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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LATIN AMERICAN TRADE AND PAYMENTS WITH ERP EUROPE AND THE UNITED STATES

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SUMMARY

1. The report on the pattern of Latin American trade and payments, issued by the Bank in the autumn of 1948, forecast a movement towards approximate equilibrium in Latin America's payments position both with the U. S. and with Europe. This estimate was based on two factors: (a) the expected rise in European production and (b) the diminished gold and dollar reserves of Europe and Latin America. The report noted further, that if this tendency towards bicontinental equilibrium were not to entail a reduction in the standard of living in Latin America (and in ERP Europe), this balance would have to be achieved at high levels of inter-continental commerce. Continued high income levels in the U.S., together with an improvement in Europe's competitive position in the Latin American markets, were considered to be the necessary conditions for the realisation of this possibility. The report did not consider it likely that ERP Europe as a whole could hope to earn a net dollar surplus from Latin America in the near future.

2. Since the earlier report was issued, developments have already borne out the first prediction: Latin America's trade deficit with the U.S. and its trade surplus with ERP Europe have both narrowed substantially since 1947. The import surplus with the U.S. has declined from $1,701 million in 1947 to an estimated $434 million in 1949, while the export surplus with ERP Europe has been reduced from $1,194 million in 1947 to an estimated $344 million in 1949.

3. This development, however, has been the result primarily of a sharp reduction in Latin American imports from the U.S. (from $3,858 million f.o.b. in

1947 to $2,685 million in 1949) and a somewhat less sharp reduction of ERP Europe's imports from Latin America (from $2,097 million c.i.f. in 1947 to $1,600 million in 1949). The higher degree of balance has thus been achieved at a lower level of trade. Exports from Latin America to the U.S. have been quite stable ($2,251 million f.o.b. in 1949 as against $2,157 million in 1947), while ERP Europe's exports to Latin America have recovered considerably (from $903 million in 1947 to $1,256 million f.o.b. in 1949).

4. The increase in European sales to Latin America has led to the remarkable result that ERP Europe (excluding Germany) in 1949 supplied the same share of Latin America's total imports as before the war, i.e. around 25%. However, this is less than half of the U. S. share, as against more than four-fifths prewar. The U. S. has, in effect, taken over the share formerly supplied by Germany, Japan, et al.

5. In consequence of the devaluation wave in the autumn of 1949, and the sharp rise in coffee prices, significant changes may be expected in Latin America's trade pattern in 1950 as compared with 1949. The value of coffee exports should increase by about $400 million; the proceeds of other exports, however, may be expected to decline by more than $300 million,[1/] leaving a net gain from exports of $100 million at most. On the other hand, Latin America should save about half a billion dollars on its imports in 1950 if these continue in volume at the 1949 level.[2/] Assuming that Latin America increases its import volume

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1/ The estimated result of an analysis of the market outlook for a number of selected commodities plus an overall assumption of a 5% decrease in the (dollar) price of the remainder.

2/ The estimated result of a 5% decrease in the (dollar) price of imports from the Western Hemisphere, and a 20% decrease in the (dollar) price of imports from the Eastern Hemisphere.

so as to spend the same amount as in 1949, and that ERP Europe is able to capture around 10% of the U.S. share of last year's Latin American imports, ERP Europe's exports to that area might reach $1,600 million c.i.f. in 1950 as against $1,400 million in 1949. This increase of $200 million would, however, mean around a 40% increase in the volume of European exports. Such a development would bring ERP Europe's share in Latin America's imports up to three-fifths of that of the U.S., still leaving some margin to go before the prewar ratio of more than 80% is reached. At the same time, it would mean equilibrium or even a small surplus in ERP Europe's balance of payments with Latin America, provided imports from that continent are kept at their 1949 level. It would also mean the virtual elimination of Latin America's trade deficit with the U. S.

6. Given a restoration of the European competitive position in Latin American markets and continued prosperity in the U.S., the outlook for balance in the trade between Latin America and ERP Europe as a whole in 1950, at a reasonably high level, seems rather promising therefore. It is even possible that European surpluses in the case of some of the Latin American Republics may appear. It is too early to predict whether such surpluses will be available for payments to other countries.

LATIN AMERICAN TRADE AND PAYMENTS WITH ERP EUROPE AND THE UNITED STATES.

1. Introduction.

In an earlier study of this subject issued in the autumn of 1948,[1] the conclusion was reached that, as a result of the sharp reduction in both Latin American and European gold and dollar reserves, it would be necessary for Latin America to try to reach a roughly balanced payments position both overall and with North America and Europe separately.

It was further maintained that in order to achieve such a balance at a high rather than a depressed level of international trade, two factors were of major importance: continued prosperity in the United States, which would ensure a large flow of Latin American exports at satisfactory prices to that country; and an improvement in Europe's competitive position in the Latin American markets. Only if European prices, delivery dates, etc. are such as to offer attractive competition with those of U. S. firms can Latin America be expected to balance its trade with Europe at a level satisfactory to both sides. However, even under these conditions, it was not considered likely that in the foreseeable future, Latin America would become a net dollar earner for Europe.

The events of the past year have not rendered these general conclusions less valid. Indeed, the last 18 months have witnessed considerable progress towards the achievement of the desired overall balance. However, as can be seen from the following table, the improvement since the highly unbalanced position of 1947 has been due primarily to a steep decline in Latin American exports to ERP Europe in 1949, and to a corresponding but somewhat earlier decline in Latin American imports from the U. S. and Canada:

1/ "The Pattern of Latin American Trade and Payments with ERP Europe and the United States," October 25, 1948.

