidity from the economy, provided, of course, that the deposits are sterilized in the central bank.2/ Once the system is fully established, however, there will be no net deflationary effect if imports and the deposit requirements remain constant, because the making of new deposits is matched by the release of old ones. Thus, a number of countries which imposed severe advance deposit requirements in connection with the introduction of new stabilization programs hoped to receive an initial deflationary thrust at the time it was most needed, but they later found that the deposit requirements could not be eliminated without reinjecting liquidity into the economy. Several of the countries which presently employ advance deposit requirements would perhaps eliminate them immediately if it were not for this factor. In Ecuador, for example, where the advance deposit requirements are relatively modest, the total amount of advance deposits held by the Central Bank in March 1962 was about S/130 million ($7.2 million), or equivalent to 3-4 weeks total import payments. Release of this amount without compensating measures to absorb the resultant increase in liquidity might seriously affect the monetary situation. In Paraguay, at one time, these funds rose to almost one-third of money supply.

It must be recognized that part of the reason for the widespread prevalence of advance deposits in Latin America in the past has been that the device may usually be introduced quickly through administrative processes, and that its balance of payments and monetary effects are somewhat disguised and not likely to be a subject of popular opposition. However, the declining use of this device at present seems to indicate that experience with it has brought about a growing realization of the disadvantages outlined above.

1/ For example, an importer in Ecuador making a 100 per cent advance deposit, which will be returned to him in three months, may obtain funds at about 10 per cent per annum. The cost of borrowing the funds therefore adds 2.5 per cent to the final cost of the import--this is far less than the consular fees and import taxes applied to imports in Ecuador. See E. Birnbaum and M. Qureshi, "Advance Deposit Requirements for Imports," IMF Staff Papers (November 1960).

2/ Moreover, if the importer borrows the sum to make the advance deposit from a bank or other lending institution, the impact on the money supply will be greater where these institutions do not have excess reserves.

Multiple currency practices 1/

At present six Latin American countries maintain signficiant multiple currency practices, namely Brazil, Chile, Colombia, Ecuador, Venezuela, and Uruguay. In all except Brazil and Uruguay there is a dual market system including some mixing rates. In Brazil the application of exchange taxes and other practices give rise to several effective rates, whereas retentions on export proceeds in Uruguay give rise to several effective buying rates. 2/

Where dual markets exist, preferential rates commonly cover essential imports, governmental transactions, major exports, and registered capital movements, while the free market covers all other transactions. Chile reintroduced a dual exchange system in January 1962; an official rate now applies to imports (on the permitted list), exports, governmental transactions, and certain invisibles, and a free (broker's) fluctuating rate applies to other transactions. 3/ The latter rate covers about 20 per cent of all exchange transactions averaging in the period January-April 1962 roughly 38 per cent below the official rate.

Ecuador maintains a fixed exchange rate applicable to most exports, imports, and related invisibles, other essential invisibles, official transactions, and registered capital. All other transactions are settled in the free market. 4/ The official rate, estimated to cover about 80 per

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1/ Under the IMF "an effective buying or selling rate which, as a result of official actions, e.g., the imposition of an exchange tax, differs from parity by more than 1 per cent constitutes a multiple currency practice." See IMF, First Annual Report on Exchange Restrictions, (March 1950) p. 144. Thus, the following countries, where small exchange taxes are imposed or a limited volume of exchange transactions takes place at rates slightly different from the official one, have minor multiple currency practices: Bolivia, Costa Rica, Nicaragua, and Paraguay.

2/ Brazil maintains a free market rate which has tended to fluctuate with a spread--amounting to about 3 per cent--between the selling and buying prices. Uruguay also has a fluctuating rate, although the Central Bank intervenes in the exchange market.

3/ The official buying and selling rates are E°1.051 and E°1.053 per U.S. dollar respectively, compared to an average free rate in January-April 1962 of E°1.465 per dollar.

