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Chapter 5

Import Controls

We now come to the cornerstone of the Colombian system for restraining the demand for imports: the controls mandating registration of all imports with a specified agency—during 1971, it was INCOMEX—authorized to prohibit or to require prior approval of import transactions. I will first explain the terms in the Colombian import licensing system, and follow this by a sketch of its historical evolution. The core of the chapter is a detailed examination of how the system worked in about 1970–71. On the basis of that description, I will advance some hypotheses regarding the biases arising from the import-licensing process, which I will test in Chapter 6. Finally, I will take a look at some of the effects of the joint operation of the several import-repressing mechanisms.

SOME KEY DEFINITIONS AND CLASSIFICATIONS

The Colombian government records the import process at several points: it first requires the *registration* with INCOMEX of all intentions to import goods except for “minor” imports; these intentions become registered only after they are approved; they are recorded at f.o.b. values. For items on the free list approval is granted almost automatically. When the goods come into the country and clear customs, they are recorded at *customs* at c.i.f. values. Finally, when the importer or his bank draws foreign exchange from the central bank, those *exchange disbursements* are noted. To obtain foreign exchange, the importer must present proof that the goods have cleared

TABLE 5-1

Merchandise Imports: Registrations, Customs Values, and Exchange Disbursements,
1963-72
(annual averages in millions of current U.S. dollars)

	1963-66	1967-70	1971-72
Total registrations (f.o.b.)	<u>552.1</u>	<u>706.2</u>	<u>843.4</u>
Reimbursable	<u>484.4</u>	<u>596.1</u>	<u>748.1</u>
Ordinary draft	390.8	414.9	639.4
Compensation agreements	38.8	60.0	45.5
AID credits	20.2	86.0	18.1
Other credits	27.0	16.9	13.3
Special import-export systems	7.6	18.3	31.9
Nonreimbursable	<u>67.6</u>	<u>110.1</u>	<u>95.3</u>
With foreign loans	18.9	71.7	56.2
Other	48.7	38.5	39.1
Merchandise imports (customs, c.i.f.)	<u>555.0</u>	<u>645.2</u>	<u>847.0</u>
Exchange disbursements for imports (f.o.b.)	<u>371.0</u>	<u>475.3</u>	<u>633.7</u>

SOURCE: BdIR-RdBdIR, various issues, and IMF-IFS, various issues. See text for explanation of terms and classification.

customs. In Table 5-1 these three different magnitudes are shown for recent years. Allowing for lags, registrations and customs values are roughly equal. It appears that the c.i.f.-f.o.b. differential is offset by cancellations, postregistration discounts, and nonuse of some registrations. Exchange disbursements are lower than import values for the simple reason that many imports are financed by foreign credits or covered by compensation agreements; the servicing of such debt is recorded under other items.

The lag between application for an import license and its approval, which implies registration for goods on the prior list, has fluctuated considerably since World War II. During 1970-71 it averaged between one and one and a half months. The lag between registration and the time the goods actually go through customs depends, of course, on the nature of the commodity; it is said to average four or five months. The lag between arrival and exchange disbursement, for those imports not financed by long-term credit, ranges between one and twenty months.

The average link between actual imports (*CUSTOMS*) and registration (*REGISTR.*) can be seen in the following regression, using annual dollar data for 1951 through 1972 (*t* statistics are in parentheses):

$$(CUSTOMS)_t = 94.18 + 0.55 (REGISTR.)_t + 0.31 (REGISTR.)_{t-1} \quad (5-1)$$

(2.19) (5.30) (2.70)

$$R^2 = 0.88; F \text{ statistic} = 71.58; DW = 2.92$$

From 1962 through 1969 this regression yields alternating under- and overestimates of actual imports. Thus, predicted customs imports for 1963 are 7 per cent above actual ones; for 1964, 6 per cent below; for 1965, 16 per cent above, and so on. The missing explanatory variable could well be past, actual, and expected exchange-rate behavior, as expectations of devaluation, say, would induce holders of registered licenses to speed up the arrival of and payment for the merchandise. But experiments in which lagged and leading exchange-rate changes were entered in regression 5-1 yielded on the whole poor results. In some regressions, the actual percentage of changes in the real average import exchange rate a year ahead had a positive sign and *t* statistics of about 1.2, presumably picking up realized expectations about its movements. But clearly, in any given year there are ad hoc factors influencing the lag between customs flow and registration; for example, a plausible reason for the 1964 underestimate of 6 per cent in regression 5-1 relates to doubts that the condition of relative import ease would last long, provoking a quick realization of registered intentions to import. And once this happens in a given year, the opposite can be expected in the next. Tight domestic credit conditions, on the other hand, will induce the postponement of import arrivals and payments, a procedure facilitated by the relative ease of obtaining rollover of import credits. The variability of the lag between licensing, arrival, and payment has often caused short-run disturbances in credit and exchange management.

Regression 5-1 indicates that 55 per cent of registrations are, on average, turned into actual imports within the same year, suggesting an average lag between licensing and arrival of five to six months. Note, however, that the coefficients for both registration variables add up to only 0.86, and that longer lags yielded insignificant results.

INCOMEX and its predecessors have classified registrations according to type of *payment* to which they give rise, type of *importer*, and particular regime to which the *imports* are subject.

The classification of payments used during 1970-71 for imports is presented in Table 5-1. The distinction between reimbursable and nonreimbursable imports is less helpful than it appears, because although all nonreimbursable imports are financed by long- or medium-term credits, or involve imports of direct foreign investors or gifts and donations, not all reimbursable imports are covered by current exchange earnings. The distinction turns out to hinge on whether the foreign exchange used to pay for imports is or is not at the disposal of the Banco de la República, directly or indirectly. Thus, imports

financed by AID credits deposited with the central bank are reimbursable, while those financed by loans from IBRD or IADB, whose cash is kept in Washington, are considered nonreimbursable. Imports from countries with which Colombia has bilateral payments agreements, as well as those from LAFTA, come under the reimbursable category, as reciprocal credit deals are directly handled by the central bank. That part of foreign investment directly involving machinery imports is nonreimbursable; other parts, which may involve a dollar inflow deposited in the central bank to pay for other imports, would be reimbursable.

The distinction according to type of importer is of more general interest. Published import registrations are subdivided into three categories: industry, commerce, and official. For internal use, INCOMEX has a somewhat more complicated classification entailing a fourth major group, "occasional" requests, made up mainly of import applications from construction firms, professionals, private individuals, and even some public agencies, as well as other minor subdivisions. In published registrations, "industry" includes imports to be transformed and used directly by those requesting the license; "commerce," those to be resold by established commercial firms, without substantially altering the imported item. Approved "occasional" requests appear mainly under "commerce" in published registration reports. The "official" category covers imports destined for the public sector; however, INCOMEX subdivides these applications into commercial and industrial categories for internal use, and published data also contain under "industry" imports of some public enterprises. Partly as a result of foreign "tied aid" and partly because of protectionist pressures, all official imports must by law go through the prior-licensing procedure, i.e., they are excluded from the free list.

Colombia has no state trading agencies outside the quasi-official Coffee Growers' Federation (in principle a private group) and IDEMA, in charge of distributing basic foodstuffs, such as wheat. The former handles directly a major share of coffee exports, while the latter frequently imports in bulk, particularly from countries whose export trade is in state hands. IDEMA has from time to time been the recipient of large government subsidies.

Only approved (registered) license requests are published; during 1971, of all registered reimbursable imports 56 per cent fell into the industry category; 24 per cent, into commerce; and 20 per cent, into official; and for 1970 the corresponding figures were 53, 29, and 19 per cent. It may be estimated that during 1971 total requests, including those rejected, followed a roughly similar breakdown, with the share for commerce slightly higher than the shares for industry and official. Data problems do not allow a clear determination of long-term changes in the shares of these categories.