Latin America's[1] Trade

	With ERP Europe[2]			With U.S. and Canada		
	(In millions U.S. dollars)					
	Exports (f.o.b.)[3]	Imports (f.o.b.)	Balance	Exports (f.o.b.)	Imports (f.o.b.)	Balance
1947	1,845	903	+ 943	2,316	3,988	- 1,672
1948	1,990	1,236	+ 754	2,550	3,280	- 730
1949 - Annual based on 1st 6-10 months	1,408	1,256	+ 152	2,421	2,812	- 391

In other words, through the first half of 1949 at least, the higher degree of intercontinental balance achieved was effected at the cost of a lower level of total trade. Yet, it is noteworthy that in the first six to ten months of 1949, ERP exports to Latin America as well as Latin America's exports to its northern neighbours, were both maintained at around their average 1948 rate. Compared with the level attained in the latter half of 1948, however, European exports to Latin America did drop markedly.

The first six to ten months of 1949, however, may prove to be less of a clue to the present position than would ordinarily be the case. In the autumn of 1949, two events occurred which are bound to affect deeply the trade pattern under discussion. The devaluation of the pound sterling on September 18, followed by some twenty other currencies, has brought about world-wide adjustments which, so far, can only be uncertainly appraised, while within the Western Hemisphere, the sharp rise in the price of coffee during October and November has at least temporarily - but probably for the next few years - drastically changed the balance of payments prospects for a number of countries.

1/ 20 Republics
2/ Germany not included.
3/ Estimated by means of a 12% deduction from c.i.f. figures.

In addition to these developments, the "readjustment recession" in the United States, which was the chief cause of the decline in all U.S. imports in the second quarter of 1949, was brought to a halt during the summer, and the consensus of informed opinion seems to be that at least the first half of 1950 will be no less prosperous than the last six months of 1949. Against this background, the outlook for Latin America's dollar earnings in 1950 is fairly promising. There is even a possibility of European payment surpluses with some of the Latin American countries, payable in dollars, to be used for payments to other Latin American republics or to North America. But whether this becomes more than a theoretical possibility depends upon the strength of Europe's ability and will to compete for the Latin American markets. And it is still too early to determine whether devaluation has succeeded in restoring the situation to at least its prewar state, when ERP Europe's exports to Latin America reached 80-90% of the U.S.A.'s exports to the same area[1] as against only 23% in 1947. This ratio rose to 39% in 1948 and may be estimated at 47% for 1949. In spite of the progress of the last two years there is still a long way for Europe to go, particularly in view of the fact that the sharp decline in Europe's invisible earnings from Latin America makes it highly desirable for Europe to capture a <u>larger</u> share of the Latin American markets than before the war.[2]

In the sections that follow, a description is given of Latin-American trade patterns in 1948 and 1949 together with a tentative forecast for 1950

1/ Including Germany, this percentage surpassed 130.

2/ It is worth noting that ERP Europe (excluding Germany) had already in 1948 reached and in 1949 slightly exceeded its 1938 share of the total imports of the Latin American republics. The decline vis-a-vis the U.S. was largely due to the latter country's adding Germany's (and Japan's) former export shares in the Latin American markets to its own.

largely based on studies made in the Bank of the expected development of raw material prices and their effect on the balance of payments of underdeveloped countries. The Annex includes a number of tables presenting the statistical evidence upon which the first parts of the present paper are based.

Note: In the following, "Latin America" means the twenty Latin American Republics except where otherwise indicated, while ERP Europe excludes Germany.

2. 1948 Latin American Trade Patterns with ERP Europe and the U.S.A. compared to 1947.

Between 1947 and 1948, Latin America's attempts to reduce its overall passive trade balance with the U.S.A. were fairly successful. ERP Europe also succeeded, though to a lesser extent, in its attempt to reach a more balanced trade with Latin America, at a higher level.

Thus[1] in 1948, compared to 1947, the ERP Europe countries reduced their overall Latin American trade gap by $168 million (14%), due to a heavy increase in the value of exports ($333 million or 37%) which was partly offset by a smaller increase in their import value ($165 million or 8%).

During the same period, Latin America was able to narrow its overall passive trade balance with the U.S.A. by the considerable amount of $873 million (over 50%), owing mainly to an 18% decline ($701 million) in the value of its imports but also to an 8% increase ($172 million) in export value to the U.S.A.

The $168 million decline in ERP Europe's overall trade gap with Latin America[2] was due predominantly to the U.K.'s smaller passive trade balance (reduced by $225 million), though also to the reduced trade gaps of France ($29 million), Belgium-Luxembourg ($11 million), Sweden ($30 million), Turkey ($3

1/ See Table I. Note that imports into ERP Europe are given as c.i.f.-basis.
2/ See Table II.

million) and Austria ($2 million). This gross betterment of $300 million, however, was partly offset by the deterioration in the position of the other ERP countries, whose passive trade balances increased. Among this group were Switzerland ($48 million), Netherlands ($35 million), Eire ($18 million), Italy ($14 million), and others ($17 million) with a total increase of $132 million in their deficit. The difference of $168 million ($300 - 132 million) was the net result of ERP Europe's 1948 attempt to reach a more balanced trade pattern with Latin America. That it was able to accomplish this at a higher trade level is seen by its 1948 export and import totals which exceeded the 1947 figures by $333 million and $165 million respectively.