4/ Minimum surrender prices established for banana exports which do not coincide with their f.o.b. export price give rise to mixing rates. In April 1962 the effective rate for banana exports was S/18.47 per U.S. dollar compared to the fixed buying rate of S/17.82 and a free rate of S/26.15 per U.S. dollar.

cent of all exchange operations, was recently depreciated after having been maintained unchanged for several years.1/ The free rate has also tended to depreciate leading to a greater spread between it and the official rate.

Colombia maintains an "auction" rate applicable to all imports, governmental payments, student remittances and 80 per cent of freight payments, and a fixed "certificate" rate applicable to major exports and capital transactions of the petroleum industry. All other transactions take place at the free market rate. The two "official" rates, however, have changed in recent years tending to depreciate, while in the last few years, the free rate has also depreciated, although not consistently. The exchange rate structure is further complicated by the application of a 10 per cent remittance tax (calculated at the free market rate) on capital registered before June 17, 1957, and by the establishment of minimum surrender prices for coffee and banana exports all of which give rise to several effective rates.2/

Venezuela maintains a controlled market rate, and "official" and "unofficial" free rates. There are, in addition, special rates which apply to petroleum companies.3/ The controlled market rate mainly applies to about 20 per cent of imports and to capital and commercial debts already registered with the Central Bank. The "official" free rate mainly applies to about 80 per cent of import payments, proceeds from minor exports, and a number of invisible and capital transfers. All other transactions are effected through the "unofficial" free market. The rates applicable to petroleum companies are significantly appreciated relatively to the free rates.

Brazil now maintains a fixed buying rate of Cr$355 and a fixed selling rate of Cr$365 per U.S. dollar. The exchange rate structure was practically unified with the elimination in July 1961 of import preferential rates. The rate then prevailing tended to fluctuate until January 1962 when it was

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1/ At present the buying and selling rates are S/17.82 and S/18.18 per U.S. dollar respectively, compared to the previous official rates of S/15.00 and S/15.15 per U.S. dollar respectively.

2/ To illustrate: at the end of 1961, the "auction" rate averaged Col$6.7 per U.S. dollar, but because of the remittance tax, the effective selling rate for capital registered before June 1957 was Col$7.58 instead of Col$6.7 per U.S. dollar.

3/ The scope of the official free market was widened only recently, i.e., April 1962. Prior to this date the controlled rate was applied to the larger portion of transactions including essential imports, registered capital, exports of iron ore, governmental receipts, and certain invisibles. The petroleum rate is now Bs 3.09 per U.S. dollar, compared to an "official" free rate of Bs 4.56 and a freely fluctuating rate of Bs 4.58 in April 1962.

decided to maintain it at Cr$310 buying and Cr$318 selling per U.S. dollar. This rate, however, proved to be relatively appreciated creating a shortage of exchange for financial remittances due to the very low level of reserves. Recently it was depreciated to its present level.1/ Significant multiple currency practices emerge on account of the taxes levied on the export proceeds of coffee and cocoa. Thus, whereas the fixed buying rate is Cr$355 per U.S. dollar the 15 per cent exchange tax on cocoa proceeds results in an effective buying rate for this export of Cr$301.75 per U.S. dollar. As for the proceeds from coffee exports, their effective rate varies depending upon the price and quality of coffee exports.2/ In addition, the Bank of Brazil makes quarterly contracts to sell exchange for imports of wheat, petroleum, and petroleum derivatives at special rates which under inflationary conditions and with freely fluctuating market rates, tend to be more appreciated than the market selling rate. In addition, broken cross rates result from transactions in bilateral currencies.

In Uruguay, a free market was established as a result of the 1959 exchange reform. Since October 1960 the rate in this market has remained stable being maintained by the Central Bank at around Ur$11.00 buying and Ur$11.03 selling per U.S. dollar. The Exchange Reform Law of December 17, 1959, however, specifies that proceeds from wool exports must be subject to retentions between 25 per cent and 50 per cent of their f.o.b. value while proceeds from other major exports must be subject to retentions between 5 and 50 per cent.3/ These retentions give rise to several effective buying rates. For example, on the basis of a retention on greasy wool of Ur$30.00 per 10 bags (effective since 12/9/60) the effective rate for this export becomes Ur$8.44 per U.S. dollar. Minor exports, on the other hand, receive the full market value rate to encourage them and help diversify the composition of exports.

