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## The Mechanism for Containing Imports: The System During 1971 and a Retrospective Look at Its Evolution (Import Controls)

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CENTER DISCUSSION PAPER NO. 158

THE MECHANISMS FOR CONTAINING IMPORTS:

THE SYSTEM DURING 1971 AND A RETROSPECTIVE LOOK AT ITS EVOLUTION (IMPORT CONTROLS)\*

(PART A)

Carlos F. Díaz-Alejandro

September 1972

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## Chapter V (Part A)

### The Mechanisms for Containing Imports:

#### The System during 1971 and a Retrospective Look at Its Evolution (Import Controls)\*

We now come to the cornerstone of the Colombian system for restraining the demand for imports: the controls require registration of all imports with the relevant authority, which is now INCOMEX, invested with the power to prohibit or requiring prior approval of import transactions. This chapter will first explain the terms frequently used in the Colombian import licensing system, to be followed by a sketch of its historical evolution. The core of the chapter is a detailed examination of how the system worked circa 1970-71, including an attempt to quantify its decision-making process. This will be followed by a look at some of the effects of the whole import-repressing system, including tools discussed earlier, on the Colombian economy. Although the focus of attention is on merchandise imports, the chapter will close with a discussion of the exchange controls designed to repress the demand for imported services, and regulate capital flows, inward as well as outward.

#### Some Key Definitions

The Colombian state records the import process at several points: it first requires the registration of all intentions to import goods with INCOMEX, at fob values, except for "minor" imports; those intentions become registered only after they are approved. For items in the free list approval is granted almost automatically. When the goods come into the country and clear customs, they are recorded at customs, cif values. Finally, when the importer draws foreign exchange from the Central Bank, those exchange disbursements are noted. To obtain foreign exchange, the importer must present proof that goods have cleared customs. Table V-1 shows these different magnitudes for recent years; allowing for lags,

registrations and customs values are roughly equal. It appears that the cif/fob differential is offset by the cancellations, post-registration discounts, non-use, etc., 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 in the prior list, has fluctuated considerably during postwar II. During 1970-71 it was of about one month to one month and a half. 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 4 or 5 months. The lag between arrival and exchange disbursement, for those imports not financed by long term credit, is of about one month, under normal conditions.

The average link between actual imports (customs) and registrations can be seen in the following regression, using annual dollar data for 1950 through 1970:

$$(1) \quad [\text{CUSTOMS}]_t = 80.8 + 0.66 [\text{REGISTR.}]_t + 0.23 [\text{REGISTR.}]_{t-1}$$

$(1.6) \quad (6.4) \quad (1.8)$

$$\begin{aligned} R^2 &= 0.87 \\ \text{F-test} &= 58.8 \\ \text{DW} &= 2.9 \end{aligned}$$

From 1962 through 1969 this regression yields alternating under- and over-estimates of actual imports; thus, predicted customs imports for 1963 are 9 percent above actual ones, those for 1964 are 6 percent below, in 1965 they are 16 percent above, etc. The missing explanatory variable,

Merchandise Imports; Registrations, Customs Values  
and Exchange Disbursements, 1963-71

(Annual Averages in Million Current US Dollars)

	<u>1963-66</u>	<u>1967-70</u>	<u>1971</u>
<u>Total Registrations (fob value)</u>	<u>552.1</u>	<u>706.2</u>	<u>784.8</u>
<u>Reimbursable</u>	<u>484.4</u>	<u>596.1</u>	<u>710.4</u>
Ordinary draft	390.8	414.9	618.1
Compensation agreements	38.8	60.0	38.0
AID credits	20.2	86.0	13.0
Other credits	27.0	16.9	15.3
Special import-export systems	7.6	18.3	26.0
<u>Non-reimbursable</u>	<u>67.6</u>	<u>110.1</u>	<u>74.4</u>
With foreign loans	18.9	71.7	35.9
Other	48.7	38.5	38.6
<u>Merchandise imports (customs, cif)</u>	<u>555.0</u>	<u>667.4</u>	<u>      </u>
<u>Exchange Disbursements for Imports (fob)</u>	<u>371.0</u>	<u>475.3</u>	<u>612.7</u>

Sources and Method: BdLR - RdBdLR, several issues.

it was at first thought, was the past, actual and expected exchange rate behavior, on the grounds that expected devaluation, say, would induce holders of registered licenses to hurry-up the arrival and thus the payment for the merchandise. But experiments putting exchange rate changes in regression (1), lagged backwards and forward, yielded poor results.

The best is the following:

$$(2) \quad [\text{CUSTOMS}]_t = 92.3 + 0.74 [\text{REGISTR.}]_t + 0.11 [\text{REGISTR.}]_{t-1} \\ \quad \quad \quad (1.8) \quad (6.1) \quad \quad \quad (0.6) \\ \quad \quad \quad + 0.74 [\text{EXCH. RATE}]_{t+1} \\ \quad \quad \quad (1.2)$$

$$R^2 = 0.88 \\ F\text{-test} = 40.8 \\ DW = 3.1$$

In this regression, the actual percentage change in the real average import exchange rate a year ahead presumably picks up (realized) expectations about its movements. But clearly there are ad hoc factors influencing in a given year the lag between customs flow and registration; for example, a plausible reason for regression (1) to predict for 1963 a customs flow 9 percent below the actual one relates to doubts regarding how long import liberalization would last, provoking a quick realization of registered intentions to import. And once this happens for a year, the opposite can be expected for the next.

Regression (1) indicates that two-thirds of registrations are, on average, turned into actual imports within the same year, suggesting an average lag of 4 months. Note, however, that the coefficients for both registration variables add up to only 0.89, and that longer lags yielded insignificant results.

INCOMEX and its predecessors have classified registrations according to: (a) manner of payments to which they give rise; (b) types of importers; and (c) particular regime to which imports are subject.