Prior to World War II, North America and ERP Europe each furnished around 25% of the imports of Latin America. The U.S. received about one-quarter and ERP Europe two-fifths of the exports of Latin America. As the following table shows, this traditional trading pattern had been disrupted by the war so that by 1947, the U.S.A. was occupying by far the most dominant trading role.

	% Latin American			
	Exports to		Imports from	
	U.S.	ERP Europe	U.S.	ERP Europe
1938	27%	41%	29%	25%
1947	36%	35%	73%	17%
1948	34%	33%	59%	23%

However, from 1947 to 1948 there was a strong indication of a shift back towards the prewar relationship with respect to Latin America's imports. Thus, the U.S. share of total Latin American imports dropped in one year from 73% to 59% whereas the identical ratio for ERP Europe rose from 17% to 23%.

Undoubtedly, the two main factors responsible for this shift back in the trade pattern have been higher prices for Latin America's raw material exports, and more especially a better use of quantitative import and exchange controls in order to shift import sources from hard to soft currency areas. Thus, ERP

Europe in 1948[1] reduced its passive 1947 trade balances with Mexico (by $9 million), all Central American Republics except Cuba ($26 million), Colombia ($12 million), Venezuela ($20 million), Chile ($4 million), Brazil ($68 million), Uruguay ($8 million) and Argentina ($77 million), and only widened its trade gap with Cuba ($25 million) and the other South American Republics not already listed ($31 million). At the same time, the U.S.A. in 1948[2] reduced its passive 1947 trade balance with Cuba alone ($86 million), and reduced its active trade balance with all other Latin American republics ($959 million). Thus, the list of Latin American countries which have reduced their import surpluses with the U.S. corresponds strikingly with the list of those which have reduced their export surpluses with Europe, as can be seen from Table V.

3. 1949 Latin American Trade Patterns with ERP Europe and U.S.A.

A. Trade with ERP Europe.

After the moderate decrease of ERP Europe's passive trade balance with Latin America from $1,194 million in 1947 to $1,026 million in 1948, a much sharper drop took place in 1949. Based on trade statistics of the ERP countries for 6-10 months, the 1949 deficit may be estimated at less than $350 million.[3] In percentage terms, the 1948 trade deficit with Latin America was 14% below 1947, whereas the 1949 trade deficit had fallen by 71% of 1947 and by 66% of 1948

This declining trade gap in 1949 was due almost entirely to fewer imports, i.e. ERP European imports from Latin America in 1949 were only $1,600 million as compared to $2,097 million in 1947 and $2,262 million in 1948. In percentage

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1/ See Table III.

2/ See Table IV.

3/ See Table VI.

terms, the value of ERP European 1949 imports from the republics was 24% below 1947 and 30% below 1948. In volume the decline must have been less pronounced. ERP European exports to Latin America increased only slightly in 1949, reaching an estimated $1,256 million, $20 million more than in 1948. The figure, however, was $353 million greater than in 1947 - an increase of 39%.

Thus, 1949 saw a continuation (at an increased rate) of ERP Europe's post-1947 trend of reaching a greater degree of balance in its trade with Latin America. When 1948 was examined in relation to 1947, it was seen that this tendency towards balance had been achieved by a 37% increase in exports and an 8% increase in imports, i.e. at a higher level of total trade. Comparing 1949 to 1948, however, the continued narrowing of ERP Europe's trade gap with Latin America was almost entirely due to a 30% cut in its imports. As such, the 1948-49 trend was towards a faster attainment of balance but at a substantially lower level of total trade in money terms. As raw material prices prior to the devaluation were somewhat lower than in 1948, the decline in volume was more moderate, and the terms of trade moved in favour of Europe.

From 1947 to 1949, ERP Europe's overall passive trade balance with the Latin American republics fell by $850 million, i.e. $168 in the first year and $682 in the second year. From 1947 to 1948, the $168 million decline had been due almost entirely to the U.K.'s smaller trade gap (down by $225 million). When 1949 is examined in relation to 1948, however,[1/] it is found that most ERP European countries had reduced their passive trade balances, and, to a greater extent, e.g. the U.K. (by $246 million), France (by $108 million), Italy (by $93 million) and most of the others had also bettered their efforts of previous years. Only Sweden experienced any noticeable increase in its deficit.

An examination of the trade of the specific Latin American republics shows that from 1948 to 1949, ERP Europe reduced its trade deficit with most republics,

1/ See Table VII.

although not with Mexico, the Central American countries (excluding Cuba) and Colombia.[1/] ERP Europe reduced its trade gap to the greatest extent during this year with Argentina (by $486 million), Brazil (by $116 million) and Cuba (by $78 million). It is of interest to note that during 1948-49 (as in 1947-1948), ERP Europe reduced its passive trade balance with most of those Latin American republics that had reduced their passive trade balances with the U.S.A., as seen from Table IX.

In summary, ERP Europe, taken as a whole, continued in 1949 its post-1947 trend towards an overall trade balance with Latin America, and more was accomplished in this respect during 1948-49 than during 1947-48. In terms of total trade between the two areas, 1949 was at approximately the same level as 1947 (in value), but below the level of 1948.

B. Trade with U.S.A.

The U.S. export surplus with Latin America continued to fall sharply in 1949. From $1,701 million in 1947 it dropped to $828 million in 1948 and judging from U.S. trade statistics through October 1949, it may have been halved once more in that year, reaching a level of some $430 million.[2/] In percentage terms its 1948 trade surplus with Latin America was 51% of the 1947 figure, and its 1949 trade surplus may have fallen by 48% from 1948 or by 75% from 1947.

