Volume Title: Foreign Trade Regimes and Economic Development: Colombia

Volume Author/Editor: Carlos F. Diaz-Alejandro

Volume Publisher: NBER

Volume ISBN: 0-87014-509-6

Volume URL: http://www.nber.org/books/diaz76-1

Publication Date: 1976

Chapter Title: Appendixes

Chapter Author: Carlos F. Diaz-Alejandro

Chapter URL: http://www.nber.org/chapters/c4047

Chapter pages in book: (p. 257 - 271)

Appendixes

Appendix A

Definition of Concepts and Delineation of Phases

DEFINITION OF CONCEPTS USED IN THE PROJECT

Exchange Rates.

1. *Nominal exchange rate:* The official parity for a transaction. For countries maintaining a single exchange rate registered with the International Monetary Fund, the nominal exchange rate is the registered rate.

2. *Effective exchange rate (EER):* The number of units of local currency actually paid or received for a one-dollar international transaction. Surcharges, tariffs, the implicit interest forgone on guarantee deposits, and any other charges against purchases of goods and services abroad are included, as are rebates, the value of import replenishment rights, and other incentives to earn foreign exchange for sales of goods and services abroad.

3. *Price-level-deflated (PLD) nominal exchange rate:* The nominal exchange rate deflated in relation to some base period by the price level index of the country.

4. *Price-level-deflated EER (PLD-EER):* The EER deflated by the price level index of the country.

5. *Purchasing-power-parity adjusted exchange rate:* The relevant (nominal or effective) exchange rate multiplied by the ratio of the foreign price level to the domestic price level.

Devaluation.

1. *Gross devaluation:* The change in the parity registered with the IMF (or, synonymously in most cases, de jure devaluation).

2. *Net devaluation:* The weighted average of changes in EERs by classes of transactions (or, synonymously in most cases, de facto devaluation).

3. *Real gross devaluation:* The gross devaluation adjusted for the increase in the domestic price level over the relevant period.

4. *Real net devaluation:* The net devaluation similarly adjusted.

Protection Concepts.

1. *Explicit tariff:* The amount of tariff charged against the import of a good as a percentage of the import price (in local currency at the nominal exchange rate) of the good.

2. *Implicit tariff* (or, synonymously, tariff equivalent): The ratio of the domestic price (net of normal distribution costs) minus the c.i.f. import price to the c.i.f. import price in local currency.

3. *Premium:* The windfall profit accruing to the recipient of an import license per dollar of imports. It is the difference between the domestic selling price (net of normal distribution costs) and the landed cost of the item (including tariffs and other charges). The premium is thus the difference between the implicit and the explicit tariff (including other charges) multiplied by the nominal exchange rate.

4. *Nominal tariff:* The tariff—either explicit or implicit as specified—on a commodity.

5. *Effective tariff:* The explicit or implicit tariff on value added as distinct from the nominal tariff on a commodity. This concept is also expressed as the effective rate of protection (ERP) or as the effective protective rate (EPR).

6. *Domestic resources costs (DRC):* The value of domestic resources (evaluated at "shadow" or opportunity cost prices) employed in earning or saving a dollar of foreign exchange (in the value-added sense) when producing domestic goods.

DELINEATION OF PHASES USED IN TRACING THE EVOLUTION OF EXCHANGE CONTROL REGIMES

To achieve comparability of analysis among different countries, each author of a country study was asked to identify the chronological development of his country's payments regime through the following phases. There was no presumption that a country would necessarily pass through all the phases in chronological sequence.

Phase I: During this period, quantitative restrictions on international transactions are imposed and then intensified. They generally are initiated in response to an unsustainable payments deficit and then, for a period, are intensified. During the period when reliance upon quantitative restrictions as a means of controlling the balance of payments is increasing, the country is said to be in Phase I.

Phase II: During this phase, quantitative restrictions are still intense, but various price measures are taken to offset some of the undesired results of the system. Heightened tariffs, surcharges on imports, rebates for exports, special tourist exchange rates, and other price interventions are used in this phase. However, primary reliance continues to be placed on quantitative restrictions.

Phase III: This phase is characterized by an attempt to systematize the changes which take place during Phase II. It generally starts with a formal exchange-rate change and may be accompanied by removal of some of the surcharges, etc., imposed during Phase II and by reduced reliance upon quantitative restrictions. Phase III may be little more than a tidying-up operation (in which case the likelihood is that the country will re-enter Phase II), or it may signal the beginning of withdrawal from reliance upon quantitative restrictions.