The classification used at present as to the manner of payments for imports is presented in Table V-1. The reimbursable vs. non-reimbursable distinction is less helpful than it appears, because although all non-reimbursable 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 using IBRD or IADB loans, whose cash is kept in Washington, are considered non-reimbursable. 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 involving directly machinery imports is placed under "non-reimbursable"; other parts which may involve a dollar inflow deposited in the Central Bank to pay for other imports would come under "reimbursable."

The distinction according to types of importers 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; there is a fourth major group, "occasional" requests, made up mainly by 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 as imports 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. 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, such as the steel mill of Paz del Rio. Partly as a result of foreign "tied aid", and partly due to protectionist pressures, by law all official imports must go through the prior license 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. The former handles directly the major share of coffee exports, while the latter frequently imports in bulk, particularly from countries whose export trade is in state hands. For example, during recent years IDEMA has imported Chilean apples.

Only approved (registered) license requests are published; during 1971, of all registered reimbursable imports 56 percent fell under the "industry" category, 24 percent under "commerce" and 20 percent under "official." For 1970 the corresponding figures were 53, 29 and 19 percent, respectively. It may be estimated that during 1971 total requests, including those rejected, followed roughly the same breakdown, with the share for commerce slightly higher than those for industry and official.



The high share of import demand and of actual imports accounted for by direct users, whether private or public, is remarkable, and reflects the low share of consumer goods in the import bill. Note also that given what is known about import prohibitions and INCOMEX policies, a large fraction of the ex-ante demand does not bother to apply for import 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 fall under one of three regimes or lists: the prohibited, the free or the prior license list.<sup>1</sup> It will be seen that the coverage of these lists fluctuated considerably during the 1960s. During 1971, about 16 percent of all items (including subcategories) into which the Colombian tariff is divided were placed on the prohibited list. Table V-2 shows that list includes 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 items for which prohibitions appear redundant (e.g., coffee, cocoa, sugar, clothes, wood manufactures, etc.). An eccentric who wished to import coffee into Colombia, incidentally, would face not only a flat prohibition, but also a duty of 85 percent (if the bean is untoasted) or 170 percent (for toasted beans), plus a prior deposit of 130 percent. The list also includes items such as arms and habit-forming drugs. Note that while among the tariff chapters identified in Table V-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 percent of the categories were prohibited. Under special

Table V-2Examples of Tariff Chapters with Abundant Prohibitions Circa 1971

<u>Chapter Number and Description</u>	<u>Total Items in the Chapter</u>	<u>Prohibited Items</u>
2 Meat and edible offal	20	20
3 Fish, shellfish and molluscs	18	10
4 Milk and dairy products, eggs, honey	16	13
7 Edible legumes, vegetables, plants roots, tubes	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, felps, 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
Sub-total	707	469
Other chapters	<u>3,643</u>	<u>235</u>
<u>TOTAL</u>	<u>4,350</u>	<u>704</u>

Sources and Method: Information obtained from Arancel de Aduanas, op. cit.

circumstances goods in the prohibited list can be imported, as under the "Plan Vallejo." During 1971, for example, nearly one percent of all registered reimbursable imports were items in the prohibited list. It may be noted also that some goods are prohibited for most purposes, but subject to prior licenses for a few other, e.g., some types of paper, prohibited except for use of the printing and publishing establishments.

The free list, besides Plan Vallejo and LAFTA imports, included during August 1971 only about 150 items, or 3 percent of all categories in the tariff. However, free list items accounted for 29 percent of all registered reimbursable imports in 1971 and 23 percent of all imports registered (the free list is limited to reimbursable imports). Free list items can be brought into Colombia without a prior license; all that is required, in principle, besides payment of duties and prior deposits, is the registration of those imports with INCOMEX. Typically such process is routine, but INCOMEX can challenge the dollar prices appearing in the registration; such control is justified on grounds of combatting overinvoicing, and can lead to denial of registration even of items in the free list. The threat is not just theoretical; e.g., some book imports have been held up recently for this reason.

Goods in the free list include 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, many types of engines, etc. Among the rest one finds unmanufactured copper, lead, zinc, aluminum; some types of steel and nickel sheets; newsprint, etc. Of all

tariff items (528) in chapters 84 and 85, which include most electrical and non-electrical machinery and equipment, excluding transport, nearly 10 percent 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 that list.<sup>2</sup>

Goods neither in the prohibited for the free list are subject to prior licensing, which covers the bulk of imports. Items can be moved from one list to another by a simple decision of INCOMEX; so long as a given commodity remains in the free list, it could be said that its demand depends only on income, prices, tariffs, etc., but in reality this is so only so long as that demand stays 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; this is why in Chapter II no distinction was made among prohibited, prior license and free import lists when deriving the overall import function.

There is a further distinction, primarily applied to industrial requests, between global licenses and ordinary or regular licenses. Global licenses, started in 1965, apply basically to imports of capital goods for projects involving the creation modernization or expansion of capacity, exceeding US\$40,000 and, if granted, are simply an approval in principle to import. After obtaining a global license, an importer is typically given about 3 months to apply for ordinary licenses; extensions, however, are possible, and longer time limits are 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 19 page questionnaire, together with estimated import requirements to INCOMEEX, which has a special section for analyzing those projects. The motivation given for global licenses is to avoid having a situation in which projects are delayed by having, say, 90 percent 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 project, will be approved. Another advantage associated with global licenses is that they are typically accompanied by the "gravámen único," or single tariff. By this procedure, the importer will pay a single rate of duty on all capital goods, a rate which is below the average for all the individual items.