The declining U.S. trade surplus in 1949 was due mainly to a reduction in Latin America's imports from the U.S., which dropped from $3,858 million in 1947 to $3,157 million in 1948, and an estimated $2,685 million in 1949.[3/] In percentage terms, Latin America's 1949 imports from the U.S. were 30% below 1947 and

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1/ See Table VIII.

2/ U.S. annual total is based on the first six months of 1949 plus 6/4ths of July-October 1949.

3/ See Table I.

15% below 1948. Although Latin America's 1949 exports to the U.S., estimated at $2,251 million, were $94 million greater than in 1947 (an increase of 4.4%), they were $78 million less than in 1948 (down by 3.3%).

Thus, 1949 saw continued progress in the direction of a greater balance in Latin America's trade with the U.S. This was due predominantly to stringent control over imports from the U.S., and, to a much smaller extent, to some increase in exports northwards. It should be noted, however, that while Latin America's imports from the U.S. fell steadily from 1947-49, its exports to the U.S. also fell from 1948 to 1949. Thus, from 1948 to 1949 a higher degree of balance was achieved but at a lower level of trade with the U.S.

In the two years 1947-49, Latin America's overall passive trade balance with the U.S. fell by $1,267 million, i.e. by $873 million in the first year and $394 million in the second. When comparing 1948 with 1947 it was found that every Latin American country, or group of countries outlined,[1/] except Cuba, had reduced its passive U.S. trade balance, the largest reductions being those for Argentina (by $331 million), Brazil (by $215 million), and Mexico (by $102 millior From 1948 to 1949, however, not all the Latin American republics were able to continue such a favourable trend. Thus, although most of the republics continued to better[2/] their trade position with the U.S., they did so to a lesser extent than in the preceding year. For example, the 1948-49 improvement[2/] for Argentina was $152 million, for Brazil $184 million, and for Mexico $57 million, showing a slighter gain in each case than from 1947 to 1948. A few countries even experienced a widening U.S. trade gap,[3/] e.g. Chile by $62 million.

1/ See Table X.

2/ In terms of a narrowed passive trade balance or an increased active trade balance. See Table X.

3/ In terms of an increased passive trade balance or a narrowed active trade balance. See Table X.

As a whole, Latin America made greater progress towards balance with the U.S. from 1947 to 1948 than in the subsequent year. Furthermore, the improvement from 1948 to 1949 was accompanied by a pronounced lower level of total trade with the U.S.

C. Summary of the Changing Trends in the U.S.A. and ERP Trade with Latin America from 1938 through 1949.

In 1938, Latin America's exports to ERP Europe were some 140% of their exports to the U.S.[1/] This ratio declined to around 85% for each of the years 1947 and 1948, and by 1949 it had dropped still further to 63%. Such a sharp decline was due to a five-fold increase in the value of Latin America's exports to the U.S.A. between 1938 and 1949 (from $453 million to approximately $2,250 million), while exports to ERP Europe were little more than doubled during the same period (they rose from $637 million to approximately $1,400 million). Thus, absolutely and relatively speaking, Latin America has been exporting more to the U.S. than to ERP Europe since 1938. Taking the price development into account, it may be roughly estimated that Latin America's exports to the U.S.A. have more than doubled in volume from 1938 to 1949 while the volume of exports to Europe in 1949 were back to prewar levels.

Before the war, Latin America's imports from ERP Europe were between 80% and 90% of their imports from the U.S.[2/] This ratio fell to 23% by 1947 but since that year it has risen to 39% in 1948 and an estimated 47% in 1949. The fall to 23% by 1947 was due to a much heavier increase in Latin America's postwar imports from the U.S. (from $481 million to $3,858 million) than from ERP Europe ($383 million to $903 million). From 1947 to 1949, however, Latin America's increasingly effective import and exchange controls have enabled it to reduce its

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1/ See Table XI.

2/ With Germany included the ratio would be closer to 140%.

U. S. imports from $3,858 million to $2,685 million, whereas its ERP European imports have risen from $903 million to $1,256 million. Thus, relatively speaking, Latin America appears to have been steadily diverting its purchases from the U.S. to ERP Europe since the end of World War II, without as yet having reached the prewar distribution between these two main sources of supply.

These changing trade patterns can be looked at in another way. The U.S.' share of Latin America's total exports was some 40% in 1949 compared to 27% prewar, whereas ERP Europe's share is nearly the reverse, i.e. 28% in 1949 compared to 41% in 1938. And on the import side, the U.S.' share of Latin America's total imports has risen from approximately 30% in 1938 to 73% in 1947, 59% in 1948 and 55% in 1949. However, the remaining "gain" (compared to prewar) of the U.S. in the Latin American markets has been wholly at the expense of countries other than the "old" ERP countries, i.e. largely Germany. Apart from that country, the ERP countries in 1948 delivered nearly the same share of total Latin American imports as in 1938, viz. 23%, and in 1949 the final figure may be around 26%. The coming years will witness a sharp fight between producers in the U.S., the "original" ERP countries and Germany respectively, to retain, capture and recapture the previous German share of the Latin American markets.

Summing up, in 1949 the postwar trading pattern of Latin America with the U.S. and ERP Europe continued to move in a direction away from the traditional position so far as Latin American exports are concerned; it is now clear that the postwar import trends are tending towards the 1938 relationships.