The large share of import demand and of actual imports accounted for by direct users, whether private or public, is remarkable and reflects the small share of consumer goods in the import bill. Note also that because of what is known about import prohibitions and INCOMEX policies, a large fraction of potential importers do not bother to apply for permits. Furthermore, many small entrepreneurs and individuals not used to dealing with government bureaucracies may get discouraged even when their potential applications have a good chance of being approved.

All importable items fell under one of three regimes or lists: prohibited, free, or prior license.¹ It will be seen that the coverage of these lists fluctuated considerably during the 1960s. During 1971, about 16 per cent of all items (including subcategories) to which the Colombian tariff is applicable were placed on the prohibited list. The figures in Table 5-2 show that the list included candidates for agricultural protectionism in rich and poor countries alike (e.g., meat, corn, dairy products, etc.), luxury products (e.g., furs, precious metals, jewelry, velvets, etc.), and many items for which prohibitions appeared redundant (e.g., coffee, cocoa, sugar, clothes, wood manufactures, etc.). An eccentric who wished to import coffee into Colombia in 1971, incidentally, would have faced not only a flat prohibition, but also a duty of 85 per cent if the bean was unroasted, or 170 per cent for roasted beans, plus a prior deposit of 130 per cent. The list also included items such as arms and habit-forming drugs. Note that while among the tariff chapters identified in Table 5-2, which account for two-thirds of all prohibited items and contain mainly consumer goods, the percentage of prohibitions was 66, for the rest of the tariff only 6 per cent of the categories were prohibited. Under special circumstances goods on the prohibited list can be imported, as under the Vallejo Plan. During 1971, for example, nearly 1 per cent of all registered reimbursable imports were on the prohibited list. It may be noted that some goods are prohibited for most purposes, but subject to prior licenses for a few others, e.g., some types of paper, prohibited except for use by the printing and publishing industry. On the whole, the prohibited list included many items which could be regarded as actual or potential exportable goods.

The free list, besides Vallejo Plan and LAFTA imports, included in August 1971 only about 150 items, or 3 per cent of all categories in the tariff. However, free-list items accounted for 29 per cent of all registered reimbursable imports in 1971 and 23 per cent of all registered imports (the free list was limited to reimbursable imports). Free-list items can be brought into Colombia without prior license; all that is required, in principle, besides payment of duties and prior deposits is the registration of these imports with INCOMEX. Typically, that process is routine, but INCOMEX can challenge the dollar prices appearing in the registration; such control is justified on grounds of

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TABLE 5-2
Examples of Tariff Chapters with Many Prohibited Items, About 1971

Chapter Number and Description	Total No. of Items in Chapter	Prohibited Items
2 Meat and edible offal	20	20
3 Fish, shellfish, and mollusks	18	10
4 Milk and dairy products, eggs, honey	16	13
7 Edible legumes, vegetables, plant roots, tubers	24	20
8 Edible fruits and peels	74	69
9 Coffee, tea, and spices	26	10
11 Milling foodstuffs, malt, starches	34	29
12 Oilseeds, sundry seeds, industrial and medicinal plants, fodder	61	27
15 Animal and vegetable oils, fats	88	54
18 Cocoa and its products	7	6
19 Pastries, products based on flour, cereals, etc.	10	6
20 Preserves of vegetables, plants, fruits	24	21
21 Sundry foodstuffs	18	11
22 Beverages, alcoholic drinks, vinegar	33	11
41 Furs, leather, and their manufactures	26	11
44 Wood and its manufactures	35	25
58 Rugs, felts, ribbons, embroidery, velvets, tulle, etc.	61	49
60 Knitted goods	25	24
61 Other clothing and apparel	23	22
68 Ceramics, glass, cement, and their manufactures	46	15
71 Precious stones, metals, and their manufactures	38	16
Subtotal	707	469
Other chapters	3,643	235
Total	4,350	704

SOURCE: Data from *Arancel de Aduanas* (see Source note to Table 4-4).

combating overinvoicing, and can lead to denial of registration even of items on the free list. The threat is not just theoretical; e.g., some book imports were held up in about 1972 for this reason. INCOMEX can also use a number of bureaucratic excuses to delay processing free-list registrations for a few days. Neither the "prohibited" nor the "free" list has always been true to its name!

Goods on the free list included primarily some spare parts, certain raw materials and intermediate products, scientific and medical equipment, and other capital goods. Examples of the latter are harvesters, helicopters, chicken incubators, some electrical generators, tractors, and many types of

engines. The remainder of the items on the lists included unmanufactured copper, lead, zinc, aluminum; some types of steel and nickel sheets; and newsprint. Of all tariff items (528) in chapters 84 and 85, which include most electrical and nonelectrical machinery and equipment, excluding transport, nearly 10 per cent were on the free list. As with the tariff, import controls are biased against the importation of used goods; it is explicitly stated in the regulations covering the free list that only new and unused merchandise can be brought in under the list.²

Goods on neither the prohibited nor the free list were subject to prior licensing, which covered the bulk of imports. Items could be moved from one list to another by a simple decision of INCOMEX. So long as a given commodity remained on the free list, it could be said that its demand depended only on income, prices, tariffs, etc.; but in reality this was so only so long as that demand stayed within the limits foreseen by the authorities. It has not been unusual in the past for the control authorities to curtail or eliminate the free list when demand pressure became too great; that is one reason why in Chapter 3 no distinction was made among prohibited, prior license, and free import lists when deriving the over-all import function.

There was a further distinction, primarily applied to industrial requests, between *global* licenses and ordinary or regular licenses. Global licenses, started in 1965, applied basically to imports of capital goods for projects exceeding U.S. \$40,000, involving the creation, modernization, or expansion of capacity, and, if granted, were simply an approval in principle to import. After obtaining a global license, an importer was typically given about three months to apply for ordinary licenses. Extensions, however, were possible; and longer time limits were also given, depending on the nature of the project. When a company is planning new investment, for example, it submits a description of the project, in the form of a feasibility study with a nineteen-page questionnaire, together with estimated import requirements to INCOMEX, which has a special section for analyzing these projects. The motivation given for global licenses is to avoid a situation in which projects are delayed by having, say, 90 per cent of import requirements approved but a few critical requests rejected. Once a global license has been obtained, the normal expectation is that all required licenses, which must still be presented for each individual item, will be approved.

Global licenses are not obligatory for investment projects, but highly convenient; they give the government an important tool for controlling private capital formation, and entrepreneurs a way of committing the government to the realization of a project. In the difficult year of 1967, global licenses worth U.S. \$48.4 million were approved and license applications worth U.S. \$7.4 million were rejected. In 1969, approvals reached U.S. \$110.2 million. The

corresponding figure for 1970 was \$84.7 million. In contrast, actual imports of all capital goods during 1969-70 averaged U.S. \$346.1 million annually.

A HISTORICAL SKETCH OF THE IMPORT CONTROL SYSTEM³

In spite of an increase in the dollar value of Colombian exports from \$81 million in 1938 to \$284 million in 1948, more than a threefold increase in ten years, foreign-exchange reserves declined during 1946-48, and the import and exchange controls which were first put into effect during the Great Depression became increasingly detailed and complex. As noted in Chapter 1, exchange-rate policy appears to have become frozen by the peculiar circumstances during and following World War II, leading to an overvaluation trend.

By 1949, import licenses were granted up to the limits of individual exchange quotas computed on the basis of the importer's production, sales, and other criteria. During 1950, the allocation of exchange quotas to individual importers began to be determined on the basis of their capital, expenses, and total personnel. For some commodities, such as drugs and pharmaceuticals, import licenses were issued without regard for the exchange quotas. Thus, the nonreimbursable category was already in use, and at that time it probably included many imports financed with dollars acquired in the black market. Furthermore, licenses for the purchase of certain imports were given preferential treatment.