Global licenses are not obligatory for investment projects, but highly convenient; they give the government an important tool to control private capital formation, and entrepreneurs a way to commit the government to the realization of a project. In the difficult year of 1967, global licenses worth US\$48.4 Million were approved and US\$7.4 were rejected; in 1969 approvals reached US\$110.2 Million, and the corresponding number for 1970 was \$84.7 Million. In contrast, actual imports of all capital goods during 1969-70 averaged US\$346.1 Million annually.

### A Historical Sketch of the Import Control System<sup>3</sup>

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 three-fold increase in ten years, foreign exchange reserves declined during 1946-48, and the import and exchange controls which began during the Great Depression

became increasingly detailed and complex. As noted in Chapter I, exchange rate policy appears to have become frozen by the peculiar circumstances of World War and postwar 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 a 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 non-reimbursable category was already present, and at that time it probably included many imports financed with dollars acquired in the black market; licenses for the purchase of certain imports were given preferential treatment. Most imports were effected at the basic exchange rate of 1.96 Pesos, but had to bear varying amounts of exchange taxes (from 10 to 30 percent). Import of machinery and equipment were effected at mixed rates, made up of varying proportions of the basic selling rate, and of the exchange certificate market, which in December 1949 stood at 2.86 Pesos. "Luxury" imports went through this latter market, and also bore exchange taxes.

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

On March 1951 the basic import rate was devalued to 2.5 Pesos for US dollar, and 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. Prior import deposits were also liberalized, and stood at only 10 percent during 1952. 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 percent was collected on all registrations; a few imports required prior approval of certain ministries (e.g., for health reasons, as in many industrialized countries). Even some items in the prohibited list could be imported if they originated in countries having either a balanced trade or barter and payment agreements with Colombia, and other prohibitions were lifted if "export vouchers" (introduced in August 1952) issued for certain minor exports were used to finance their importation, so long as those exports and imports related to the same foreign country. In short, the March 1951 simplification and liberalization of the control mechanism, coupled with favorable conditions in the world coffee market, ushered the freest postwar II era for Colombian importers, which was to last, with minor modifications, through the end of 1954. During part of 1954 even the prohibited list was abolished, and replaced with a flat 40 percent tax.

As the domestic boom got out of hand and coffee prices began to waver late in 1954, the authorities chose to hold on to the 2.5 Pesos rate and reinforce and reintroduce 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 non-essential goods and prohibited (luxury) goods. Stamp taxes went from 3 to 100 percent. Imports of some foodstuffs were to be handled only by a special corporation. Prior import deposits were raised. Since late 1954, the granting of the exchange for import payments was made contingent upon arrival of the merchandise in Colombia, a regulation which had been abolished in November 1951.

As import pressure continued to grow, a free market import rate was introduced in May 1955; most nontrade transactions and less essential imports were shifted to that new market. By the end of 1955, the fluctuating free market rate had reached 4.2 Pesos. The payments situation, however, continued deteriorating; it appears that at that time attempts at control relied mainly on indirect measures, such as stamp taxes, the free market rate, etc., plus exchange control. In other words, "essential" imports continued being registered freely and flooded into the country, and they remained the bulk of the import bill,<sup>4</sup> while the queue 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 to buy immediately exchange at the official rate of 2.5 Pesos for half of the value of their pending applications, if they obtained the other half in the free market, which at that time stood at about 4.7 Pesos. By the end of 1956, that rate was 6.5 Pesos. The payments crisis provoked in October 1956 the closing of the exchange registration office, except for the



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.

These changes came too late, of course, to avoid a sharp increase in Colombian commercial arrears, which began to be noticed late in 1954, and by the end of 1956 had reached roughly \$400 Million dollars. The payments crisis, falling coffee prices, and domestic inflation cum stagnation contributed to the overthrow of the government of General Rojas in May 1957. The lesson that exchange controls buttressing a pegged rate, without prior import licensing, can easily lead to payments trouble has influenced Colombian import control policy to this day.

The stabilization plan of June 1957 placed all import payments under a new certificate rate, which by December 1957 stood at 5.4 Pesos, abolishing the grossly undervalued 2.5 Pesos rate. Payments for most imports were subject to a 10 percent remittance tax, so the de facto rate reached six Pesos. 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 is the one now in effect, was consolidated by Law 1 of January 1959. Prior exchange registration was also enforced systematically beginning in 1957 for import payments, requiring submission of import registration plus evidence that the goods had entered Colombia. Importers were given the choice of paying using a free market (at 6.2 Pesos at the end of 1957) in which case they were

exempted from the 10 percent remittance tax. The higher import exchange rates, and tougher prior import deposits, allowed the relaxation of import licensing for some commodities; during the second semester 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 percent 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 severe but fairly steady; some even saw a trend toward liberalization as exchange reserves recovered. Certainly imports recovered steadily from their 1958 low. But, as already noted in Chapter IV, such optimism also led to an abandonment of exchange rate flexibility; in fact, during 1960 the free rate, applied mainly to capital movements, invisibles and most minor exports, came increasingly under fire not only within Colombia but also among international civil servants, who urged its unification with the more "stable" certificate rate. During 1961, however, it became obvious that such unification, at least at the lower certificate rate, would be foolhardy.

Difficulties in the world coffee market continues 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 the flat prohibitions,

frequently of protectionist intent, than by rejection of license applications. About half of the items in the tariff were at that time in the prohibited list; within registered imports, the share of those in the free list had declined slightly to 60 percent, from about 65 percent in 1959. The value of import license requests rejected as a percentage of the value of all license applications fluctuated around 15 percent 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 deals involving mostly new coffee exports. Imports not normally permitted were occasionally allowed from bilateral partners (e.g., automotors, giving the Colombian stock of such vehicles a very heterogeneous and picturesque nature, including rural jeeps in urban centers) in exchange for coffee sold at de facto discounts perhaps as high as 20 percent. During 1961, about US\$30 Million worth of imports were licensed under barter and bilateral agreements.