Phase IV: If the changes in Phase III result in adjustments within the country, so that liberalization can continue, the country is said to enter Phase IV. The necessary adjustments generally include increased foreign-exchange earnings and gradual relaxation of quantitative restrictions. The latter relaxation may take the form of changes in the nature of quantitative restrictions or of increased foreign-exchange allocations, and thus reduced premiums, under the same administrative system.

Phase V: This is a period during which an exchange regime is fully liberalized. There is full convertibility on current account, and quantitative restrictions are not employed as a means of regulating the ex ante balance of payments.

Appendix B

Principal Dates and Historical Events in Colombia

September 1931: The gold standard was suspended. Widespread exchange controls and trade restrictions were introduced.

April 9, 1948: The assassination of Jorge Eliécer Gaitán, leader of the Liberal party, provoked wild urban riots, and was followed by rural violence, which lasted well into the 1950s.

December 1948: Exchange restrictions were revised.

July 10, 1950: Exchange restrictions were revised. A new protectionist tariff was adopted during 1950.

March 20, 1951: Except for a prohibited import list of some 1,200 specified luxury or locally produced items, practically all licensing restrictions on imports were removed, leaving only a prior registration procedure for permitted imports. Basic exchange rates depreciated from 1.95 to 2.50 pesos per U.S. dollar. Multiple exchange rates were considerably simplified, but some still remained as a result of the application of exchange taxes and a mixed effective rate for coffee exports.

August 1, 1952: An export voucher system introduced for minor exports; vouchers, which were negotiable, could be used to import previously prohibited items.

September 6, 1952: The house of Carlos Lleras Restrepo, Liberal party leader, set on fire, marking a further intensification of Liberal-Conservative rivalry.

June 13, 1953: General Gustavo Rojas Pinilla assumed the presidency, with the backing of the armed forces and of a good share of public opinion.

February 19, 1954: The prohibited import list was eliminated. Throughout most of 1954 a gradual relaxation of import and exchange restrictions took place, but by October some restrictions had been reintroduced. In February a de facto ceiling of 3.50 pesos per U.S. dollar was established for the rate applicable to minor exports.

March 1954: Colombian coffee reached 99 U.S. cents per pound in international markets; by August it was down to 67 cents.

June 1954: Restrictions on imports of many basic food staples produced locally were reintroduced.

August 1954: A backlog of commercial arrears owed to foreign suppliers began to be noticeable. In October the granting of exchange for import payments was made contingent upon arrival of the merchandise in Colombia, and prior import deposit requirements were brought up from the 10–30 per cent range to a range of 20–60 per cent. Stamp taxes were also raised.

February 16, 1955: Imports were reclassified and subjected to ad valorem stamp taxes, as follows:

	Per Cent	*Description*
Preferential	3	Raw materials for essential industries
Group I	10	Other raw materials and essential products
Group II	30	Essential durable and semidurable goods
Group III	80	Less essential goods
Group IV	100	Specified nonessential goods
Prohibited	—	Luxury goods

May 13, 1955: A broad free market was introduced. Imports in groups II, III, and IV and most nontrade transactions were shifted to new free-market rate (from official rate). By December 31, 1955, the free-market rate reached 4.2 pesos per U.S. dollar, compared with 2.5 pesos for the official rate.

April 1956: Import deposit requirements were almost doubled.

November–December 1956: Import restrictions intensified; commercial arrears continue to grow. The list of prohibited imports extended drastically. An exchange certificate market replaced the free market. The fluctuating rate of exchange certificates reached 6.5 pesos per U.S. dollar by December 31, 1956; that market showed great instability.

May 10, 1957: Rojas Pinilla was ousted; a provisional government was formed. The Liberal and Conservative parties agreed on a sixteen-year pact, the National Front.

June 1957: A stabilization program adopted to arrest inflationary pressures and restore payments equilibrium. A Superintendency of Imports was created to review import license requests; a prohibited list, a restricted list, and a free group were maintained. Some liberalization of import restrictions took place. A new, simplified exchange system was introduced. A new certificate market was put into operation, together with a free market. Both consolidated sharp devaluations; on December 31, 1957, the fluctuating certificate rate was 5.4 pesos per U.S. dollar, while that for the free market was 6.2 pesos. The quotation for the certificate rate was theoretically determined at auctions held by the Bank of the Republic. Most commercial arrears were settled by the end of 1957. The net effect of the exchange reforms of June 1957 was, however, detrimental to the rate applicable to minor exports, which were switched from the free to the new certificate market. Progressively tighter advance import requirements registered since June 1957. The term "certificate" refers to the legal fiction that the documents obtained in such a market referred not to foreign exchange, but to a certificate issued by the central bank and backed by dollars.