This system was conducive to tinkering and proliferation of multiple rates, and up until March 1951 numerous adjustments were made to exchange taxes, to proportions in the mixed rates, and to goods which could be imported outside individual exchange quotas. Apparently there was considerable criticism of the efficiency, fairness, and honesty with which the system was run, and one of the directors of the control mechanism was even assassinated.

In March 1951, when the basic import rate was devalued to 2.5 pesos per U.S. dollar, a prohibited list of about 1,200 specified luxury or locally produced items was created. But practically all licensing restrictions on imports were removed, and major exchange taxes as well as mixed or multiple rates were abolished. Imports still required registration, but this became a routine matter; if the application met all legal requirements registration was automatic. A minor stamp tax of 3 per cent was collected on all registrations; a few imports required prior approval of certain ministries (e.g., for health reasons, as in many industrialized countries). Some items on the prohibited list could be imported if they originated in countries having either a balanced trade or

barter and payments agreement with Colombia. Other prohibitions were lifted if "export vouchers" (introduced in August 1952) issued for certain minor exports were used to finance importation of the items otherwise prohibited, so long as both the exports and imports related to the same foreign country. During part of 1954 even the prohibited list was abolished and replaced with a flat 40 per cent tax.

As the domestic boom got out of hand and coffee prices began to waver, late in 1954, the authorities reintroduced exchange taxes and regulations without, however, restricting most import registrations. First in October 1954 and then more thoroughly in February 1955 imports were reclassified and stamp taxes on import registrations were drastically increased, while prohibitions were once again enforced. Six import categories were created: preferential (raw materials for essential industries); other raw materials and essential products; essential durable and semidurable goods; less essential goods, importable only from certain countries; specified nonessential goods; and prohibited (luxury) goods. Stamp taxes ranged from 3 to 100 per cent. Imports of some foodstuffs were to be handled only by a special corporation. And late in 1954 the granting of exchange for import payments was made contingent upon arrival of the merchandise in Colombia, a regulation which had been abolished in November 1951.

The payments situation continued deteriorating during 1955 and 1956; it appears that at that time attempts at control relied mainly on indirect measures, such as stamp taxes and the free-market rate, plus exchange control. In other words, "essential" imports continued being registered freely and flooding into the country, and they continued to make up the bulk of the import bill,⁴ while the queues waiting to buy foreign exchange for 2.5 pesos at the central bank became longer. By June 1956 authorities gave importers waiting for exchange authorizations the option of buying exchange immediately at the official rate of 2.5 pesos per dollar for half of the value of their pending applications, if they obtained the other half in the free market, where the rate at that time stood at about 4.7 pesos. By the end of 1956 that rate was 6.5 pesos. In October 1956, the payments crisis had provoked the closing of the exchange registration office, except for consideration of applications for vital imports. It was reopened, with tighter regulations and prohibitions, in January 1957. Most import registrations were also suspended during those months, and their easy granting came to an end; from January 1957 on, import control became the first and major hurdle faced by potential importers before they reached the exchange window.

Under the stabilization plan of June 1957 all imports were still subject to registration, and lists of prohibited, free, and prior license imports were established. This control system, which with further refinements was the one still in effect during 1971, was consolidated by Law 1 of January 1959.

Beginning in 1957, prior exchange registration was also enforced systematically for import payments, requiring submission of an import registration plus evidence that the goods had entered Colombia. Importers were given the choice of paying through a free market (at 6.2 pesos at the end of 1957) in which case they were exempted from the 10 per cent remittance tax. Establishment of higher import exchange rates and tougher standards for prior import deposits made it possible to relax import-licensing requirements for some commodities; during the second half of 1957, for example, two-thirds of all import registrations were on the free list, and only one-third (mainly capital goods) fell under the prior license list. But the rate of refused requests for goods in the prior license list is said to have been high, nearly 40 per cent by value of requests during those difficult months.

After the commercial arrears had been liquidated, and the payments crisis and inflationary pressures dampened by the austerity measures of 1957 and 1958, growth began to pick up again in a climate of stability. Throughout 1959, 1960, and even 1961, import controls remained stringent but fairly steady. Some even saw a trend toward liberalization as exchange reserves recovered. Certainly imports rose steadily from their 1958 low.

Difficulties in the world coffee market continued to be used as the major justification for rigorous import controls. By 1960 it was felt that about one-fourth or one-third of potential import demand was restricted by the licensing system, and that this was done more by flat prohibitions, frequently of protectionist intent, than by rejection of license applications. About half of the items in the tariff were at that time on the prohibited list. Among registered imports, the share of those on the free list had declined slightly to 60 per cent from about 65 per cent in 1959. The value of import license requests rejected as a percentage of the value of all license applications fluctuated at about 15 per cent throughout 1958, 1959, and 1960. These rates of rejection underestimate the strength of import demand not only because of the existence (and changing size) of the prohibited list, but also because the Superintendency of Imports, and later INCOMEX, made it a practice to discourage applications doomed to failure by reacting negatively to informal inquiries. The depressed conditions of the world coffee market also led Colombian authorities about this time to use the licensing mechanism to discriminate by source of imports, as part of bilateral barter deals involving mostly new coffee exports. Imports not normally permitted were occasionally allowed from bilateral partners (e.g., motor vehicles, giving Colombian roads an ecumenical assortment which included Russian, Polish, East German, and Czech vehicles) in exchange for coffee sold at de facto discounts perhaps as high as 20 per cent. During 1961 about U.S. \$30 million of imports were licensed under barter and bilateral agreements.

In Chapter 7, I will discuss in detail the events surrounding the 1962

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devaluation and the 1965-66 liberalization episode. Here it will be sufficient to note that import controls went through spasmodic tightening and loosening cycles: the free list, which by mid-1965 was vanishing, covered 80 per cent of all registered imports in October 1966. By December 1966 there was no free list. Throughout 1967 import controls were rigorously enforced; there was practically no free list, and it is said that of the total number of import license requests presented, about 40 per cent were rejected. In terms of value, about 25 per cent of total requests were turned down; the percentage was lower for global and nonreimbursable requests, and higher for reimbursable ones. Steep prior import deposits were reintroduced, and exchange controls were tightened. Imports dwindled; their customs value in 1967 was 26 per cent below 1966, while the drop in registrations was 18 per cent. Only after May 1968 did the free list regain some significance: free-list registrations were only 4 per cent of all reimbursable import registrations in 1967, rising to 12 per cent in 1968. The liberalization rock continued to be pushed uphill, slowly, once again. By 1970, the free list had reached 20 per cent of all reimbursable registrations (17 per cent of all registrations).

Growing foreign-exchange earnings, due both to the success of export-promoting policies and to favorable world market conditions, coupled with inflationary pressures induced a quickening of the liberalization trend during 1972-74. In August 1973 the prohibited list was eliminated, placing the 705 items then in that category under the prior license list. During 1973 and 1974, about 1,400 items under the prior license list were transferred to the free list; these were mostly items for which import permits had been readily granted during earlier years. During the first half of 1974 about 93 per cent of import requests under the prior list were being approved; rejections involved either protectionist motivation or simply a careless presentation of the request in the eyes of the authorities. It was expected that by the end of 1974, 50 per cent of all imports would be entering Colombia under the free list. On the other hand, while inflation stimulated the relaxation of import controls during 1973 and 1974, it also led to a large number of *export* prohibitions of both rural and industrial commodities.

THE OPERATION OF IMPORT CONTROLS DURING 1971

Beginning in March 1967 the import and exchange-control system took the basic shape it had in about 1971. It should be borne in mind, however, that the description contained in this section provides a snapshot of a system evolving in the direction of liberalization, and still engaged in administrative "fine tuning."