By early 1962 it became clear that the commitment to a pegged import rate would have to be buttressed using other import repressing policies; in April 1962 import prior deposits were raised, and import licensing hardened. By September 1962 virtually all imports were made subject to prior licensing; and in November new import registrations were completely suspended for six weeks. The free rate, which during the first half of 1960 had remained steady at about 6.8 Pesos, ended that year at 7.2, and by December 1961 had

reached 8.8 Pesos. It showed great instability during 1962, and finished that year at 11.1 Pesos.<sup>5</sup>

In the new cycle following the devaluation in November 1962 of the basic import rate, the expected relaxation of import controls did not last long as a result of the failure of that stabilization program to significantly change relative prices. The prestige of licensing as the tool to repress imports rose as that of exchange rate devaluation sunk; during 1963 and 1964 it became almost unthinkable to again move the 9 Pesos peg applicable to imports; even the January 1963 pegging of the 10 Pesos free rate withstood pressures until October 1964. Naturally, the share of imports in the free list in total registration fell from 60 percent in 1960-61 to about 35 percent in late 1964 and lower still in early 1965. The time taken to decide on import requests lengthened, and during the last half of 1964 it reached, on average, nearly three months. Prior import deposits were kept in the Central Bank longer than usual, going often beyond ten months. By late 1964 about 35 percent of all license applications were being refused, and bitter and severe criticisms were again levied at beleaguered import control authorities. On December 1964 the free list was suspended first for 90 days, but its elimination was continued until September 1965; prior exchange registration was made more difficult, resulting in a new piling up of commercial arrears. Early in 1965 prohibitions were extended, and licensing became increasingly slow and difficult, particularly for capital goods.<sup>6</sup> Fresh attempts were made to divert both private and official imports toward bilateral partners, particularly with capital goods such as agricultural and construction machinery, elevators, tractors, trucks and other vehicles. Some Colombian trading partners which felt injured by these practices, particularly the U.S. and the Federal

Republic of Germany, made their displeasure known directly and indirectly.

The chaotic first semester of 1965 gave new ammunition to those wishing to rely less on controls and more on a higher import exchange rate. By April 1965 average delays in handling import requests reached 6 months, and pressures on control authorities mounted. The top political leadership, however, remembering the debacle following the devaluation of November 1962, fiercely opposed any such move. Thanks to the fine work of the "Junta Monetaria," a compromise was finally worked out: on September 1965 the official market was divided into a preferential rate, at the old 9 Pesos parity, for foodstuffs, chemicals, pharmaceuticals, etc., and a new intermediate rate of 13.5 Pesos,<sup>7</sup> to which less essential imports would be gradually transferred. The free rate which had reached 19.2 Pesos in August 1965, fell to 17.8 Pesos by October 1965, so political authorities could argue, for debating purposes, that their actions had actually led to a peso appreciation.

On such shaky and tricky foundations was based the most systematic attempt at import liberalization attempted in Colombia during postwar II, with Colombian and international technicians thinking they had outfoxed what they regarded as an economically illiterate political leadership. Because of the lack of candor and clarity with which the plan was launched, a number of points were left ambiguous, and were to haunt policy makers a year later. In particular, whether or not the plan included a willingness to change upwards the 13.5 Peso rate was left fuzzy; in September 1965 such fuzziness was part of selling the package and avoiding inflationary expectations, a lá 1963, but by September 1966 this was a source of irritation between Colombians and international creditors. Among the latter, some were convinced in 1965 that Colombian authorities had committed themselves, to, if necessary,

depreciating the intermediate rate, in line with a policy of exchange flexibility, rather than reverse import liberalization. In fact, they expected such further devaluations to be necessary, suspecting that the 13.5 Peso rate was too low. Other architects and sponsors of the plan, one may speculate, probably assumed that import liberalization would inevitably drag the authorities, unable to reverse liberalization, to further devaluations in the future, whether or not they were willing to consider such possibility in September 1965. By this time, it should be noted, the Monetary Board had been given the power to make exchange rate adjustments at any time and of any size. The free rate was still allowed to fluctuate freely, and some hoped that eventually an upward crawling intermediate rate would reach and merge with the free rate. The progressive liberalization of import controls would test the appropriateness of the 13.5 Peso rate, which was to yield if the import surge proved to be too great. A species of "chicken" game was set up.

The original plan called for a removal within six months of prior licensing on about half of all imports, which eventually would be extended to 65 percent of all imports; it was expected that imports of capital goods for industrial plants would be kept under control as part of the mechanism for investment planning. In fact the pace of liberalization went even faster. The free list was expanded in each of the following dates: September 8, November 11, January 27, 1966, February 22, February 28, March 17, July 29, and August 21. By this latter date nearly all imports had been moved to the intermediate exchange rate; most imports were now either prohibited or in the free list, although some remained subject to prior licensing. Furthermore, starting in October 1965, advance import deposits were reduced

every month by 5 percent of the rates in force on September 30; the plan called for continuing this rhythm until those deposits were eliminated in twenty months. In late August 1966, however, it was announced that those 5 percent cuts were to be quarterly, not monthly, starting in November, 1966. It will be recalled that between September 1965 and August 1966, numerous modifications, mainly upward, were also introduced in the tariff, in principle to harmonize it with import liberalization.

As seen in Table II-2, the customs value of imports surged after the fourth quarter of 1965; import registrations had already picked up in that quarter. For the whole of 1965, of all registered imports only 15 percent had been on the free list; the corresponding figure for 1966 was 56 percent. It may be noted that this liberalization did not much change the prohibited list.