The importance of multiple currency practices has been greatly reduced in Latin America as evidenced by the dwindling number of countries which rely on them to any significant extent. One major cause behind this development is

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1/ In May 1962 the rate was depreciated to Cr$350 buying and Cr$359 selling per U.S. dollar, and on July 2, 1962 it was further depreciated to CR$355 buying and Cr$365 selling per U.S. dollar.

2/ Exporters of coffee must surrender to SUMOC (Superintendency of Money and Credit) through the Bank of Brazil $23 per bag of coffee exports payable in foreign exchange.

3/ Retentions refer to the portion of exchange proceeds from the sale of these exports withheld by the Government without compensation.

the experience of the Latin American countries that the utilization of multiple rates is, by and large, ineffective, and sometimes undesirable, in attaining the objectives they are supposed to achieve: balance of payments equilibrium, protection of domestic industries, among others.

The remaining countries which maintain multiple rates (other than Uruguay and Brazil) do so as part of their present exchange control system, and hence the effect that these rates exert is merged in the over-all effect of other controls. The elimination of direct restrictions usually results (but not necessarily so, as illustrated above) in the abandonment of multiple currency practices. For example, when Argentina and Paraguay unified their exchange market1/ this was one step in a comprehensive exchange reform and stabilization program aimed, among other things, at eliminating direct controls. Other countries have had similar experiences. Nevertheless, some observations may be made regarding the specific role of present multiple currency practices in the countries under review.

First of all, it is clear that in Ecuador the significance of multiple rates has been reduced as a result of the reforms which simplified the country's exchange system. The free market is still maintained to facilitate the movement of unregistered capital and thus to relieve the authorities of pressures upon their international reserves resulting from possible capital outflow. Recently the spread between the two rates has averaged about 18 per cent, and to that extent multiple currency practices discriminate against those payments that have to be made in the free market, e.g., certain invisibles and the outflow of unregistered capital.

Chile's reintroduction of multiple rates--as part of its new exchange control system--is an attempt to relieve balance of payments pressures by moving out of the official exchange market certain import and invisible payments. Preference to specified imports was thereby granted. With the existing spread between the official and free rates--averaging in January-April 1962 roughly 38 per cent--those imports which pass through the official market receive significantly favorable treatment. Thus the effect of the present Chilean multiple rates, is not only to conserve the country's international reserves but also to influence the composition of imports and, as a result, the composition of consumption and investment.

Colombia and Venezuela, on the other hand, have made use of multiple currency practices to achieve a variety of objectives. In the latter country, for example, fiscal revenue is a major consideration. The former establishes, for major exports, minimum surrender prices which, if higher

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1/ In 1958 and 1957, respectively.

than their f.o.b. export price, as has been the case with coffee exports in the last few years, result in added foreign exchange to the authorities, i.e., exporters have to purchase foreign exchange in the free market to cover the difference between the two prices.1/ Furthermore, Colombia has attempted to diversify its exports by applying a relatively depreciated rate to proceeds from bananas and other minor exports. Export proceeds from bananas, for example, are subject to minimum surrender prices lower than their f.o.b. export price which amounts to a depreciated export rate for them, whereas proceeds from other minor exports are subject to rates approximating the free market rate.2/ In practice, however, progress in diversifying exports has been slow. In addition, the free market has provided an outlet for speculative capital movements relieving pressure exerted upon the authorities on account of capital outflow. In Venezuela, the multiple rate system has been used to subsidize "essential" imports such as consumer goods and raw materials by applying to them relatively appreciated rates while the existence of the free market has served as an outlet for nonapproved capital transactions. But with the recent reform, whereby the official and unofficial free rates now cover the bulk of outgoing payments, the importance of these two functions has been greatly reduced.