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The Processing of License Requests.

All potential importers must present INCOMEX with a detailed description of the goods they wish to purchase, including intended means and timing of payment, and must also complete a questionnaire (following Resolution 15 of 1967) giving company information on payroll, number of workers, capacity, imports during current and previous three years, income and sales taxes paid during current and previous three years, minor exports for the same period, previous imports of the products intended to be imported, inventories of these products and their expected life, and some additional data. A separate form must usually be completed for each commodity, although exceptions to this rule are possible; slightly different forms of request are prescribed by Resolution 15 for industry, commerce, and government.

The INCOMEX staff first checks to see whether all the required documentation and information have been presented fully and accurately. Besides the import description and the Resolution 15 form, importers must show evidence of tax settlements and that they have made the required prior import deposits. In principle, then, the mechanism of import control can reinforce the Treasury's efforts to reduce tax evasion, particularly among commercial houses. At this stage, import applications can be returned (not officially rejected) on grounds of improper completion of forms. INCOMEX⁵ argues that such devolutions are done on purely technical grounds (e.g., because the description of the proposed import is sketchy, which may lead to trouble at customs when it arrives in the country) and complains that the company employees who carelessly completed the forms then call such devolutions rejections to protect themselves. Problems arise particularly with new or complex products. In fact, the punctiliousness with which INCOMEX insists on the quality of information on import requests can be adjusted depending on the pressure of import demand. Whether an import request is returned or rejected, the potential importer can submit a new one at once. During 1971, it was estimated that of the total value of requested imports, only about 3 per cent were returned because of insufficient information or procedural mistakes.

If the application is satisfactory in form, the INCOMEX staff next examines whether products similar to those requested are produced locally. Extensive files on domestic production have been built up during the last few years. There is at this point a frank and clear protectionist bias; in case of doubt, the presumption is that local goods are indeed fully satisfactory candidates for import replacement, at least in their physical attributes. Prospective importers whose requests have been turned down on these grounds bear the burden of demonstrating to INCOMEX that the local product is in fact different from the proposed imports because of quality, product specification, or other reasons. Price differences, unless extreme, are not considered valid

grounds for importing. INCOMEX occasionally brings together the prospective importer and the local import-competing producer, to iron out serious disagreements regarding prices, quality, and specifications. INCOMEX officials occasionally visit plants of import-competing firms to verify their capacity, output quality, and other characteristics, a time-consuming, subjective, and ad hoc practice.

As a third step, the INCOMEX staff looks closely at the unit dollar price of the potential import. The point here is *not* to keep track of margins between Colombian and world prices but to control overinvoicing of raw materials and parts, particularly by subsidiaries of foreign companies buying from their parents. INCOMEX and other Colombian officials argue, for example, that pharmaceutical companies operating in Colombia but owned abroad have been shown to have inflated the value of their imports of raw materials as a way of disguising profit remittances.⁶ Thus, import control emerges also as a tool for regulating intracompany transfers of profits, particularly by foreign investors in the import-competing sector. The need for such regulation, of course, would disappear if these companies did not receive protection against imports of *finished* products. Even items on the free list may be held up if there is a suspicion that dollar prices declared in the registration request are out of line with world prices.

Since much direct foreign investment consists of imports of machinery and equipment, their registered value later on becomes part of the base on which under Colombian regulations allowable profit remittances abroad are computed. It is thus important for the control system to check on the real (international) value of the machinery, which is typically brought in with nonreimbursable licenses. Stories are told of gross overvaluation in some license requests, designed to inflate the value of foreign investment.

All the above procedures are handled by the Junta de Importaciones staff, whose members do not have the power to reject or accept the applications (although, as noted above, they can return applications on procedural grounds). That power, including the option of approving an application in part, lies in the Junta de Importaciones itself, a body of five permanent members, including the head of INCOMEX. Decisions on all prior license applications, totaling roughly 150,000 per year, must be made by this body, which handles about 500 applications per day. The work load is even higher than implied, as the daily tasks are carried out typically by only three members of the junta, since the other two, particularly the INCOMEX head, have other duties. The technical staff of the junta is also small, with about fifteen professionals plus supporting employees. In spite of this staggering burden, the junta is kept deliberately small to minimize the danger of corruption. The same reason is given for keeping its operations in Bogotá, in spite of pressure from various regions to decentralize the junta's decision-making powers. The junta deci-

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sions are, in principle, public. Under Article 75 of Law 444 of March 1967, INCOMEX must publish weekly all import permits granted, as well as other data on its operations. Decisions on rejections have been published off and on; publication of rejections stimulated fraudulent activities for a while by individuals who offered the unlucky applicants false contacts which presumably would improve their chances in future applications. Since 1967 the turnover of junta members has been low: for the three slots which are not ex officio there have been only eight members during the last five years (two died on the job). The junta is widely respected for its hard work and honesty; it does lead a fishbowl existence.

Each month, the Junta de Importaciones receives from the Junta Monetaria, the top monetary authority, an over-all foreign-exchange budget for all imports, which is determined on the basis of actual and expected exchange earnings. The import junta then regulates its approvals to keep within that limit. It may also be noted that it dislikes public announcements of changes in the budget, on the grounds that to do so may disturb its method of operation. In particular, rumors of a cut in the monthly limit are said to produce sharp increases in license applications.

Criteria for Evaluating License Requests.

The junta members are the first to admit that they follow no fast and rigid rules when deciding on applications (although unhelpful lists of "criteria" can be found in the relevant legislation, as in Article 77 of Law 444) and that the process is highly subjective. There are no quotas for particular products, nor for firms, nor for regions. The major criterion is a protectionist one, but occasionally imports are permitted if the quality of domestic output deteriorates markedly, or if domestic prices become unacceptably high. While junta members say all the right things about scaring local monopolistic positions by such actions, the implementation is ad hoc, with protectionist sentiment dominating. Throughout the 1960s, imports on the prior license list have been informally subdivided into three groups: those for which licensing depends on local supply conditions of competing products, those generally approved, and those generally disapproved, but which are kept on the prior list to discourage monopolistic practices by domestic producers. The protectionist bias also showed in the occasional practice during the 1960s of transferring items from the free to the prior license or prohibited category as soon as a new plant began to produce locally a previously importable good (that transfer was often done before the plant began to operate, to ward off inventory accumulation). During more recent years, however, the number of items transferred to the prohibited list dwindled. But the import control mechanism remained a key tool for protecting large new ventures, such as the automobile industry, for

which special regimes and policies were established. Junta officials defend their protectionist bias bluntly: Given other policies and circumstances outside their control (exchange-rate policy and coffee prices, for example) and given the need to ration foreign exchange, what better procedure can they follow than to ask potential importers whether or not they have checked to see whether the product they wish to bring in can be found within Colombia? Junta officials say that when in doubt it is better to deny a request on protectionist grounds, a decision which after all can be reversed, than to allow imports damaging to a local producer, a decision more difficult to offset. A last argument given by the junta members in favor of their protectionist stance may baffle the pure trade theorist: Since very few firms export their entire output, they say, weakening the local base of most firms by allowing "excessive" competition from imports will hurt their exporting capacity. As I noted in Chapter 2, this argument has short-run validity in a setting of monopolistic competition; its validity for the long run, however, is doubtful under standard assumptions regarding firm behavior.

The process of establishing whether or not there is domestic production of a given item is not without complications and loopholes. A given large company, for example, can have a subsidiary declare that it does *not* produce a given product locally, so that the mother company may be allowed to import it. The same subsidiary may, however, declare to INCOMEX that it does produce the particular item when a competitor of the large company requests a license. Given the limited staff of the Junta de Importaciones, it is not always possible to check on these ambiguities. It is said that, particularly during 1965, subsidiaries were used in the way described. For some commodities, such as machine tools, it becomes difficult to establish whether local production of the right quality and design is available, as goods of that kind are often made to order.