The free list, which by October 1966 was accounting for about 80 percent of all registered imports, had totally disappeared by December, by which date the liberalization episode appeared to lie thoroughly wrecked. This dramatic policy turnaround will be examined in detail in the next chapter. 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 percent were rejected. In terms of value, about 25 percent of total requests were turned down; the percentage was lower for global and non-reimbursable requests, and higher for reimbursable ones. Steep prior import deposits were reintroduced and exchange controls were tightened. Imports dwindled; their custom value in 1967 was 26 percent below 1966, while the drop in registrations was of 18 percent. Only since May 1968 did the free list

regain some significance; free list registrations were only 4 percent of all reimbursable import registrations in 1967, rising to 12 percent in 1968. The liberalization rock continued to be pushed uphill, slowly, once again; the free list by 1970 had reached 20 percent of all reimbursable registrations (17 percent of all registrations). During 1968 prior import deposits began to be lowered once again, a process which has continued throughout 1972.

Beginning in March 1967 the import and exchange control system took the basic shape it had circa 1971. It is generally granted that a number of administrative improvements were introduced during these years; the next section will present a closer look at its operation around 1971. It should be borne in mind that the next section is a snapshot of a system slowly evolving in the direction of liberalization. Indeed, much of the fine reputation of the present Colombian system of import control may be due to the fact that it has presided over a situation of gradual relaxation and growing exchange availabilities. It is not clear how it would hold up under a larger gap between ex-ante import demand and exchange availability.



The Operation of Import Controls during 1971

All potential importers must present INCOMEX with a detailed description of the goods they wish to purchase, 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 they wish to import, inventories of those products and their expected duration, etc. A different form must usually be completed for each commodity, although exceptions to this rule are possible; there are slightly different resolution 15 forms for industry, commerce and official requests.

The INCOMEX staff first checks to see whether all the required documentation and information has been presented fully and accurately. Besides import description and the resolution 15 form, importers must show evidence of tax settlements, and of having carried out 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. INCOMEX<sup>8</sup> 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 careless company employees who completed the forms then call such devolutions rejections, to protect themselves. Problems arise

particularly with new or complex products. In fact, the punctilliousness 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 resubmit a new at once. During 1971, it may be estimated that of the total value of requested imports, only about 3 percent were returned for containing 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 regarding their physical attributes. Potential importers whose requests have been turned down on these grounds bear the burden of demonstrating to INCOMEX that local production is in fact different from possible imports because of quality, product specification, etc. Price differences, unless "outrageous," are not considered valid grounds for importing. INCOMEX occasionally brings together the potential importer and the local import-competing producer, to iron out serious disagreements regarding prices and whether or not the good in question has the same quality and specifications. INCOMEX officials occasionally visit plants of import-competing firms to verify their capacity, output quality, etc., a time-consuming 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 that pharmaceutical companies operating in Colombia, for example, but owned from abroad, have been shown to have inflated the value of their imports of raw materials, as a way of disguising profit remittances abroad.<sup>9</sup> Thus, import control emerges also a tool to regulate intra-company transfer of pricing, particularly for foreign investors in the import competing sector. The need for such regulation, of course, would disappear if those companies were not to receive protection against imports of finished products. Even items in the free list may be held up if there is suspicion that dollar prices declared in the registration request are out of line with "world" prices.

As much direct foreign investment takes the form of imports of machinery and equipment, the registered value of those imports becomes later on part of the base on which Colombian regulations compute allowable profit remittances abroad. It is thus important for the control system to check on the real (international) value of the machinery, typically brought in with non-reimbursable licenses. Stories are told of gross overvaluation in some license requests, designed to inflate the value of foreign investment.

All of the above procedures are handled by the "Junta de Importaciones" staff, which does 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 possibility of approving an application partially, lies in the "Junta de Importaciones", a body of five permanent

members, including the head of INCOMEX. Decisions on all roughly 150,000 annual prior license applications 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 3 members of the Junta, the others, particularly the INCOMEX head, having other duties. The technical staff of the Junta is also small, fluctuating around 15 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 Bogota, in spite of pressure from various regions to decentralize the Junta's decision-making powers. The Junta decisions are, in principle, public; article 75 of Law 444 of March 1967 orders INCOMEX to publish weekly all import permits granted, as well as publishing other data on its operations. Decisions on rejections have been published off and on; their public knowledge for a while stimulated fraudulent activities 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 8 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.

The Junta de Importaciones receives each month from the Junta Monetaria, the top monetary authority, an overall foreign exchange budget for all imports, decided 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 it may disturb its modus operandi. In particular, rumors of a cut in the monthly limit are said to produce sharp increases in license applications.

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 let in if the quality of domestic output deteriorates markedly, or if domestic prices become "too" 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 in 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 in the prior list to discourage monopolistic practices of domestic producers. The protectionist bias also shows in the occasional practice during the 1960s of transferring items from the free to the prior license or prohibited categories as soon as a new plant begins to produce locally a previously importable good (that transfer may actually be done before the plant begins to operate, to ward off inventory accumulation). During recent years, however, the number of items transferred into the prohibited list has dwindled. But the import control mechanisms has remained a key tool for protecting large new ventures, such as the automobile industry, for which special regimes and policies are established. Junta officials defend their

protectionist bias bluntly: given other policies and circumstances outside their control (exchange rate policy, coffee prices, etc.), and given the need to ration foreign exchange, what better criterion can one find than to ask from potential importers whether or not they have checked to see whether the product they wish to bring in can be found within Colombia? And in doubt is better to deny a request on protectionist grounds, it is said, a decision which after all can be reversed, than to allow imports demaging to a local producer, a decision more difficult to offset. A last argument given by INCOMEX in favor of its protectionist stance will baffle the pure trade theorist: as there are very few firms exporting one hundred percent of their output, they say, weakening the local base of most firms by allowing "excessive" competition from imports will hurt their exporting capacity. As noticed in Chapter 3, this argument has short run validity in a setting of monopolistic competition; its validity for the long run, however, is very doubtful under most normal assumptions regarding firm behavior.