March–April 1958: The exchange system was modified; negotiable exchange certificates were no longer issued against the proceeds of exports, whose rate was then pegged at 6.1 pesos per U.S. dollar (less the appropriate export tax), although periodic changes in this and other pegged rates were contemplated, in principle.

August 7, 1958: Alberto Lleras Camargo was inaugurated as President, following his election in May.

January 16, 1959: New changes in the exchange and payments system. A new, more favorable rate was established for minor export proceeds, which was to vary in line with fluctuations in the free-market rate.

May 1959: A more comprehensive customs tariff with higher and less uniform import duties was introduced.

February 1960: The Treaty of Montevideo was signed, creating the Latin American Free Trade Association. The treaty entered into force in June 1961. Colombia officially joined in September 1961.

April–May 1960: Minor devaluations were made in the official buying and selling rates, but the spread between the official and free rates widened. The official rates were rigidly pegged, at 6.7 pesos per U.S. dollar, while the free rate underwent sharp fluctuations.

January 13, 1962: The Colombian government requested that the Committee of Nine of the Alliance for Progress study and report on its first General Economic and Social Development Plan. During January all export taxes were eliminated.

August 7, 1962: Guillermo León Valencia was inaugurated as President, following his election in May.

September 1962: Virtually all imports were made subject to prior license. The liberalization trend of 1959–61 was reversed during 1962. Tariff changes during 1962 also stressed import substitution.

September 1962: The International Coffee Agreement was signed, after two years of negotiation. It began to operate in 1964.

November 1962: Early in the month merchandise included in the import free list and the prior licensing list was transferred temporarily (for six weeks) to the prohibited list. On the twentieth of the month, the "auction" rate was allowed to depreciate from 6.7 to 9.0 pesos per U.S. dollar. A free market was maintained; at the end of December 1962 the rate in that market was 11.1 pesos per U.S. dollar.

December 1962: New free and prior-license import lists were issued.

January 11, 1963: The Bank of the Republic began pegging the free-market rate, at 10 pesos per U.S. dollar.

September 1963: The powers of monetary management were transferred to the new Monetary Board, whose majority was made up of cabinet ministers.

July 17, 1964: The Monetary Board was given legal authority to change the certificate system and the auction rate.

October 25, 1964: The Bank of the Republic ceased pegging the free-market rate. By December 31, 1964, the free-market rate had reached 12.8 pesos per U.S. dollar. Minor exports continued receiving the free-market rate.

December 1, 1964: Serious consideration was given to new devaluation, but political resistance proved too great. Import licensing became stricter; the free import list was eliminated.

June 30, 1965: The exchange rate for minor exports, previously equal to free market, was pegged at 13.5 pesos per U.S. dollar. The free-market rate climbed above 19 pesos in July and August. Pressures for a new devaluation persisted.

September 1965: A number of imports were freed from licensing requirements, if paid for at the new "intermediate" official exchange rate of 13.5 pesos per U.S. dollar; others remained subject to licenses, but obtained a "preferential" rate of 9 pesos. Plans for further import liberalization were announced. The official buying rate for coffee exports was raised from 7.7 pesos to 8.5 pesos.

October 1965: Progressive reductions of advance import deposits were started; reductions continued on schedule until August 1966, when the original plan was stretched in time. That schedule had called for the elimination of prior import deposits twenty months after October 1965.

November 1965: More imports were transferred to the "intermediate" exchange rate and freed from licensing requirements.

January 1966: A third list of liberalized imports was issued.

February–March 1966: Three further lists of liberalized imports were issued.

July–August 1966: All imports were placed under the intermediate rate of 13.5 pesos per U.S. dollar; most imports were freed of licensing requirements. The free exchange market continued for some invisibles and capital transactions; the free rate *appreciated* between September 1965 and mid-1966.

August 7, 1966: Carlos Lleras Restrepo was inaugurated as President, following his election in May.

Last quarter of 1966: The New York coffee price fell from 50 cents a pound during the first quarter of 1966 to 45 cents during the last quarter of 1966.