Some junta members admit favoring applications from less developed regions within Colombia, and from firms with good records in nontraditional exports (with or without the Vallejo Plan). As discussed below, the granting of global licenses typically involves negotiations regarding export targets. Firms with large tax payments are allegedly favored over those paying few taxes, even if there is no evidence of tax evasion. The argument given is that the government has a fiscal interest in channeling imports toward those firms that are good tax-yielding partners of the public sector, which chooses to use large tax payments as *prima facie* evidence of efficiency in the use of imported inputs. Although the junta looks closely at past imports of firms requesting fresh licenses, it claims to take into account the needs of new importers, again "by ear." Installed capacity is looked at, but so is employment; there is no obvious *a priori* reason to expect such a subjective process by itself to lead to a bias in favor of capital-intensive activities greater than one in favor of labor-

intensive firms. Some junta members claim that their decisions are also influenced by the state of labor relations in the firm requesting a license. Since good labor relations are likely to be associated with high wages (and a relatively small labor force), a bias in favor of capital intensity may be introduced this way.

The Junta de Importaciones also examines the actual and expected inventory levels of applicants and turns down a request if stocks are deemed excessive. Inventories for four to six months of production are considered reasonable, and are encouraged to save INCOMEX the paper work involved in more frequent requests associated with lower inventories.

Biases in the Evaluation Process.

This gentlemanly case-by-case style of import control leads to biases not always fully recognized by those in charge of its operations.⁷ Given the burden of work and the speed with which applications must be handled, there is an inevitable tendency to accept without much analysis most "reasonable" requests from established, well-known (i.e., large) companies and to examine more closely and reject, in case of doubt or exchange stringency, those of less well-known, smaller newcomers, many of which may not even bother to apply. The junta prides itself, with good reason, on remaining open to complaints from importers, and incredibly its members find time to listen to an unending stream of petitioners, whether powerful or not. Furthermore, it argues that at times of exchange stringency, proportional cuts in import requests are larger for bigger than for smaller firms, and that it tends more readily to overlook faulty request forms from small than from large importers.

But on balance, the larger and better-known importers find it easier than others to communicate with the junta. Given the Colombian milieu, potential small importers may actually exaggerate in their own minds the complications of dealing with INCOMEX, housed incidentally in imposing offices on some of the highest floors of the tallest building of Bogotá.⁸ Some junta officials candidly admit that this may be so, but because of their strong belief in the necessity of control, they argue that there are no other practical ways of handling the enormous mass of actual and potential applications. What is so wrong, they ask, with tilting in favor of applications from long-established corporations, with honorable records, and of being skeptical of new and unknown applicants, who may turn out to be no better than phony industrialists, disguised smugglers, and black-market operators? In the Colombian social setting, where most people who count know each other directly or indirectly, it is not difficult for control officials to persuade themselves that all legitimate requests are sooner or later handled appropriately. Another justification given for a bias against some small import requests is the fear that such

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requests are simply a way of seeking legal window dressing for contraband. A shop, it is alleged, may rely mainly on smuggled imports but use an approved import license as a cover-up for its mostly illegal activities. A similar argument was sometimes given to justify flat prohibitions of some imports, because that way it was possible to know for sure that if those goods were found in Colombia, they came from contraband. In fact, however, the customs office often auctions off wholesale confiscated contraband items, thus providing window dressing items covering up shadier deals.

The argument is also heard that large firms can use some imported capital goods at fuller capacity than small ones. For example, import requests for computers from small and medium-sized firms are known to have been denied on the grounds that they could not use computers at full capacity. Similar requests from larger firms have been approved. It is also argued, not without reason, that bulk-buying abroad by large firms leads to dollar unit values for imports lower than those which would be obtained by small firms.

The junta keeps files of importers, including black or gray lists of those caught in what it regards as illegal or undesirable practices. The total number of importers is said to reach about 12,000; it will be seen in Chapter 6, however, that the number of *major* importers is considerably less. Among major private importers receiving particularly careful and sympathetic attention by the junta, incidentally, are those associated with mass communications, such as the press, radio, and television.

Ultimately, of course, the junta can argue that the pattern of imports simply reflects industrial, financial, and geographical concentration in Colombia, which they neither reinforce nor weaken significantly. The elimination of import controls by itself is unlikely to change those structural facts, they add. To this difficult issue we will return in the next chapter.

Given the location of the junta in Bogotá, Bogotá-based companies have an edge in access over those located elsewhere. The presence of large numbers of "Antioqueños" in top INCOMEX positions suggests that requests by firms located in Medellín are also likely to receive an especially sympathetic hearing. Pleas from other cities, Cali in particular, for regional offices with the power to decide on prior license imports have been turned down mainly on the grounds that such offices would be more subject to pressures originating in feelings of regional solidarity or in baser motives. At present, only a few items on the free list can be registered at the 27 INCOMEX regional offices outside Bogotá. The shuttling between provincial centers and Bogotá is regarded as a small price to pay for maintaining uniform national standards and minimizing the chances of corruption creeping into the decision-making process.

In a memo to the Minister of Development in December 1969 a group of businessmen from the Cauca Valley (where Cali is located) complained about

excessive centralization of all governmental functions in Bogotá, leading to "innumerable trips to arrange trivial details." They argued that as a result, many corporate headquarters, if not whole plants, were being moved from that valley to Bogotá, depriving the former of many important ancillary activities, such as insurance, consulting, and publicity. INCOMEX was listed as the government office causing the largest number of trivial trips; there were others, however, such as the Superintendency of Prices, the Superintendency of Corporations, IFI, and the ministries of Health, Agriculture, Labor, and the Treasury (Tax Department). Centralized paper work associated with import licenses was the main target. In the memo, it was urged that six regional offices be given exchange quotas and be empowered to decide on license requests for spare parts, raw materials, and other inputs essential to keeping production going, but it was conceded that decisions on new capital goods or peculiar cases should remain centralized in Bogotá. It is noteworthy that this group of businessmen asked for the decentralization of import controls, not their abolition.

It may be seen in Table 5-3 that, according to the 1967 industrial census, Bogotá-based industrial firms did use on average more imported raw materials relative to their gross output than firms in the rest of the country. The textile and paper industries of Antioquia, clustered in and around Medellín, as well as those producing rubber products and electrical equipment in Cali and surroundings, however, surpassed Bogotá firms in these activities in their relative use of imported inputs.

It is generally admitted that requests under "commerce" are scrutinized more rigorously and rejected more frequently than those under "industry." This is partly due to the bias in favor of big, established firms, but also to a feeling that items requested under commerce are less essential than the others. Commerce, it is also argued, brings in a general variety of imports to add to more or less ample stocks, and some delay is unlikely to harm very much of anything, while industrial requests are of a specific nature and the materials sought are expected to be put into the production process with little delay. At any rate, the pressing nature of industrial needs is easier to demonstrate than that of commercial requests. Whatever the real reason, the effect of the difference in treatment is further to reinforce the bias against smaller industrial firms, which rely more on commercial intermediaries (often large ones) for imported inputs than do the larger firms.