The process of establishing whether or not there is domestic production of a given item is not without loopholes; a given large company, for example, can have a subsidiary declare that it does not produce locally a given product, so that it is allowed to import it. The same subsidiary may declare to INCOMEX that it does produce the same 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.

Some Junta members admit to a bias in favor of applications from less developed regions within Colombia, and from firms with good records in non-traditional exports (with or without the "Plan Vallejo"). 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 channelling imports toward those firms which 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 the 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 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; as "good" labor relations are likely to be associated with high wages (and relatively low employment), a bias in favor of capital-intensity may be introduced this way.

The Junta de Importaciones also examines the actual and expected inventories levels of the applying firm, and turns down a request if stocks are deemed "excessive." Inventories for 4 to 6 months of production needs are considered reasonable, and are encouraged to save INCOMEX the paper work involved in more frequent requests associated with lower inventories.

This gentlemanly, case-by-case style of import control leads to biases not always fully recognized by those in charge of its operations.<sup>10</sup> 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 stringency, those of lesser known, smaller newcomers, many of which may not even bother to apply. The Junta prides itself, with good reason, of remaining open to complaints from importers, and its members incredibly find time to listen to an unending stream of petitioners, whether powerful or not. Furthermore, it argues that at times of stringency, proportional cuts in import requests are larger for bigger than for smaller firms, and that it tends to overlook more easily faulty request forms from small than from large importers.

But on balance, the larger and better known importers find it easier to communicate with the Junta than others. 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 in the highest floors of the tallest building of Bogota. Some Junta officials candidly admit that this may be so, but given their strong belief in the necessity of control, 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 requests are simply a way to seek legal "window-dressing" for contraband; a shop, it is alleged, would rely mainly on smuggled imports, but use an approved import license as a cover-up for its mostly illegal activities. A similar argument is sometimes given to justify flat prohibitions of some imports, as that way one is sure to know that if those goods are found within Colombia they come from contraband.

The argument that large firms can use some imported capital goods at fuller capacity than small ones is also heard; for example, import requests for computers from small and medium size 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 by the large firms abroad leads to dollar unit values for imports lower than those which would be obtained by many firms purchasing small amounts each.

The Junta keeps files of importers, including black or grey lists of those caught engaging 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 below, however, that the number of major importers is considerably less.

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 below.

Given the location of the Junta in Bogotá, Bogotá-based companies have an edge regarding access over those located elsewhere. Pleas from other cities, Cali and Medellín in particular, for regional offices with the power to decide over 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 in the free list can be registered at the 27 INCOMEX regional offices outside Bogotá. The shuttling between provincial centers and Bogota 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; the memo 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 strategic to keep production going, admitting 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 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 favoring 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 very specific nature and are expected to get into production with a shorter lag; at any rate, the pressing nature of industrial needs is easier to demonstrate than that of commercial requests. Whatever the reason, this fact further reinforces the bias against smaller industrial firms, which rely more on commercial intermediaries for imported inputs than 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 tends to be higher than those of the larger firms, anyway; 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 premia-inclusive prices for those items for which permits have been obtained; attempts to lower imported inventories run the risk of stopping production at times of crisis if INCOMEX fails to handle license requests quickly.

Applications in the "official" category are in principle subjected to the same procedure as others; as they involve duty-free imports, recently there have been special efforts made to ascertain that they do not bring into the country goods produced locally. Attempts to influence the Junta by open flexing of political muscle appear to be surprisingly limited; import requests from the Armed Forces and Congress, of course, receive very careful treatment, and rejections of those requests are documented particularly well. But there are occasional rejections of applications from those sources (often, alas, on ultra-protectionist grounds), as well as from other powerful public agencies. On balance, however, there is a presumption that official requests should be given priority, and are said to fare better than private requests, particularly at times of stringency.

Traditionally, non-reimbursable license requests are said to have had better chances of approval than reimbursable ones, simply because they did not involve claims against Central Bank 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 refusals for non-reimbursable requests. The budding

Colombian capital goods industry has exerted pressure in this direction, also pointing out the low duties (and frequent exemptions) on capital good imports. Local entrepreneurs have also loudly complained when direct foreign investors have been allowed to bring in machinery, with non-reimbursable licenses, whose importation is not possible when requested via 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, incidentally, that INCOMEX generally follows a policy of non-discrimination between import requests from locally and foreign owned companies located within Colombia. More on this below. At a more pedestrian level, the possibility of importing autos with non-reimbursable 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, these 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 new comers to the industry, projected output is taken into consideration; for others, historical imports provide a first approximation to actual needs. When some important raw material is both imported and produced locally, and the latter is more expensive and/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 fo the 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 those goods. Such favortism, 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.)

In the case of requests for global licenses, covering investment projects, the relevant department of INCOMEX is supposed to coordinate their 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 Ministry of Development and IFI, a public body which finances and sometimes runs industrial projects; this Committee has witnessed on occasion bureaucratic rivalries among its members. The Junta de Importaciones retains the ultimate power to accept or reject the applications, and there have been cases when the Junta has taken decisions contrary to the resolutions of the mixed Committee on Global Licenses. The data which are required together with the request for global licenses are extensive, and potentially permit a fairly comprehensive benefit-cost study of each investment project. My 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

is supposed to study about 5 projects per week.<sup>11</sup> However, this mechanism has been increasingly used to insure 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 the exact compliance with such targets, but the companies know that systematic departures from those promises can lead to a displeased and colder INCOMEX in the future. Once a global license has been obtained, ordinary requests charged against it are typically granted almost automatically; furthermore, changes in the specifications of equipment to be imported are allowed with relative ease. The processing of the global license request itself is taking an average of about two months, although not surprisingly, there are substantial variations from this average, depending on the nature of the project. It may be noted that in reviewing global licenses INCOMEX examines the proposed ways of financing those imports, and can suggest modifications.