In Brazil and Uruguay export retentions3/ serve as a means to redistribute revenue: in the former the receipts are earmarked for local industries (coffee, cocoa), and in the latter receipts feed the Retention Fund (established in 1959). In 1960, for example, export retentions in Uruguay contributed about 90 per cent of the Fund's resources which were used by the Government to finance various subsidies: milk and public utilities.4/ The use of special rates in the two countries is not intended as a restrictive measure. Uruguay has already freed all exchange operations and although it maintains surrender requirements, these mainly serve to enforce export retentions. The Brazilian exchange taxes might have been replaced by export taxes but for the country's constitution which prevents the Federal Government from levying export taxes. The special rates determined quarterly for wheat and petroleum imports, however, serve to stabilize, on a short-run basis, the prices for these commodities in the face of possible fluctuations in the market exchange rate. Normally, if the market rate is rising, these rates tend to be appreciated relatively to that rate, involving a subsidy to wheat and petroleum.

1/ In January, 1962 the coffee export rate was Col$6.34 per U.S. dollar compared to a fixed certificate rate of Col$6.56 per U.S. dollar.

2/ In January, 1962 for example, the effective export rate for bananas was Col$8.12 compared to Col$6.345 per U.S. dollar for coffee exports.

3/ Refer to footnote 3 on page 17.

4/ The Montevideo transport companies, State Telephone and Electric Power Agency, State Airlines, and State Railways.

It may be observed that present multiple currency practices do not discriminate between area and nonarea countries. Furthermore, their discriminatory effect on import categories has not only declined but has become a minor consideration. In a number of those countries where a free market exists, its basic aim is not necessarily to discriminate against those transactions carried out at the free rate, but to relieve the pressure upon the country's international reserves. With the decline in the use of exchange controls, multiple currency practices have lost much of their former significance.

Quantitative restrictions: licensing and prohibitions

The increase in the number of countries which established relatively free foreign exchange markets has had, inter alia, the effect of decreasing the importance of trade and exchange licensing in restricting intra-Latin American trade. This trend has been further emphasized by steps taken to simplify the restrictive systems in those countries maintaining exchange controls. Nevertheless, quantitative restrictions constitute an important restrictive device in at least some of the present exchange control countries which together accounted in 1959/60 for over one half of intraregional trade. The coverage and effects of these restrictions vary greatly from one country to another, as indicated below.

The countries which now maintain quantitative restrictions may be divided into three groups: those which do not maintain exchange restrictions but rely on trade licensing (Mexico and a few others);1/ those which have not yet unified their exchange markets but have in the last few years simplified their restrictive systems (Brazil, Ecuador, Colombia, and Nicaragua), and those which, after having eliminated exchange restrictions and/or unified their exchange markets, have recently found it necessary to reintroduce direct controls (Chile, the Dominican Republic, and Venezuela).2/

Mexico is the only country among those maintaining free foreign exchange markets where, in addition to tariffs, licensing plays a major role in foreign trade policy. The emphasis on licensing has grown since 1950 and by the late 1950's the number of items subject to permits is estimated to have covered close to one-half of Mexican imports in terms of value. Importers are required to apply for prior licenses from the Ministry of Industry and Trade, the issuance of which is subject to quantitative restrictions. Exemptions

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1/ Other countries where licensing is applied but where its coverage is limited and its restrictive effect unimportant are Guatemala, Honduras, and Haiti.

2/ In 1961, El Salvador reintroduced control temporarily over capital transactions.

from this requirement, however, were extended in the first round of LAFTA negotiations to a small number of imports originating within LAFTA. Import controls have also been used to stimulate the exports of certain local products: importers of specific imports (automobiles, iron and steel pipes, watches, synthetic fibers, etc.) are licensed only if the importer guarantees the export of specified commodities to the same value--a practice that since 1956 has been primarily aimed at fostering cotton exports.