November 29, 1966: All imports again required to have prior licenses; operations in the free exchange market suspended. The free market was replaced by the capital market, with the rate pegged at 16.3 pesos per U.S. dollar. President Lleras Restrepo rejected pressures from the IMF and foreign creditors to devalue. All Colombian residents were required to declare foreign-exchange holdings to the Exchange Control Office. Price controls were imposed.

January 27, 1967: Previous import deposit rate requirements brought up to only 40 per cent below their level in September 1965 and further raised on February 9, 1967, to about September 1965 levels.

March 22, 1967: Decree Law 444 was published, restructuring the whole field of exchange and foreign trade. It set up a ("crawling") exchange certificate market rate and a capital market rate. Import control regulations were maintained. Detailed and rigorous regulations were also established over direct foreign investment.

Post-November 1967: Concern was expressed about the (temporary) slowdown in the upward crawl of the major (certificate) exchange rate.

May 1968: The free import list regained some significance.

June 1968: The capital and certificate exchange rates were unified.

August 22–24, 1968: His Holiness Pope Paul VI visited Colombia.

December 1968: INCOMEX replaced the Superintendency of Foreign Trade.

February 1969: Previous import deposit rates, generally lowered during 1968, were further reduced.

June 11–13, 1969: President Carlos Lleras Restrepo visited the United States. Lleras-Nixon discussions led to the elimination of "additionality," which sought to link disbursement of U.S. aid to *additional* Colombian imports from the United States.

September 1969: A sharp upswing in dollar coffee prices started.

October 22, 1969: The Andean Pact entered into force.

January 14, 1970: New regulations for free trade zones within Colombia were established.

March 16, 1970: The import free list, comprising about 100 tariff items, was expanded by 51 tariff items.

April 7, 1970: Thirty-five tariff items were shifted from the prohibited to the prior list.

April 14, 1970: Import taxes and prior import deposits were abolished in Colombian trade with Chile and Peru for 169 tariff items in the LAFTA Common List. Shorter lists also went into effect for Bolivia and Ecuador.

July 7, 1970: Industrial and commercial free zones were created in Buenaventura and Palmaseca.

August 7, 1970: Misael Pastrana Borrero was inaugurated as President, following his election in April.

September 1970: Further expansion of the import free list by 63 tariff items; for 1970 as a whole items in the free list accounted for about 25 per cent of reimbursable imports. Throughout the year many items were also switched from the prohibited to the prior license list, and advance import deposit requirements were lowered.

October 15, 1970: The CAT waiting period was reduced from twelve to nine months.

January 1971: Tariffs and advance import deposits were lowered for unassembled automotive vehicles and parts. Other advance import deposits also were lowered.

February 1971: Several items were moved from the prohibited to the licensing list, and from the licensing to the free list.

May 1971: Further reduction in prior import deposits. Maximum rate was set at 100 per cent (lowered from 130 per cent).

June 1971: New regulations were established for the free trade zones of Barranquilla, Buenaventura, and Palmaseca.

June 1971: The exchange rate applicable to oil transactions was raised from 9 to 20 pesos per U.S. dollar.

June 1971: The Andean Investment Code was put into effect by decree. That decree was declared invalid by the Supreme Court in December 1971.

September 1971: Congress again authorized the Executive to reform the tariff system.

September 1971: Further reductions in advance import deposits.

October 1971: The waiting period between customs clearance of imports and the reimbursement of advance import deposits was reduced from ninety to eighty-five days.

December 1971: The CAT waiting period was reduced from nine to three months (for manufactured or processed exports) and to six months for other minor exports.

February 26, 1972: As the first step in an over-all tariff reform, the rates of import duty for some 800 items were altered; tariffs were raised by five or ten percentage points on most items while the rates on many others were reduced. Many of the reduced rates were raised again in April, May, and June.

February, March, April, 1972: The advance import deposit rates for a wide range of goods was further reduced.

July 5, 1972: Import duties on a number of inputs used in domestic industries were reduced.

July 18, 1972: All technical service contracts as well as trademarks, patents, and licensing and royalty agreements with foreign firms were required to have both the prior approval of the Exchange Office and authorization by the Royalty Commission.

July 19, 1972: The 85-day waiting period between customs clearance of current imports and the return of advance import deposits was eliminated.

November 1972: Further reductions were made in the advance import deposit requirement.

December 1, 1972: Certain measures for the protection of domestic manufacturing were provided. Public sector purchases were to be directed primarily to domestic industrial products.

December 30, 1972: Import duties on 569 tariff items were increased by an average of three to four percentage points to adapt the Colombian customs tariff to the minimum external tariff of the Andean group.