The 19-page questionnaire which must 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.

In many cases, the same project processed by INCOMEX with an eye on import demand will also be analyzed by other members of the Committee on Global Licenses, and the Committee on Royalties (which supervises these 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 inter alia to save paper-work and to avoid complications at customs, and the associated "gravámen único" or single tax have come under increasing fire from within the government not only for lacking sufficient coordination with bodies outside INCOMEX, but also for excessive generosity in reducing tariff rates on capital goods inputs.

Ordinary and global licenses are normally examined by INCOMEX following the chronological order of presentation; ordinary licenses are decided usually within a month or a month and a half of presentation, while for global licenses the waiting period is naturally longer and less predictable. Extensions and modifications of ordinary licenses take less than a month. INCOMEX claims that urgent requests are handled even faster, if necessary in a day (say in the case when parts are essential to prevent production breakdowns). Rejections of applications are accompanied by the reason or reasons given by the Junta for such a decision (there are 72 such possible reasons listed by the Junta); it is frequent, particularly during times of severe exchange shortage, that new applications will rapidly follow the rejection, but during more relaxed times, as during 1971, the (few) rejections are taken more seriously. Once approval is secured, and imports have cleared customs, there is no particular difficulty in obtaining the foreign exchange for payment. With memories of the piling up of commercial



arrears of 1955-56, and of the less dramatic one of 1966-67, still fresh in mind, authorities have been careful not to issue import licenses beyond expected exchange earnings since late 1966.

It is part of the INCOMEX style to avoid if possible having to say NO formally; so, particularly with global licenses, negative signals are frequently sent informally, and are never registered as rejections. Furthermore, as its policies are by now fairly well known, many potential importers do not even bother to apply, saving themselves the time, trouble and expense of applying.<sup>12</sup>

Ordinary import permits are good only for five months;<sup>13</sup> if imports are not brought in within that time, a new permit or three-month extensions of the old one must be secured. It has been argued that such limitations put the Colombian importer in a bargaining disadvantage vis-a-vis foreign suppliers, who aware of the time pressure faced by Colombians in shopping around, shade their prices upward. 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 questioned about the legality of reselling imported merchandise, for "industrial" companies, the 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 frowned upon by INCOMEX, if nothing else because it implies that "normal" requirements stated in the resolution 15 request form were misleading or false. Companies known to be systematically selling part of their imported industrial inputs to others are punished by INCOMEX with total or partial rejections of future requests; similar punishment is dealt

to individuals or companies which are discovered trying to import under several social or private names. INCOMEX's point is that they want 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 practice as quite reasonable, particularly if done during periods of stringency and in a "non-speculative" manner. Apparently, during 1971 very little re-selling or swapping of non-commercial imports took place, although some INCOMEX officials indicated that such practice was widespread during difficult years, e.g., 1967. The fact that most imports are purchased directly by companies which use them as inputs in the production of other commodities, so that arms-length market prices for those inputs are not observed in Colombia, makes it difficult, if not impossible, to establish exactly the premia attached to import licenses, a premia which in any case is 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 regulate the margin at which imported goods are resold, i.e., to control the premia derived from licenses. Such control, however, is very sporadic and unsystematic, and takes place mainly when somebody makes a scandal about excessive margins. Nevertheless, INCOMEX claims that import controls are superior to tariffs, inter alia, because they avoid making imports more expensive, a doubtful claim in view of the loose control over the license premia.

Conventional wisdom in Colombia regards the profitability of large importing commercial houses as very high; in particular, hardware stores reselling imports are popularly considered gold mines. 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 in which the Junta discriminates according to country of origin of potential imports. Requests to import television sets, for example, are said to have better chances of approval if exported from Spain rather than the U.S., 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 in contrast 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 purchase from Colombia 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 they are in surplus). Some Colombian officials complain that socialist countries with which Colombia has bilateral payments agreements do not advertise their goods as vigorously as they could among potential importers; often the Junta has to nudge importers so that they divert their purchases in that direction, for which areas import licenses are granted more readily than for imports from, say, the dollar area. But the quantitative importance of such trade remains small; as shown in Chapter II, during 1967-69, less than 3 percent of Colombian imports came from what the IMF-DOT calls Soviet areas.

As the Colombian foreign exchange position improved, particularly during 1971 and 1972, the role of foreign aid, and particularly that 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 advance-deposit requirements, and direct pressure on importers to buy from the U.S. Those were the days of bitter wrangling over "positive" and "negative" lists, "additionality," etc.<sup>14</sup> 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 Socialist countries.

The INCOMEX performance circa 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, for which stories typically associated with import controls were told (delays, corruption, inefficiency, etc.). The flexibility, efficiency and honesty of INCOMEX is also compared favorably with those of customs; the coordination between INCOMEX and customs, incidentally, is quite poor. 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, particularly 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 10 or 15 percent above the certificate rate (and less than that during 1972), so using exchange from this source was not particularly 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, which now allows imports worth less than \$20 (less than \$40 for books) without prior license nor 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. Nowadays the few controversies between entrepreneurs and INCOMEX deal more with imports which that institution has allowed to come into the country, than with denials of import requests.

Besides 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 combination against smuggling than a situation with higher tariffs and no import controls. A key element in their reasoning is that as more items are taken out of the prohibited list into the prior license one, more uncertainty will be planted in the minds of would-be smugglers, whose profit margins could be reduced or wiped out if INCOMEX all of a sudden 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 the workings of it, for possible application in their own countries.