The original purpose of licensing was partly to conserve foreign exchange resources and partly protectionism; but later it was increasingly utilized for the latter purpose. Thus, among the criteria used in licensing have been the availability of domestically produced equivalents and the over-all competitiveness of the proposed imports on the domestic market. This policy of import controls received further emphasis in 1961. A law promulgated on January 2 of that year empowered the Government to take measures affecting the total value of imports and their composition. Add to that the recent policy of the Ministry of Industry and Trade whereby licenses are granted for certain imports of goods produced, or to be produced, locally only if they are compensated by exports in the same class of commodities, i.e., the licensed importer of a given product is required to export some variant of that import made locally.1/ Import licensing in Mexico is clearly an important tool of protectionism;2/ on the whole its restrictiveness, while significant, varies in accordance with the degree of encouragement given local industries and with the balance of payments situation of the country. As the implementation of LAFTA proceeds, the effects of liberalization on the Mexican domestic market will become more tangible. However, their initial influence on the country's domestic industries and its payments position is not likely to be very significant, partly on account of the small portion of Mexican trade with LAFTA.

1/ Refer to Noticias, XVII No. 43, p. 4 (October 24, 1961).

2/ It is also a flexible tool. Changes in import controls are accomplished by administrative decree usually without advance notice and generally effective upon promulgation.

In the exchange control countries all, or the greater portion of, exchange proceeds are channeled to the Government through surrender requirements.1/ The proceeds are then allocated for import and other payments. A large part of imports is subject to varying degrees of restrictive licensing and in some cases outright prohibitions or exchange quotas. Ecuador, Nicaragua, and Venezuela, now have the least restrictive systems. In Ecuador prior import licensing is required for substantially all imports exceeding a value of US$100. But licenses are freely issued provided import taxes are paid and advance import deposit requirements fulfilled. Payments for most invisibles made at the official rate require an exchange license from the Central Bank. The exchange system in Ecuador has been greatly simplified by reducing the number of multiple rates, liberalizing imports previously prohibited, the gradual elimination of discriminatory features in trade policy, and the gradual elimination of bilateral agreements; with the reform of August 1961 whereby the exchange rate was devalued the country is now probably better able to achieve balance of payments equilibrium and eventually to unify the existing dual markets without the necessity of resorting to direct controls.

In Nicaragua, registered importers must apply for import licenses from the Central Bank which usually issues them only after the requirements of advance deposits have been fulfilled; payments for invisibles at the official rate are subject to authorization. Imports from other members of the Central American group are now exempt from quantitative and other restrictions unless they are included in the special lists which cover items to be liberalized within five years. Like Ecuador, the reform of the Nicaraguan system,

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1/ Brazil requires the surrender of all export proceeds either to authorized banks or to the Bank of Brazil. The former are presently required, in turn, to surrender to the Bank the foreign exchange offered to them for sale. In Chile large mining companies must pay their income taxes in U.S. dollars. All other export proceeds must be repatriated within 90 days and together with certain invisibles must be sold to authorized banks at the official rate of exchange. Colombia requires the surrender of the proceeds of major exports to the Bank of the Republic at the fixed "certificate" rate; the proceeds from manufactured exports where the import content exceeds 50 per cent of the f.o.b. value are similarly surrendered. The Dominican Republic now requires the surrender of 90 per cent of the exchange to authorized banks which, in turn, surrender it to the Central Bank. Ecuador and Nicaragua both require the surrender, at the official rate, of all export proceeds including most invisibles. And in Venezuela, the authorities acquire the larger portion of the country's exchange earnings by applying to exchange sold by the petroleum companies an appreciated (controlled) rate; in addition, proceeds of exports of iron ore and other noncombustible minerals have to be surrendered at the same rate.

especially in 1959 when differential rates for exports and other multiple currency practices were abolished, has reduced the importance of direct controls. In both Ecuador and Nicaragua surrender requirements mainly serve to channel the flow of exchange to the official market, while licensing is intended to enforce deposit requirements.