To summarize some of the problems of the small industrial firm, particularly one located outside Bogotá: In spite of its more difficult access to credit, its inventories as a percentage of sales tend to be higher than those of the larger firms; attempts to lower inventories of imported items by relying on commercial intermediaries will be hampered by the greater difficulties of the latter in obtaining permits, and by their charging premium-inclusive prices for

TABLE 5-3
**Imported Raw Materials as Percentages of Value of Colombian Gross Manufacturing
 Output, Total and Selected Regions, 1967**

	All Colombia	Bogotá	Antioquia	Valle del Cauca
Foodstuffs	7.9	16.4	7.8	6.5
Beverages	3.7	3.9	3.2	3.0
Tobacco products	2.5	3.3	2.0	2.3
Textiles	5.9	4.3	7.2	2.0
Clothing	0.6	1.2	0.3	1.4
Wood products except furniture	2.0	8.5	3.4	1.9
Furniture (wood)	0.4	0.5	0.2	0.1
Paper and products	18.1	8.7	25.9	18.8
Printing and publishing	20.1	27.6	14.2	16.1
Leather products except shoes	5.0	5.1	6.0	5.5
Rubber products	33.6	21.3	12.3	40.5
Chemical products	28.3	33.5	33.5	27.0
Petroleum and coal products	4.9	44.4	0	0
Nonmetallic mineral products	7.4	5.0	5.4	4.6
Basic metal industries	9.1	51.2	10.5	7.6
Metal products except machinery	22.3	21.5	14.0	21.7
Nonelectrical machinery	13.6	20.2	13.7	5.6
Electrical machinery and appliances	27.6	25.2	20.0	34.3
Transport equipment	31.4	38.1	23.7	19.1
Other industries	21.5	24.2	14.0	22.0
Total manufacturing	12.2	19.2	9.8	14.2

SOURCE: DANE, industrial census for 1967.

those items for which permits have been obtained; attempts to lower imported inventories involve the risk of stopping production at times of crisis if INCOMEX fails to handle license requests quickly.

Applications in the "official," i.e., governmental, category are in principle subjected to the same procedure as others. As they involve duty-free imports, special efforts have been made recently to ensure that goods which are also produced locally are not brought into the country by this means. Attempts to influence the junta by open flexing of political muscle appear to be surprisingly limited. Import requests from the armed forces, the police, and Congress, of course, receive sympathetic treatment, and rejections of these requests are documented particularly well. But there *are* occasional rejections of applications from these sources (often, alas, on ultraprotectionist grounds),

as well as from other powerful public agencies. On balance, however, there is a presumption that official requests should be given priority, and they are said to fare better than private requests, particularly at times of exchange stringency.

Traditionally, nonreimbursable license requests are said to have had better chances of approval than reimbursable ones, simply because they did not involve immediate claims against the central bank for foreign exchange and typically involved capital goods not produced in Colombia. Frequently, they also involved large public-sector projects and international commitments. More recently, however, both protectionist and equity considerations have led to higher rates of refusal for nonreimbursable requests. The budding Colombian capital goods industry has exerted pressure in this direction, also pointing out the low duties and frequent exemptions on capital goods imports. Local entrepreneurs have also loudly complained when direct foreign investors have been allowed to bring in under nonreimbursable licenses machinery whose importation is not possible when requested under the reimbursable category. It is correctly felt that such a situation puts the local industrialist at an unfair disadvantage when competing in the local market with foreign-owned firms. It may be noted that INCOMEX claims to follow a policy of nondiscrimination between import requests from locally and foreign-owned companies located within Colombia. At a more pedestrian level, the possibility of importing automobiles under nonreimbursable licenses, for example, would lead according to INCOMEX to all kinds of illegal triangular deals. The tendency, therefore, is to apply the same protectionist or equity criteria whether or not the license request is reimbursable.

Searching for equity among established firms, the junta often handles several import requests from different companies for a given product, particularly critical raw materials, in one bunch. For example, when several beer companies apply for imported hops, their requests are considered together, so as to avoid giving one company advantages over the others simply on the basis of a temporarily better access to imported inputs. In the case of newcomers to the industry, projected output is taken into consideration. For others, the record of past levels of imports provides a first approximation to actual needs. When some important raw material is both imported and produced locally, and the latter is more expensive or of a lower quality than the former, mixing rules are enforced; i.e., for each imported pound each company must purchase two locally, again to avoid giving companies unfair advantage based on better access to superior imported inputs. When there are no obviously equitable arrangements possible there is a tendency to deny all requests; it is argued that it is better for all to do without imports than for a few to benefit from unfair advantages arising from a lucky access to the goods. Such favoritism, even if random, would cast doubt on the honesty and fairness of the junta. Like

Caesar's wife, the junta knows that it must not only be honest, but appear honest, even at the risk of being stern and unpleasant. The possibility of auctioning off licenses is not considered to lie within the rules of the game.

Global Licenses.

In the case of requests for global licenses, covering investment projects, the authorized department of INCOMEX is supposed to coordinate its study of those projects with the National Planning Department. The Committee on Global Licenses, which began operating during 1969, includes besides INCOMEX and the Planning Department, the ministries of the Treasury and of Development plus IFI, a public body that finances and sometimes runs industrial projects. There have been occasional episodes of bureaucratic rivalry among the committee members. The Junta de Importaciones retains the ultimate power to accept or reject the applications, and there have been cases where the junta has taken decisions contrary to the resolutions of the mixed Committee on Global Licenses. The data required for global license requests are extensive, and potentially permit a fairly comprehensive cost-benefit study of each project. The general impression, however, is that such studies are not carried out, or at least not very thoroughly. There are only five professionals in the Division of Global Licenses, each of whom is supposed to study about five projects per week.⁹ However, this mechanism has been increasingly used to ensure that new projects, particularly those granted tax or other advantages, commit part of their expected output for exports; for several projects specific export targets have been laid down at the time of their approval by INCOMEX in the form of formal contracts. It is not in the INCOMEX style to insist rigidly on exact compliance with such targets, but the companies know that systematic departures from these promises can lead to a displeased and colder INCOMEX in the future. Until at least the completion of this study, once a global license had been obtained, ordinary requests charged against it were typically granted almost automatically. Furthermore, changes in the specifications of equipment to be imported were allowed with relative ease. The processing of the global license request itself took an average of about two months, although not surprisingly, there were substantial variations from this average, depending on the nature of the project. It may be noted that in reviewing global licenses INCOMEX examined the proposed ways of financing the imports and could suggest modifications.

The 19-page questionnaire which must still be completed in applying for a global license is admittedly terrifying for a small entrepreneur, who in all likelihood needs to hire a consultant to fill it out. INCOMEX has been considering requiring a briefer questionnaire for smaller businessmen, but as of September 1971 this had not been done.

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In many cases, at the same time that a project is being processed by INCOMEX with an eye to import demand, it will also be analyzed by other members of the Committee on Global Licenses and by the Committee on Royalties—responsible for supervising royalty payments abroad—which have other major preoccupations besides import demand. For example, all major direct foreign investments in Colombia must by law be approved by the Planning Office. Projects financed by IFI will of course be examined by that institution. As noted above, the coordination among different public agencies in this area leaves much to be desired; overlap and conflict abound.

The mechanism for granting global licenses, originally designed among other things to save paperwork and to avoid complications at customs, and the associated *gravamen único* (single import duty) have come under increasing fire from within the government not only for lacking sufficient coordination in their administration with bodies outside INCOMEX but also for excessive generosity in reducing tariff rates on capital goods.

Other Operating Practices.

Ordinary and global licenses were normally examined by INCOMEX following the chronological order of their presentation. Ordinary licenses were decided on usually within a month or a month and a half of presentation, while for global licenses the waiting period was naturally longer and less predictable. Extensions and modifications of ordinary licenses took less than a month. INCOMEX claimed that urgent requests were handled even faster, if necessary in a day, say, in cases where imported parts were essential to prevent production breakdowns. Rejections of applications were accompanied by the reason or reasons given by the junta for such a decision; seventy-two possible reasons were listed by the junta. Frequently, particularly during times of severe exchange shortage, a reapplication will be rapidly made following the rejection, but during more relaxed times, as during 1971, the few rejections were taken more seriously. Once approval was secured, and imports had cleared customs, there was no particular difficulty in obtaining the foreign exchange for payment. With memories of the pile-up of commercial arrears in 1955–56 and of the less dramatic situation in 1966–67 still fresh in their minds, the authorities have been careful in recent years not to issue import licenses beyond expected exchange earnings.