INCOMEX does not handle the further steps an importer must make to obtain foreign exchange to pay for his goods, once they arrive in Colombia. This is the responsibility of the Central Bank, with which the importer must make a deposit in pesos equal to 95 percent of the needed exchange, twenty days before making an application for an exchange registration. Proof that goods have cleared customs must also be presented. At this stage, the request for exchange is granted very quickly; typically the exchange disbursement takes place about thirty days after the merchandise has gone through customs. The Central Bank, however, may double check with INCOMEX on unit dollar prices, to avoid overinvoicing.

Given the relatively relaxed exchange position of Colombia during 1971-72, it may be asked why no more dramatic liberalization steps have been taken. Junta officials reply that, in fact, very few import requests are being rejected; it may be estimated that the rejection rate during those two years has fluctuated around 10 to 15 percent of the value of all applications. Some officials favor placing most items in the prior license list, eliminating both the free and the prohibited lists. The post-1967 trend, however, seems to be a very gradual expansion of the free list, and an equally slow contraction of the prohibited one. The sole change of an item from the prohibited to the prior license list is said to have powerful (and desirable) effects on local producers. If just 1962 and 1971 are compared, as in Tables IV- and IV- a contraction of

both the free and the prohibited lists is apparent. There remains, nevertheless, a lingering fear that without import controls, and in spite of tariffs, there would be a cataclysmic upsurge of imports (à la 1966?), and massive bankruptcies among local producers.

The Treaty of Cartagena which created the Andean group calls for an elimination of administrative import restrictions among member countries, but even for those imports there are at present doubts whether the elimination of import controls will be very widespread or general.

## Footnotes to Chapter V

\* Mrs. Herminia Martínez Neufeld first explained to me the subtleties of the Colombian import licensing system. Lillian Barros, José Francisco Escandón, Stephen Kadish, Miguel Urrutia and Francisco Thoumi were also particularly helpful in the preparation of this chapter. Last but not least I must acknowledge the help received from many officials of INCOMEX in Bogotá, who were remarkably open and cooperative. Criticisms in this chapter toward the import control system must be clearly separated from any judgement regarding the way they carry out their tasks; indeed, my impression of INCOMEX officials is that they are an unusually hardworking, dedicated and public spirited group.

1. The lists are formally approved by the Superior Council of Foreign Trade (Consejo Superior de Comercio Exterior), under advise from INCOMEX, which acts as its technical secretariat. That Council is presided by the Minister of Development, and also includes the Ministers of Foreign Relations, Treasury and Agriculture, plus the head of the Planning office, the manager of the Central Bank, the manager of the Federation of Coffee Growers, 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 policy making 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 relies heavily on the IMF's annual Report on Exchange Restrictions, and on interviews with Colombian and officials in several interamerican and international institutions.

4. All import registrations were divided as follows:

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	<u>Official Market</u>		<u>Free Market</u>
	<u>Government</u>	<u>Private</u>	
1955	21%	75%	4%
1956	21	58	21
1957-First quarter	18	67	15

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5. The free rate, generated by a thin market, was influenced not only by expectations and other usual factors, but also by special circumstances, particularly conditions in neighboring Venezuela. Unregistered Colombo-Venezuelan border trade played an important role in the fluctuations of the free rate. The free rate, eliminated in November 1966, acted as a safety valve for the import control system; generally authorities looked the other way if imports were financed through the free market.

6. Some authorities justified their strict licensing of capital good imports with the curious argument that they would simply lead to higher demand for imported raw materials in the future. Some observers considered that import restrictions weighed more heavily on capital goods than on raw materials and even consumer goods during 1963 and 1964.

7. Fearing the inflationary repercussions of supplying dollars at the import rate of 9 Pesos purchased in the free market at about twice that amount, a differential covered by borrowing from the Central Bank, the "Junta Monetaria" established a 13.5 Peso rate for minor exports in June 1965. An ulterior motive in taking this step, discouraging to minor exports, was to prepare the way for a devaluation of the import rate, also to 13.5 Pesos. Technical advisers to the Junta and international civil servants had preferred a 14 Peso rate, both for minor exports and for imports. But given the political climate, 13.5 Pesos (a round 50 percent above the 9 Peso rate) was the maximum acceptable to the authorities. To show their faith in the feasibility of that parity, the Colombians launched in September 1965 the liberalization program. More on this in the next chapter.

8. When references are made to INCOMEX, in general, they refer both to formal regulations and informal opinions of INCOMEX officials interviewed during July-September of 1971, and during August 1972. In fact, the "Junta de Importaciones" is only a part of the whole INCOMEX organization, which also covers other aspects of foreign trade.

9. 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, Vol. II, No. 2, July 1971 (published by the National Planning Department, Bogotá), pp. 35-72. For the pharmaceutical companies in the sample, an overpricing averaging 155 percent was found. Over-invoicing is also said to occur in items such as books and machine tools, for which it is more difficult to ascertain exact prices, due to quality differences and heterogeneity of specifications.

10. 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, where demand also exceeds supply. At both places there is great resistance to formalize quotas, regarded as rigid, and a tendency to fudge criteria until they become a subjective Jell-O. Those controlling 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 committees in 95 percent of all cases. For the sake of that 5 percent power, the administrators prefer gentlemanly ambiguity.

11. INCOMEX curiously 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 re-think their venture carefully. This is but one example of the 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 involve projects which are in a fairly advanced state of study by the firm.

12. All requests for import licenses must be accompanied by a 100 Peso fee, and more recently, by an additional 50 Peso charge (a total of about US\$ 7). The paperwork required for making an application must also represent 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 gives it additional autonomy in contrast with government agencies more dependent on the national budget.

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

14. See Thomas L. Hutcheson and Richard C. Porter, The Cost of Trying Aid: A Method and Some Colombian Estimates, Princeton Studies in International Finance No. 30, 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 U.S., in June 1969.