4. The Outlook for 1950.

On the basis of trade statistics for 6-10 months of 1949, which are now available for the U.S., ERP Europe and about two-thirds of the Latin American republics, it is possible to work out a fairly reliable estimate of total Latin

American trade through 1949. In rounded figures, the following picture emerges:

Latin America's Foreign Trade
(U.S. dollar millions)

	Exports (f.o.b.)			Imports (c.i.f.)			Balance		
	20 Republics	Other Areas	Total	20 Republics	Other Areas	Total	20 Republics	Other Areas	Total
1947 1/	6,000	500	6,500	5,980	780	6,770	20	- 290	-270
1948 1/	6,720	680	7,400	6,120	940	7,060	600	- 260	340
1949 2/	5,800	600	6,400	5,500	840	6,340	300	- 240	60

Aside from the position of the non-sovereign territories, it appears that Latin America's exports in 1949 declined more sharply than its imports, thereby reducing the trade surplus to around $300 million. Available information seems to indicate that the gold and foreign exchange holdings of the area have undergone some decline (with great variations from country to country). If the above figure for the overall trade balance is correct - based as it is on projected and geographically incomplete data - the conclusion must be that there has been quite a considerable deficit on invisible current and capital items of the balance of payments. Since it is known that direct investments from the U.S. were lower in 1949 than in 1948, it is quite likely that the inflow of new capital has not been great enough to make up for the current deficit on invisible items plus amortization of debt.

For 1950, presumably, Latin America can expect an increased export surplus. This rests on the assumption that the total value of Latin American exports will not change substantially, while the cost of their imports, largely as

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1/ Source: International Financial Statistics, Table "World Trade". 1948 figures partly estimated.

2/ Estimated.

a consequence of the devaluation wave, will tend to drop considerably in dollar terms. An increased volume of imports could of course raise their total value to or even beyond their 1949 level. To what extent such an increase will take place depends not only on the elasticity of demand for imported goods in the Latin American countries but equally on their import control policy, which will be governed largely by the development of exports and of capital movements.

On the export side, the following factors seem the most important:

Coffee, the leading export from Brazil, Colombia and a number of Central American countries, has had its price nearly doubled (in dollar terms) since the summer of 1949, and it is not anticipated that any sharp decline from the present levels will take place this year.

For most other Latin American exports, the devaluation has been the major influence affecting prices in the last four months. In general, prices, as would have been expected, have dropped in dollar terms and risen in terms of the devalued currencies, and as a rule the larger part of the adjustment seems to have been brought about through this latter development.

As a consequence, the countries in which coffee dominates the exports can expect substantially increased foreign earnings, while those relying primarily on exports of minerals, grains and sugar must envisage some decline (in dollar terms) in their export proceeds. The increase in the price of coffee may be estimated (when taking into account expected changes in export quantities) to earn an additional $400 million for the exporting countries in 1950 as compared with the 1948-49 rate. But for Latin America as a whole, the decline in the (dollar) prices of metals and most agricultural products, other than coffee, will erase the larger part of this gain, presumably reducing the net increase in the dollar value of Latin America's exports to less than $100 million. A total

export value in 1950 of $5,900 million for the twenty republics, plus $600 million for the dependent territories in Latin America, making a total of $6,500 million as compared with roughly $6,400 million in 1949, may prove to be a fair estimate.

The geographical shift in the earnings will be accompanied by a shift in their currency composition: With the U.S. taking by far the larger share of Latin America's coffee exports, the additional earnings will accrue largely in dollars, while the loss on other exports will be more evenly distributed between dollars and European currencies. Thus, a large part of the total export earnings will be dollars - as a very rough estimate, dollar earnings may increase by $200 million (net) and earnings of other currencies decline by the equivalent of $100 million (net) - which will give to the countries earning them a greater freedom in their purchases.

While on an overall basis Latin America is not likely to increase its earnings very much in 1950, this continent will undoubtedly benefit considerably from a decline in import prices (measured in dollars). Of the imports of the Latin American republics in 1949, estimated at $5,500 million (c.i.f.), little more than one-third or at most $2 billion may have originated outside the Western Hemisphere. If it is assumed that sterling prices will increase by roughly 10% as a consequence of the devaluation, corresponding to a drop in dollar terms of 23½%, and that prices for goods from those parts of the Eastern Hemisphere which did not devalue (or did not devalue to the same extent) will fall somewhat less, it may perhaps be justifiable to estimate the average price fall (in dollar terms) for Eastern Hemisphere goods at 20%. A drop in price of dollar-priced goods of 5% may perhaps also be considered likely. On these assumptions, the volume of imports for 1949 would cost Latin America $500-$600 million less in 1950 than last year, but the assumed decline in prices is

perhaps a little on the high side. A saving for Latin America of $400 million seems an absolutely conservative estimate, however.

Theoretically, the saving in imports could be increased by switching part of the purchases made in North America in recent years to European suppliers. On the above price assumptions, the "switching" of $100 million formerly purchased in the U.S. would entail a saving of $15 million; a shift of 10% of the imports from the U.S. in 1949, $3000 million (c.i.f.), would thus save an additional $45 million.