INCOMEX did not handle the further steps an importer had to take to obtain foreign exchange to pay for his goods once they arrived in Colombia. This was the responsibility of the central bank, with which the importer had to make a deposit in pesos equal to 95 per cent of the needed exchange, twenty days before making an application for an exchange registration. Proof that goods had cleared customs also had to be presented. At this stage the request

for exchange was granted quickly; the exchange disbursements took place between one and twenty months after the merchandise had gone through customs. The central bank, however, could double-check with INCOMEX on unit dollar prices to prevent overinvoicing.

It is part of the INCOMEX style to avoid if possible having to issue a formal refusal; so, particularly with global licenses, negative signals are often sent informally, and the applications are seldom registered as rejections. Furthermore, as its policies are by now fairly well known, many potential importers do not even bother to apply, saving themselves time, trouble, and expense.¹⁰

Ordinary import permits were good for only five months;¹¹ if imports were not brought in within that time, a new permit or a three-month extension of the old one had to be secured. It had been argued that such limitations put the Colombian importer at a bargaining disadvantage vis-à-vis foreign suppliers, who shade their prices upward because they are aware of the time pressure faced by Colombians wanting to shop around. It is INCOMEX's expectation that goods imported in the industrial category will be used only by the company to which the license has been issued. When INCOMEX was questioned about the legality of resales of merchandise imported for industrial companies, its answers were surprisingly fuzzy. The license itself is clearly non-negotiable, as it is issued only to a specific company or person. The reselling of the imported items by industrial users is apparently not strictly illegal, but it is frowned upon by INCOMEX, if only because it implies that normal requirements stated in the Resolution 15 request form were misleading or false. Companies shown to be systematically selling part of their imported industrial inputs to others are punished by INCOMEX with total or partial rejection of future requests. Similar punishment is dealt out to individuals or companies discovered trying to import under several social or private names. INCOMEX's point is that it wants to know exactly how many imports can be traced to each industrial firm or individual. INCOMEX, however, does not punish temporary swapping or lending of imported items among industrial firms. Indeed, it finds such a practice quite reasonable, particularly if done during periods of stringency and in a "nonspeculative" manner. Apparently, during 1971 very little reselling or swapping of noncommercial imports took place, although some INCOMEX officials indicated that that practice was widespread during difficult years, e.g., 1967. Since most imports are purchased directly by companies that use them as inputs in the production of other commodities, arm's length market prices for these inputs are not observed in Colombia. Consequently, it is difficult if not impossible to establish exactly the premiums attached to import licenses, premiums which in any case are very likely to fluctuate sharply between years (e.g., between 1967 and 1971).

It also follows that it is difficult to establish the meaning of price control for imported industrial inputs. In the case of commercial imports, according to regulations INCOMEX should theoretically coordinate its activities with the Superintendencia de Precios (Price Control Board) to determine the margin at which imported goods are resold, i.e., to control the premiums derived from licenses. Such control, however, is very sporadic and unsystematic, and takes place mainly when somebody makes public a scandal about excessive margins. Nevertheless, INCOMEX claims that import controls are superior to tariffs, among other reasons because they avoid making imports more expensive, a doubtful claim in view of the loose control over the license premiums. Conventional wisdom in Colombia regards the profitability of large importing commercial houses as very high; in particular, hardware stores selling imports are popularly considered to be "gold mines." Nevertheless, the junta argues that it tries to spread out import permits among commercial importers as much and as fairly as it can.

There are more or less subtle ways by which the junta discriminates according to country of origin of potential imports. Requests to import television sets from Spain, for example, are said to have a better chance of approval than requests to import from the United States, both because Spain has a bilateral payments agreement with Colombia and because the authorities consider that the local industry will have an easier time competing with Spanish than with U.S. sets. Even where there are no explicit bilateral agreements, the junta de facto administers "gentlemen's agreements" with countries such as Japan, which make purchases from Colombia that are outside coffee agreement channels in exchange for Colombian commitments to import their goods. These games, of course, are also played by countries without explicit generalized import controls, even if they preach multilateral trade, particularly to partners with whom their balance-of-payments account shows a surplus. Some Colombian officials complain that socialist countries with which Colombia has bilateral payments agreements that are typically in surplus do not advertise their goods as vigorously as they might among potential importers. Often, the junta has to nudge importers so that they will divert their purchases to those countries; requests for licenses to import from those countries are granted more readily than requests to import from, say, the dollar area. But the quantitative importance of such trade remains small. As shown in Chapter 3, during 1967-69, less than 3 per cent of Colombian imports came from socialist countries.

As the Colombian foreign-exchange position improved during 1971 and 1972, the role of U.S. tied aid declined. The use of import controls to enforce tying also declined accordingly. In earlier years, however, INCOMEX and related institutions took strong measures to divert purchases toward U.S. products. These included favorable credit conditions, exemption from

prior deposit requirements, and direct pressure on importers to buy from the United States. Those were the days of bitter wrangling over "positive" and "negative" lists, and "additionality."¹² U.S. officials were in the awkward position of simultaneously urging Colombians to liberalize import controls, to use controls to enforce tying, and to stop using controls to divert imports toward bilateral partners, such as Spain and the socialist countries.

The Treaty of Cartagena, which created the Andean group, calls for the elimination of administrative import restrictions among member countries. Colombia has been keeping her side of that bargain, and only routine registration requirements are required for imports from Andean countries.

The INCOMEX Image.

The INCOMEX performance in about 1971 was generally praised by industrial entrepreneurs interviewed during the middle part of that year. In almost all cases they compared it very favorably with the pre-1967 situation, about which stories were told that typically associated delays, corruption, and inefficiency with import controls. The flexibility, efficiency, and honesty of INCOMEX were also compared favorably with those of customs. It should be borne in mind, however, that most of these entrepreneurs came from relatively large companies, and that the foreign-exchange situation was quite relaxed during 1971, especially in contrast with 1967 and earlier years. The major complaint against INCOMEX deals with imports of spare parts, for which delays of even one month in the handling of import requests are a nuisance. Frequently, small spare parts are simply smuggled into the country by employees sent specially for that purpose to Miami and New York. It may be noted that the free- or black-market peso rate during 1971 was only about 15 per cent above the certificate rate and less than that during 1972; so using exchange from this source was not very expensive. INCOMEX, of course, is aware of these goings-on and has been considering ways of legalizing the situation, such as expanding the "minor" import category, under which imports worth less than \$20 (less than \$40 for books) are now allowed without prior license or registration.

Entrepreneurs, particularly those in charge of large companies, find INCOMEX on the whole a bulwark against foreign competition and at the same time an even more reliable supplier of cheap imported inputs. During 1971-72, the few controversies between entrepreneurs and INCOMEX dealt more with imports the latter had allowed to come into the country than with denials of import requests.

Apart from the smuggling of spare parts and some consumer goods, such as furs, perfumes, jewelry, and cigarettes, INCOMEX feels that the system is relatively free of leaks and well organized, in the sense that

importers know what to expect. Its officials argue, not without reason, that the combination of moderate tariffs plus import controls forms a more powerful barrier to smuggling than a situation with higher tariffs and no import controls. A key element in their reasoning is that, as more items are shifted from the prohibited list to the prior license list, more uncertainty will be planted in the minds of would-be smugglers, whose profit margins could be reduced or wiped out if INCOMEX suddenly permits imports of moderately taxed goods.