In Venezuela, certain imports are prohibited, those financed at the controlled rate (i.e., essentials) require exchange licenses and in some cases import licenses as well, and many of the imports financed through the "official free" market require an import license. Since April 1962, the list of essential imports eligible for exchange at the controlled rate has been greatly reduced from approximately 75 per cent of total imports to about 20 per cent, i.e., the "official free" market now covers the larger portion of outgoing payments. Whereas the Venezuelan exchange and import systems have not been basically altered by the recent changes1/ the latter indicate a move toward a unified market with reduced reliance on quantitative restrictions. Prohibitions and import licensing, however, comprise, along with tariff duties, an important protective device. Many imports competing with local products, e.g., processed foodstuffs, textiles, soap, are either prohibited or allowed to enter only if domestic production is considered insufficient.

In Brazil and Colombia, the application of quantitative restrictions has important restrictive effects on trade and payments. In Brazil, as mentioned previously, imports are divided into two groups: a general category including mainly essential commodities, raw materials, and equipment, and a special category including all other imports. Importers of goods included in the special category, must obtain a promise of license at public auctions held in the stock exchanges of the country except in the case of items in the Brazilian LAFTA concession list when imported from LAFTA countries. SUMOC offers periodically a global value for these imports and the importers bid against each other for the very limited amounts of available promises of license. The holder of a "promise of license" is entitled to import licenses for a value equal to that of the promise. The Bank of Brazil also makes quarterly contracts to sell exchange for imports of wheat, petroleum and petroleum derivatives according them special rates. The quantities imported under these arrangements are determined by calculating the difference between estimated domestic demand and estimated domestic production.

1/ Refer to footnote 3, page 16.

Quantitative restrictions in Brazil exert an important influence. Through the special category arrangement outlined above a substantial degree of restriction applies to imports of manufactured products competing with local production. Protection apart, the effect of the Brazilian import control is to limit exchange disbursements in view of the country's low international reserves. It is to be noted, in this connection, that recently the Brazilian authorities have maintained appreciated rates of exchange, fearing that a more depreciated rate might lead to adverse repercussions. With the rate at a more realistic level, and unless extraordinary circumstances arise, the authorities might be able to reduce controls over foreign exchange operations and the country might be able to achieve external stability in the absence of strict import controls. The maintenance of such a rate is perhaps the more important in view of Brazil's membership in the free trade area. It would strengthen the competitive position of Brazilian manufactured exports and would limit the country's import payments, and thus would facilitate the country's liberalization efforts within LAFTA.

In Colombia some imports are freely imported, some are prohibited, while others require prior licensing. Prohibitions and prior licensing have had an important restrictive role with greater reliance being placed on the former than on the latter. A useful indicator of this restrictiveness is the fact that in 1960 a large proportion of the import items were included in the prohibited list while over one-half of the permitted imports was subject to prior licensing.1/ The protective aspect of both measures is seen in the prohibition of a number of imports competing with domestic production, e.g., agricultural products, certain textiles, toys, and some durable consumer goods, and in the licensing of others only to the extent that local production is not considered sufficient or that curbs on domestic monopolistic practices by local producers are desired. Reductions in import payments have also been aimed at creating a surplus in the balance of payments, in the face of diminishing export (coffee) earnings, to service the country's foreign indebtedness. The law authorizes the Government to discriminate against imports from countries with which Colombia has a payments deficit, but in practice, licenses have been issued, by and large, on a nondiscriminatory basis. The concessions granted to LAFTA in the first round of negotiations have been confined to exemptions or reductions in import duties.

The Dominican Republic and Chile reintroduced exchange controls in 1961 and 1962 respectively with increased quantitative restrictions. In both countries these measures were motivated by balance of payments considerations, though the main causes behind the deteriorating payments situation were

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1/ These restrictions reduced import registration from a monthly average of $52 million in 1955 to $36 million in 1960. In 1958 import registration was even lower ($22 million).

different: budgetary deficits, among other factors, in Chile, and the adverse repercussions of political events, including capital flight, in the case of the Dominican Republic.1/ In Chile imports are classified as either prohibited or permitted. Importers of goods in the latter category are not required to obtain a license and are entitled to foreign exchange, at the official rate, which cannot be secured until 90 days after the date of the bill of lading covering the goods. Many other goods, however, considered luxuries or competitive with local production, are now prohibited unless they are imported through the "free" zones and financed through the brokers' market.2/ The list of prohibited imports was reintroduced in January 1962 and now includes a large portion of Chilean imports. Until this date, reliance on prohibitions had been steadily diminishing since 1956 when import licensing was abolished. In fact, prohibitions were virtually eliminated in 1959.