If ERP Europe's 1950 sales to Latin America should remain at their 1949 volume, the price assumption made above would reduce the ERP countries' trade earnings from Latin America by about $280 million to little more than $1,100 million (c.i.f.). But a shift to Europe of 10% of last year's purchases from the U.S. would bring Europe's exports proceeds back to near the 1949 level of $1,400 million. Furthermore, Latin America would be likely to increase its import volume somewhat in response to its more favourable terms of trade. As a maximum, Latin America might keep unchanged its 1949 total import value of $5,500 million. If ERP Europe supplied the same share as in 1949 it would of course fetch the same amount as in that year, i.e. about $1,400 million (c.i.f.). Again, assuming a shift to Europe of 10% of 1949 imports from the U.S., an increase to approximately $1,700 million would result (entailing an increase of 52% in the <u>volume</u> of ERP exports to Latin America from 1949 to 1950). This would bring ERP Europe's sales to Latin America up to two-thirds of U.S. exports to the same area, as against four-fifths immediately prior to the war. In any case, a figure of $1,600 million upwards (or $1,400 - 1,450 million f.o.b.) for ERP Europe's Latin American exports in 1950 should not be considered unrealistic. This would imply a <u>volume</u> increase over 1949 of about 40%. However, part of the increase must be assumed to accrue to Germany.

Under the extremely favourable assumption of a complete return in 1950 to the prewar shares in the Latin American markets enjoyed by the U.S. and ERP Europe respectively (i.e. 5:4), Europe's exports might approach $2,000 million, which, however, would mean a volume increase over 1949 of 75-80%, which hardly seems probable.

A level of around $1,600 million (c.i.f.) seems the best that can realistically be hoped for, perhaps with some addition for Germany. If $1,600 million of exports to the Latin American republics were distributed among the "original" ERP countries in the same proportion as the $1,400 million in 1949, the U.K.'s share would be increased by $80-90 million, Italy's by $30-40 million, Belgium-Luxembourg's by $20-25 million, and France's by $20 million.

An export figure of $1,600 million would, incidentally, match the 1949 imports from the Latin American republics to ERP Europe, and since both figures are c.i.f. figures, while most of the shipping is carried in European bottoms, and since some slight price fall in the Latin American products going to Europe might take place on the average (coffee representing only a minor part of this trade), ERP Europe as a whole should stand a fair chance this year of achieving balance or even a small trade surplus with the Latin American countries. However, individual ERP countries and, in particular, the Netherlands, Denmark, Norway and Portugal, would still be likely to run substantial deficits, while major surpluses might be achieved by Belgium-Luxembourg, Switzerland and Italy, which countries already in 1949 appear to have reached balance or surpluses in their Latin American trade.

Whether European surpluses with some Latin American countries could be used in the near future for payments to other countries within or outside Latin America remains to be seen. It cannot be stressed too often that only a high

degree of European competitiveness - as to price, specifications, delivery dates and terms, service - combined with a high level of business activity in the U.S. can make this more than a theoretical possibility. Given a favourable development of these two basic factors, the outlook for a great and well-balanced trade between Latin America and ERP Europe in 1950 and subsequent years seems fairly promising. Such a trend would constitute a major contribution to a restoration of economic balance in the world.

TABLE I.

TRADE WITH LATIN AMERICA
(U.S. $ Millions)

	of ERP-Europe			of the U.S.A.		
	Exports (f.o.b.)	Imports (c.i.f.)	Balance	Exports (f.o.b.)	Imports (f.o.b.)	Balance
1947	903	2097	- 1194	3858	2157	+1701
1948	1236	2262	- 1026	3157	2329	+ 828
1948 = Change over 1947	(+ 37%)	(+ 8%)	(-14%)	(-18%)	(+ 8%)	(-51%)
1949 = Projected 1/	1256	1600	- 344	2685	2251	+ 434
1949 = Change over 1947	(+ 39%)	(-24%)	(-71%)	(-30%)	(+4.4%)	(-74.5%)
1949 = Change over 1948	(+1.6%)	(-30%)	(-66%)	(-15%)	(-3.3%)	(-47.6%)

1/ For the U.S.A. the annual rate has been based on the first six months of 1949 plus 6/4 of July-October 1949. For ERP-Europe, the annual pre-devaluation rate has been shown here. For most countries it was based on the first 9 months figures.

Source: Trade statistics of ERP-countries and the U.S.

Note: ERP-Europe excludes Germany throughout the tables.
Latin America excludes colonial areas.

TABLE II

INDIVIDUAL ERP-EUROPEAN TRADE BALANCES WITH LATIN AMERICA
(U.S. $ Millions)

	1947	1948	1948 Change over 1947 European trade deficit was	
U.K.	-639	-414	Reduced by	225
France	-204	-175	Reduced by	29
Belg.-Luxembourg	- 48	- 37	Reduced by	11
Netherlands	-127	-162	Increased by	35
Sweden	- 24	+ 6	Reduced by	30
Switzerland	- 3	- 51	Increased by	48
Norway	- 23	- 28	Increased by	5
Italy	- 36	- 50	Increased by	14
Denmark	- 29	- 29		-
Eire	- 30	- 48	Increased by	18
Portugal	- 21	- 31	Increased by	10
Turkey	- 5	- 2	Reduced by	3
Iceland	- 3	- 5	Increased by	2
Austria	- 2	-	Reduced by	2
Total	-1194	-1026	Reduced by	168

Imports based on c.i.f., exports on f.o.b. values.