The performance of the INCOMEX import control system has a good reputation even outside Colombia; officials from other Latin American countries have visited Bogotá to study it for possible application in their own countries.

One may wonder how well the INCOMEX import control system, which some observers find even more centralized than Soviet-type planning, would have performed during 1967-72 if foreign exchange had been less plentiful, or the quality of the members of the Junta de Importaciones had not been as high as it was. In a way, INCOMEX during the years under study represented some of the positive facets of elitist rule in Colombia. A more decentralized import control system, more open to rising entrepreneurs, would have led in all likelihood to an informal auctioning off of licenses by extralegal means.

SOME EVIDENCE OF THE COMBINED OPERATION OF THE IMPORT-REPRESSING MECHANISMS

The presence of duties, prior deposits, and import controls has led to a substantial gap between the domestic and world market prices of importable goods. That part of the gap corresponding to the premium attributable to import licenses has fluctuated sharply from year to year and from product to product, but data on its exact magnitude are scanty. The most systematic comparison between Colombian and world prices has been carried out by Thomas L. Hutcheson¹³ for a sample of commodities during 1969. Evidence from this study on the resource allocation effects of the Colombian system of protection will be analyzed in Chapter 8; here the evidence on the interaction of tariffs and import controls and on the average gap between domestic and foreign prices will be discussed.

In the sample of 385 products, the average gap between domestic and foreign prices at the going import exchange rate was 47 per cent, as may be seen in Table 5-4. On balance, there was "water" in the tariff, as the average duty was 71 per cent. But such water was concentrated in goods produced by the more traditional and established branches of Colombian manufacturing, such as those producing foodstuffs, clothing, and leather products. Neverthe-

TABLE 5-4

Tariffs, Import Regimes, and Gaps Between Domestic and International Prices, 1969

	Excess of Domestic over International Prices	Ad Valorem Import Duty	Import Regime Classification ^a	Number of Observations
Mainly foodstuffs and beverages	25%	85%	2.7	52
Textiles, clothing, furniture, leather, and paper products	47	113	2.5	89
Chemical, rubber, glass, and other nonmetallic mineral products	46	56	2.1	79
Other manufactured goods	55	52	2.0	165
All products	47	71	2.2	385

SOURCE: Computed from data kindly made available by Thomas L. Hutcheson.

a. Dummies for import regime classification are as follows: 1 for the free list, 2 for the prior license list, and 3 for the prohibited list.

less, at least for this sample and on average, the premiums generated by the import licensing system even for less traditional items such as those under "other manufactured goods" were small during 1969.

Since regressions intended to explain the domestic-international price gap as a function of import duties and a dummy for the import regime (see Table 5-4, note a) yield very poor results, the averages shown in Table 5-4 should be taken with great caution. The only *t* statistics higher than 1.0 are those for the tariff variable in the group of other manufactured goods (a positive *t* ratio of 1.38) and for the import regime dummy in the group of chemical, rubber, glass, and other nonmetallic mineral products (a positive *t* ratio of 1.53). These data, however, confirm a strong positive correlation between the import duty and the stringency of the import regime for the whole sample and for each of the groups considered except for other manufactured goods.

NOTES

1. The lists are formally approved by the Superior Council of Foreign Trade (Consejo Superior de Comercio Exterior) on the advice of INCOMEX, which acts as its technical secretariat. That council is presided over by the Minister of Development, and also includes the ministers of Foreign Relations, the Treasury, and Agriculture plus the head of the Planning Office, the manager of the central bank, the manager of the Coffee Growers' Federation, the manager of IFI, the director of PROEXPO, and the director of INCOMEX. This group also forms the core of the Council of Economic Policy, which includes also the President of the republic and the

ministers of Public Works and of Labor. These two councils plus the Junta Monetaria form the three key policymaking bodies in the economic field. The director of INCOMEX is a member of the three bodies. Within INCOMEX, which covers all aspects of foreign trade, the Junta de Importaciones handles the import control system.

2. Resolution 22 of September 22, 1970, also limits the free list to the reimbursable category and to commodities originating in the same country where they have been purchased. The free list applicable to LAFTA countries is somewhat larger than that described above.

3. This section is heavily based on the IMF's annual *Report on Exchange Restrictions* and on interviews with Colombian officials and with officials in several inter-American and international institutions.

4. All import registrations were divided as follows:

	<i>Official Market</i>		<i>Free Market</i>
	<i>Government</i>	<i>Private</i>	
1955	21%	75%	4%
1956	21	58	21
1957 I	18	67	15

5. My remarks on INCOMEX usually refer both to formal regulations and informal opinions of INCOMEX officials interviewed during July–September 1971 and August 1972. In fact, the Junta de Importaciones is only one part of the INCOMEX organization, which also covers other aspects of foreign trade.

6. The impressive evidence on overinvoicing in pharmaceuticals and other industries is discussed in Constantine V. Vaitos, "Transferencia de Recursos y Preservación de Rentas Monopolísticas." *Revista de Planeación y Desarrollo* (published by the National Planning Department, Bogotá), July 1971, pp. 35–72. For the pharmaceutical companies in the sample overinvoicing averaged 155 per cent. Overinvoicing is also said to occur in items such as books and machine tools, for which it is more difficult to ascertain exact prices because of quality differences and heterogeneity of specifications. Exchange control is used by Colombian authorities to keep close tabs on payments for patents and royalties.

7. There are similarities between the Colombian style of import controls and the operating manner of committees in charge of undergraduate admissions in places like Yale University, where demand also exceeds supply. At both places there is great resistance to formalized quotas, regarded as rigid, and a tendency to fudge criteria until they become shapeless—a subjective Jell-O. Those making the control decisions resent any attempt at defining clear-cut objective rules, which are easily enough shown to be unable to cover fairly all possible cases, even when those rules would yield the same results as the committee's judgment in 95 per cent of all cases. For the sake of that 5 per cent of power, the administrators prefer gentlemanly ambiguity.

8. In July 1973 a spectacular fire destroyed the INCOMEX offices there, including import control records. Since then, however, INCOMEX has found new offices, not as high but just as plush.

9. INCOMEX argues that, even though its staff may not have time to carry out careful cost-benefit studies, the process of requesting massive data from entrepreneurs planning a new project will force businessmen to rethink their venture carefully. This is but one example of the somewhat paternalistic attitude often found among INCOMEX officials. In some cases the study of a given project is reduced to a quick visit to the plant proposing an enlargement. INCOMEX expects that requests for global licenses will involve projects in a fairly advanced state of study by the firm.

10. In 1971, all requests for import licenses had to be accompanied by a 100-peso fee and, more recently, by an additional 50-peso charge (a total of about U.S. \$7). The paperwork required for making an application must also represent a small but significant expense for companies,

particularly in the case of global licenses. Such an expense is likely to be proportionally higher for smaller firms. INCOMEX finances itself partly out of the import license fees, which give it additional autonomy in contrast to government agencies more dependent on the national budget.

11. When approval is granted to an import request, copies of the import registration are sent to the central bank, the Customs office, and the Colombian consul nearest the foreign city from which the goods are to be shipped. The Colombian consul may not issue the required shipping authorization without that document.

12. See Thomas L. Hutcheson and Richard C. Porter, *The Cost of Tying Aid: A Method and Some Colombian Estimates*, Princeton Studies in International Finance 30 (Princeton, N.J.: Princeton University Press, March 1972), particularly pp.17-20. The infamous "additionality" clause in U.S. aid was abolished during the visit of President Carlos Lleras Restrepo to the United States in June 1969.

13. The results of his work are summarized in Thomas L. Hutcheson, "Incentives for Industrialization in Colombia" (Ph.D. diss., University of Michigan, 1973). I am most grateful to Hutcheson for making his unpublished basic data available to me. For a description of those data, see Appendix B of his thesis.