The Dominican Republic first introduced licensing in 1960 prior to which there were no controls over trade and payments. In that year, prior licensing was required for all import items where the c.i.f. value exceeded $1,000 and in January 1961 licensing was extended to cover all imports. The criteria for allocating licenses do not seem to be definite or clear though protectionist as well as payments considerations are taken into account. Each license application is decided upon individually by the authorities concerned. If approved, foreign exchange is provided by the Central Bank which, in any event, must approve all outward payments. The restrictiveness of the import control system is partly indicated by the drop in Dominican imports, as revealed by official figures, from $125 million in 1959 to $90 million in 1960, and $69 million in 1961.3/ But, as in other exchange control countries, the effect of import controls was often weakened by contraband trade.

Regulation of capital transactions4/

Regulations pertaining to capital transfers are mainly applied in all the countries maintaining both official and free exchange rates, in addition to El Salvador and the Dominican Republic which recently reintroduced control over capital transactions. In other countries capital transfers are not

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1/ According to one source, capital flight in 1961 reached an estimated $70 million (see U.S. Department of Commerce, International Commerce, July 23, 1962, p. 38).

2/ With the exception of automobiles and trucks, which if not prohibited are subject to quotas.

3/ In the period February 9-December 31, 1961, 76 per cent of licenses applied for were granted.

4/ This section covers mainly regulations of capital representing foreign investments.

regulated. Where regulations are applied, registered (approved) foreign investments are usually accorded favorable treatment: repatriation is allowed freely and investors are exempted from payment of certain duties and taxes where these exist. Further, registered investment transactions are effected through the official market in contrast with unregistered investment which not only enjoys no guarantees but also has to be effected through the free market if it exists. Transfers of domestically owned capital funds are free in a few countries while in others official authorization is required.

To illustrate: in Chile, which reintroduced capital controls in January 1962, all firms now require permission from the Central Bank to make or receive capital remittances: unlike individuals, they may not deal in the broker's market without specific approval. Large mining companies may still freely remit interest, dividends, and amortization on invested capital after meeting taxes and local currency requirements. Similarly, foreign investments in approved enterprises can obtain a number of guarantees, as stipulated by Decree Law No. 258 of 1960, such as free withdrawal and nonpayment of certain duties.

Colombia extends transfer guarantees to all capital investments registered before June 17, 1957. Amortization payments and profit remittances are allowed but must be effected at the depreciated "auction" rate after the payment of a 10 per cent remittance tax in dollars purchased in the free market. Capital entering the country after June 17, 1957 is unregistered and transferred at the free market rate. Special arrangements--by law and contract--apply to the capital imports and profit remittances of petroleum companies.

Ecuador allows remittances of registered capital, at the official rate, up to 15 per cent as a minimum annually. Unregistered capital is free to enter and leave through the free market in unlimited quantities. Foreign capital, in the form of exchange, sold by foreign companies to cover local requirements, has to be surrendered at the official rate if such capital is registered. All foreign investment, in the form of capital goods intended for the development of national production, may be exempt from taxes and may be freely re-exported.

Nicaragua maintains control over registered foreign capital invested prior to March 11, 1955: remittances at the official rate are subject to individual approval by the Central Bank and may not exceed 10 per cent annually. Registered foreign investments after March 1955 are guaranteed free repatriation and free transfer of earnings at the official rate. Capital transfers by residents through the official market are not permitted.

As mentioned previously, early in April 1962, Venezuela increased further the use of the free markets for capital transactions. All capital transactions are now effected through the official and unofficial free markets, except foreign capital and debts already registered with the Central Bank; these will continue to be effected at the controlled rate. Foreign capital is no longer being registered and cannot have access to the controlled market.