TABLE III

ERP-EUROPE TRADE BALANCE WITH INDIVIDUAL LATIN AMERICAN REPUBLICS.
(U.S. $ Millions)

	1947	1948	1948 Change over 1947 ERP-Europe Trade Deficit was	
Mexico	- 26	- 17	Reduced by	9
Cuba	-165	-190	Increased by	25
Other C.Amer.Republics	- 51	- 25	Reduced by	26
Sub-total	-242	-232	Reduced by	10
Colombia	+ 25	+ 37	Reduced by	12
Venezuela	- 36	- 16	Reduced by	20
Chile	- 63	- 59	Reduced by	4
Brazil	-151	- 83	Reduced by	68
Uruguay	- 33	- 25	Reduced by	8
Argentina	-650	-573	Reduced by	77
Other S.Amer.Republics	- 44	- 75	Increased by	31
Sub-total	-952	-794	Reduced by	158
Latin American Grand Total	-1194	-1026	Reduced by	168

TABLE IV.

U. S. TRADE BALANCE WITH INDIVIDUAL LATIN AMERICAN REPUBLICS
(U.S. $ Millions)

	1947	1948	1948 Change over 1947 U.S.Trade Surplus was	
Mexico	+373	+271	Reduced by	102
Cuba	- 18	+ 68	Increased by 1/	86
Other C.Amer.Republics	+229	+119	Reduced by	110
Sub-total	+584	+458	Reduced by	126
Colombia	+ 13	- 40	Reduced by	53
Venezuela	+253	+244	Reduced by	9
Chile	+ 2	- 74	Reduced by	76
Brazil	+198	- 17	Reduced by	215
Uruguay	+ 37	+ 2	Reduced by	35
Argentina	+529	+198	Reduced by	331
Other S.Amer.Republics	+ 85	+ 57	Reduced by	28
Sub-total	+1117	+370	Reduced by	747
Latin America Grand Total	+1701	+828	Reduced by	873

1/ Although the U.S. is shown here as having "increased its trade surplus" with Cuba, in actual fact this is the only example in the above groupings of a republic with which the U.S. really "reduced its trade deficit" from 1947 to 1948.

TABLE V.

During 1947-48, ERP-Europe

U.S. $ Millions)

Reduced its passive trade balance or increased its active trade balance with		Increased its passive trade balance with	
Mexico	9	Cuba	25
Central American Republics (incl. Cuba)	26	South American Republics not already listed	31
Colombia	12		
Venezuela	20		
Chile	4		
Brazil	68		
Uruguay	8		
Argentina	77		
	224		56

During 1947-48, the U.S.A.

Reduced its passive trade balance with		Reduced its active trade balance with	
Cuba	86	Mexico	102
		Central American Republics (excluding Cuba)	110
		Colombia	53
		Venezuela	9
		Chile	76
		Brazil	215
		Uruguay	35
		Argentina	331
		South American Republics not already listed	28
	86		959

TABLE VI

ERP EUROPE'S TRADE WITH TOTAL 20 LATIN AMERICAN REPUBLICS: 1949 ANNUAL RATE

Country	Imports	Exports	Balance
	(Millions U. S. dollars)		
United Kingdom 1/	690.8	522.5	-168.3
Belgium-Luxembourg 1/	146.1	140.4	- 5.7
Switzerland 1/	64.4	99.7	+ 35.3
Italy 2/	170.4	213.4	+ 43.0
France 3/	192.6	125.9	- 66.7
Sweden 3/	89.7	81.9	- 7.8
Netherlands 3/	141.9	32.4	-109.5
Denmark 1/	26.5	7.6	- 18.9
Norway 1/	24.9	16.7	- 8.2
Austria 1/	11.9	8.1	- 3.8
Iceland 1/	3.3	0.1	- 3.2
Ireland 1/	9.2	0.1	- 9.1
Portugal 1/	23.1	6.7	- 16.4
Turkey 2/	4.8	0.5	- 4.3
Total	1,599.6	1,256.0	-343.6

1/ Annual rate based on 9 months figure. ($\frac{12}{9}$)
2/ Annual rate based on 6 months figure. ($\frac{12}{6}$)
3/ Annual rate based on 8 months figure. ($\frac{12}{8}$)

Source: Individual ERP Countries Trade Statistics as reported in November issue of Machine Tabulation Run from IMF.

TABLE VII

INDIVIDUAL ERP EUROPEAN TRADE BALANCES WITH LATIN AMERICA
(U.S. $ Millions)

	1947	1948	1949 1/	1949 1/ Change over 1947 European trade deficit was		1949 1/ Change over 1948 European trade deficit was	
U. K.	-639	-414	-168	Reduced by	471	Reduced by	246
France	-204	-175	- 67	Reduced by	137	Reduced by	108
Belg.-Luxembourg	- 48	- 37	- 6	Reduced by	42	Reduced by	31
Netherlands	-127	-162	-110	Reduced by	17	Reduced by	52
Sweden	- 24	+ 6	- 8	Reduced by	16	Increased by	14
Switzerland	- 3	- 51	+ 35	Reduced by	38	Reduced by	86
Norway	- 23	- 28	- 8	Reduced by	15	Reduced by	20
Italy	- 36	- 50	+ 43	Reduced by	79	Reduced by	93
Denmark	- 29	- 29	- 19	Reduced by	10	Reduced by	10
Eire	- 30	- 48	- 9	Reduced by	21	Reduced by	39
Portugal	- 21	- 31	- 16	Reduced by	5	Reduced by	15
Turkey	- 5	- 2	- 4	Reduced by	1	Increased by	2
Iceland	- 3	- 5	- 3	Unchanged		Reduced by	2
Austria	- 2	-	- 4	Increased by	2	Increased by	4
Total	-1194	-1026	-344	Reduced by	850	Reduced by	682

1/ Annual predevaluation rate, i.e. based for most countries on the first 9 months of 1949 (12/9).