January 1, 1973: Following persistent reports of irregularities, a reduction in the CAT for emeralds from 15 to 12 per cent was implemented.

February 20, 1973: The coverage of the free list reached about 43 per cent of 1972 reimbursable imports.

February 28, 1973: All advance deposit rates were reduced to no more than 10 per cent.

March 29, 1973: The CAT for agricultural exports was reduced from 15 to 13 per cent.

May 11, 1973: A new type of advance import deposit was introduced.

July–August, 1973: Several export restrictions were introduced.

July 1973: INCOMEX offices, including import control records, were destroyed by fire.

August 14, 1973: All items in the prohibited import list were transferred to the prior licensing list.

September 29, 1973: Further CAT reductions were announced for several products.

October 3, 1973: Advance import deposits were raised to a minimum rate of 35 per cent.

November 20, 1973: Lists of permitted exports, of prohibited exports, and of those requiring prior approval were established by INCOMEX.

January 1, 1974: The valuation basis for exports under the Vallejo Plan was changed from total export value to value added. Further CAT reductions were implemented.

March 1974: A large number of import duties were reduced.

June 1974: Nearly half of reimbursable imports were included in the free list.

August 7, 1974: Alfonso López Michelsen was inaugurated as President, following his election in April.

September–October, 1974: Using emergency powers, the new administration decreed an important tax reform and introduced other economic measures, including the near elimination of CATs.

November 1974: Delays in the processing of import requests were reported. The trend toward import liberalization seemed to have halted.

Appendix C

Abbreviations

BdlR: Banco de la República (central bank). BdlR-CN denotes the national accounts (*Cuentas Nacionales*) published by the bank; BdlR-IAGJD, the bank's annual report, *Informe Anual del Gerente a la Junta Directiva;* BdlR-RdBdlR, the bank's monthly statistical bulletin, *Revista del Banco de la República.*

BNM: Brussels Tariff Nomenclature.

CAT: Tax credit certificates given to minor exporters (*certificados de abono tributario*).

CEDE: Development Research Center at the University of Los Andes, in Bogotá (Centro de Estudios sobre Desarrollo Económico).

DANE: National Statistical Office (Departamento Administrativo Nacional de Estadística). DANE-BME denotes its monthly statistical bulletin, *Boletín Mensual de Estadística;* DANE-AGDE, its statistical yearbook, *Anuario General de Estadística;* DANE-ADCE, its foreign trade yearbook, *Anuario de Comercio Exterior.*

FEDESARROLLO: A private Bogotá research foundation specializing in development problems (Fundación para la Educación Superior y el Desarrollo).

GDP: Gross domestic product.

GNP: Gross national product.

IADB: The Inter-American Development Bank.

IBRD: The International Bank for Reconstruction and Development (the World Bank).

IFI: An agency of the Colombian government in charge of promoting industrial development (Instituto de Fomento Industrial).

IMF: International Monetary Fund. IMF-IFS denotes the fund's monthly statistical bulletin, *International Financial Statistics;* IMF-AROER, its *Annual Report on Exchange Restrictions;* IMF-DOT, its monthly and annual publication, *Direction of Trade;* IMF-BOPY, its *Balance of Payments Yearbook.*

INCOMEX: An agency of the Colombian government in charge of supervising foreign trade (Instituto Nacional de Comercio Exterior). The import control mechanism is a major part of INCOMEX.

LAFTA: The Latin American Free Trade Association.

PROEXPO: The export promotion fund (Fondo de Promoción de Exportaciones), also part of INCOMEX.

SITC: Standard international trade classification.

UA: Publication edited by Miguel Urrutia and Mario Arrubla, *Compendio de Estadísticas Históricas de Colombia* (Bogotá: Universidad Nacional de Colombia, 1970).

UNECLA: United Nations Economic Commission for Latin America. UNECLA-SB denotes the commission's *Statistical Bulletin for Latin America;* UNECLA-DANE, the statistical appendix to UNECLA's major study of Colombia, reprinted in DANE-BME, no. 226 (1970), pp. 115–189.

UNFAO: United Nations Food and Agricultural Organization. UNFAO-PY denotes its *Production Yearbook;* UNFAO-TY, its *Trade Yearbook.*

UN-YOITS: United Nations *Yearbook of International Trade Statistics.*

USAID: Agency for International Development of the United States government. Also referred to as AID.

USGPO: United States Government Printing Office.