In the Dominican Republic, capital inflow is free but capital remittances are subject to the approval of the Central Bank. And in El Salvador the entry of capital in the form of foreign investment requires advance approval of and registration by the Ministry of Economy. Foreign investments in the form of loans are also registered by the Exchange Control Department. Registration guarantees them the annual remittances of net profits up to 10 per cent of the registered capital and the repatriation of the proceeds from the sale of the assets of the enterprise up to the amount of the registered investment. All new exchange receipts arising out of capital transactions must be surrendered and all capital remittances require exchange licenses which are not normally granted to residents.

It is readily seen that approved foreign investments are accorded a special treatment in the majority of the countries under review. But in some (Chile, Nicaragua, the Dominican Republic, and El Salvador), domestic capital transfers are subject to restrictions if not outright prohibitions, while in the others no restrictions are applied provided they are effected through the free market.1/

The possibilities available to residents of those countries which nominally permit domestic capital transfers need to be examined in the light of existing conditions, since these possibilities may, in fact, be more limited than what is suggested by the legal provisions. This applies, for instance, if capital exports take place through a free market when the difference between the official and free rates is significant. In such a case, even though the principle of free capital exports remains unimpaired, residents can only avail themselves of the privilege if they are inclined to pay a considerably higher exchange rate.

The inducements extended to foreign capital are in line with similar measures in other parts of the world which guarantee the repatriation of foreign investments. Capital inflow from outside the region can assist in Latin American development. But it also appears useful to encourage long-term

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1/ And in the case of Colombia after the 10 per cent remittance tax is paid.

and short-term intraregional capital movements which in the past have hardly been of any significance. It is noted that no special privileges have been extended to Latin American capital. In fact, the effectiveness of the encouragement extended by certain countries to foreign-owned capital applies mainly to those Latin American countries which have eliminated exchange restrictions or apply controls liberally vis-a-vis their residents. In those countries where exchange controls are strictly applied, existing conditions make it difficult to effect transfers abroad of domestic capital.

Clearly the crucial role of capital movements is very much influenced by a variety of economic and noneconomic factors. Capital outflow, which has been a significant phenomenon in Latin America, is occasionally motivated, for example, by noneconomic considerations, by fear of depreciation, and by the anticipated move of the Government to restrict the freedom of current and capital remittances. As indicated previously, the maintenance of a free market in some of those countries where official and free markets coexist serves to relieve thepressure upon the reserves of the central banks. The cause of this pressure is sometimes an overvalued rate of exchange or reduced export earnings, but often it is uncontrollable capital flight. In the absence of the latter phenomenon, the two markets could have been easily unified in some countries. It is evident that the mere elimination of restrictions on intra-regional and extra-regional capital transfers is not necessarily useful. In fact, it may be even detrimental unless it is accompanied, among other factors, by an atmosphere of confidence in the economic policy of the Government. Now that LAFTA is being implemented these considerations assume an increased significance: the maintenance of monetary stability along with the elimination of restrictions on capital movements would encourage the repatriation of capital and would also encourage future intra-regional capital movements, all of which would contribute toward building a firmer basis for Latin American economic integration.

Latin American Countries[1/] Maintaining
(as of June 1962)

Import Surcharges	Advance Deposits	Multiple Rates	Quantitative Restrictions	Arrangements for Capital Transfers
Argentina	Brazil	Bolivia	Brazil	Chile
Brazil	Chile	Brazil	Chile	Colombia
Chile	Colombia	Chile	Colombia	Dominican Rep.
Costa Rica	Ecuador	Colombia	Dominican Rep.	Ecuador
Guatemala	Nicaragua	Costa Rica	Ecuador	El Salvador
Paraguay	Paraguay	Ecuador	Mexico	Nicaragua
Uruguay	Uruguay	Nicaragua	Venezuela	Venezuela
		Paraguay		
		Uruguay		
		Venezuela		

1/ Cuba is not covered by this table.