TABLE VIII

ERP-EUROPE TRADE BALANCES WITH INDIVIDUAL LATIN AMERICAN REPUBLICS.
(U.S. $ Millions)

	1947	1948	1949 1/	1949 1/ Change over 1947	1949 1/ Change over 1948
				ERP-Europe trade deficit was	
Mexico	- 26	- 17	- 36	Increased by 10	Increased by 19
Cuba	-165	-190	-112	Reduced by 53	Reduced by 78
Other C.Amer. Republics	- 51	- 25	- 50	Reduced by 1	Increased by 25
Sub-Total	-242	-232	-198	Reduced by 44	Reduced by 34
Colombia	+ 25	+ 37	+ 19	Increased by 6	Increased by 18
Venezuela	- 36	- 16	+ 25	Reduced by 61	Reduced by 41
Chile	- 63	- 59	- 55	Reduced by 8	Reduced by 4
Brazil	-151	- 83	+ 33	Reduced by 184	Reduced by 116
Uruguay	- 33	- 25	- 23	Reduced by 10	Reduced by 2
Argentina	-650	-573	- 87	Reduced by 563	Reduced by 486
Other S.Amer. Republics	- 44	- 75	- 58	Increased by 14	Reduced by 17
Sub-Total	-952	-794	-146	Reduced by 806	Reduced by 648
Latin American Grand Total	-1194	-1026	-344	Reduced by 850	Reduced by 682

1/ Annual predevaluation rate, i.e. derived from European trade statistics which for most countries were based on the first 9 months of 1949 (12/9).

TABLE IX

During 1948-49[1/], ERP-Europe

(U. S. $ Millions)

Reduced its passive trade balance or increased its active trade balance with		Increased its passive trade balance or reduced its active trade balance with	
Cuba	78	Mexico	19
Venezuela	41	C. America (Exclu. Cuba)*	25
Chile	4	Colombia	18
Brazil	116		
Uruguay	2		
Argentina	486		
Other S. Am. Republics	17		
	744		62

1/ Annual pre-devaluation rate, i.e. all totals have been derived from European trade statistics which for most countries were based on the first 9 months of 1949 (12/9).

During 1948-49[1/], the U.S.A.

Reduced its passive trade balance or increased its active trade balance with		Increased its passive trade balance or reduced its active trade balance with	
*C. America (Exclu. Cuba)	6	Mexico	57
Venezuela	7	Cuba	110
Chile	62	Colombia	32
		Brazil	84
		Uruguay	27
		Argentina	152
		Other S. Am. Republics	7
	75		469

1/ Annual rate based on first 6 months of 1949 plus 6/4 of July-October 1949.

TABLE X

U. S. TRADE BALANCE WITH INDIVIDUAL LATIN AMERICAN REPUBLICS
(U. S. $ Millions)

	1947	1948	1949[1]	1949[1] Change over 1947		1949[1] Change over 1948	
				U. S. Trade Surplus was			
Mexico	+373	+271	+214	Reduced by	159	Reduced by	57
Cuba	- 18	+ 68	- 42	Reduced by[2]	24	Reduced by	110
Other C.Am.Repubs.	+229	+119	+125	Reduced by	104	Increased by	6
Sub-Total	+584	+458	+297	Reduced by	287	Reduced by	161
Colombia	+ 13	- 40	- 72	Reduced by	85	Reduced by[2]	32
Venezuela	+253	+244	+251	Reduced by	2	Increased by	7
Chile	+ 2	- 74	- 12	Reduced by	14	Increased by[3]	62
Brazil	+198	- 17	-101	Reduced by	299	Reduced by[2]	84
Uruguay	+ 37	+ 2	- 25	Reduced by	62	Reduced by	27
Argentina	+529	+198	+ 46	Reduced by	483	Reduced by	152
Other S.Am.Repubs.	+ 85	+ 57	+ 50	Reduced by	35	Reduced by	7
Sub-Total	+1117	+370	+137	Reduced by	980	Reduced by	233
Latin American Grand Total	+1701	+828	+434	Reduced by	1267	Reduced by	394

1/ Annual rate based on first six months of 1949 plus 6/4 of July-October 1949.

2/ Although the U.S. is shown here as having "reduced its trade surplus", it really "increased its trade deficit" during the period indicated.

3/ Although the U.S. is shown here as having "increased its trade surplus" it really "reduced its trade deficit" during the period outlined.

TABLE XI

LATIN AMERICAN TRADE RELATIONSHIP WITH U.S.A. AND ERP-EUROPE BEFORE AND AFTER THE WAR.

	Latin American Exports to				Latin American Imports from		
	U.S.A. (f.o.b.)	ERP-Europe (cif)	ERP-Europe (Est. fob. value)	Col.(3) as a %age of Col.(1)	U.S.A. (f.o.b.)	ERP-Europe 1/ (f.o.b.)	Col.(6) as a %age of Col.(5)
	(1)	(2)	(3)		(5)	(6)	
	(U.S. $ Millions)				(U.S. $ Millions)		
1938	453	700	637	141	481	395	82
1947	2,157	2,097	1,845	86	3,858	903	23
1948	2,329	2,262	1,990	85	3,157	1,236	39
1949 2/	2,251	1,600	1,408	63	2,685	1,256	47

1/ Excludes Germany .

2/ For the U.S.A.: Annual rate based on first 6 months of 1949 plus 6/4 of July-October 1949.
For ERP-Europe: Annual predevaluation rate, for most countries based on the first 9 months of 1949.

Source: U.S. and ERP countries' trade statistics.