

167
- P.
UNITED STATES TARIFF COMMISSION



ECONOMIC CONTROLS
AND
COMMERCIAL POLICY
IN
ECUADOR

One of a Series of Reports on
Economic Controls and Commercial Policy
in the American Republics



Washington
1945

UNITED STATES TARIFF COMMISSION

OSCAR B. RYDER, *Chairman*

LYNN R. EDMINSTER, *Vice Chairman*

EDGAR B. BROSSARD

E. DANA DURAND

GEORGE MCGILL

GEORGE Z. BARNES

E. M. WHITCOMB, *Acting Secretary*

FOREWORD

This is one of a series of reports on Economic Controls and Commercial Policies in the Latin American Republics.

Other work in preparation by the Commission relating to trade problems of the American Republics includes a series of reports under each of the following headings: Mining and Manufacturing Industries; Agricultural, Pastoral, and Forest Industries; and Recent Developments in Foreign Trade.

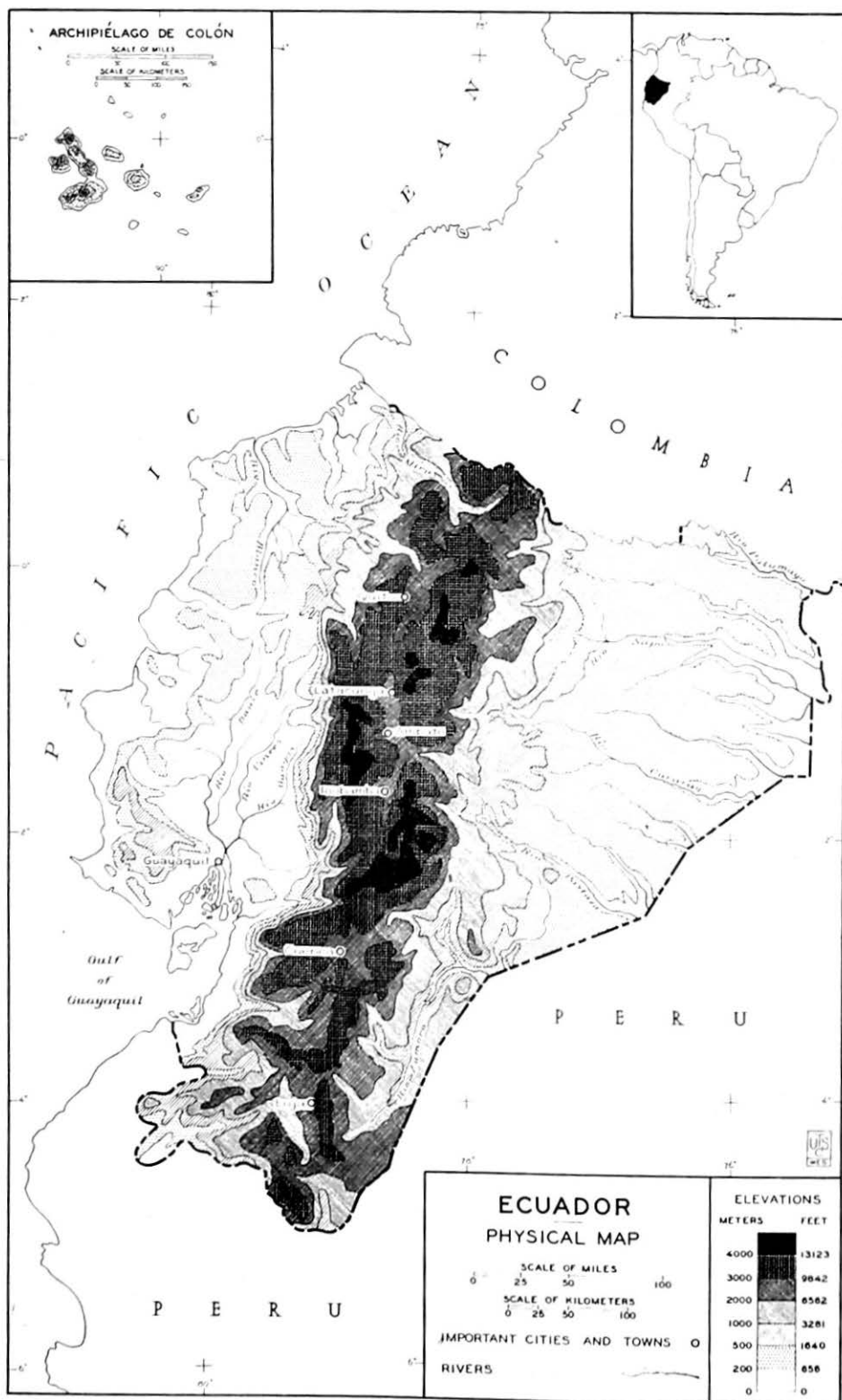
In the preparation of this report the Commission had the services of David Lynch, Allyn C. Loosley, and other members of its staff.

(23047)

CONTENTS

Introduction:

Ecuador—a summary description	1
The Ecuadoran economy	1
Pre-war foreign trade	2
General character of economic controls and commercial policy	4
Economic controls and commercial policy before 1940	5
The tariff	5
Customs surcharges	7
Import prohibitions	9
Export duties	9
Exchange and import control	9
Commercial treaties and agreements	11
Government monopolies	12
Economic controls and commercial policy since the outbreak of the war	12
Modification of import duties	13
Customs surcharges since 1940	13
Export controls	14
Export prohibitions and restrictions	14
The Inter-American Coffee Agreement	15
The Office of Export Control	16
Reimposition of exchange control	17
The Department of Control of Imports, Exports, and Exchange	17
Commercial agreements since 1940	19
The Ecuadoran Development Corporation	19
Mobilization of the domestic economy	20
Export and reexport control	21
Wartime financial controls	21
Rationing and control of vital materials	22
The Office of Priorities and Distribution of Imports	22
Price control	23
Post-war problems relating to controls and commercial policy	24
Future of the rubber and quinine industries	24
Prices and inflation	25



ECONOMIC CONTROLS AND COMMERCIAL POLICY IN ECUADOR

Introduction

Ecuador—a summary description.

The Republic of Ecuador,^{1/} situated on the west coast of South America, is bordered on the north by Colombia and on the south and east by Peru. An official estimate gives the area of the country as 125,000 square miles, including the Archipiélago de Colón (the Galápagos Islands), which has an area of about 3,000 square miles. The area of Ecuador is approximately equivalent to that of New Mexico.

The chief topographical features of the country are the two parallel ranges of the Andes which traverse it from north to south. These cordilleras, joined by eight transverse ranges, include some of the highest peaks on the South American Continent.

Ecuador may be divided into three regions: The coastal lowlands; the sierra, or Andean highlands, embracing the mountains and the interlying plateaus and valleys; and the Oriente, comprising that territory extending eastward from the Andes to the plains of the Amazon. The climate of Ecuador varies considerably, depending upon the altitude. It ranges from the hot, humid, tropical lowlands to the temperate and cold Andean highlands.

The population of Ecuador in 1943 was 3,106,000, or about 25 persons to the square mile. The population, however, is concentrated largely in the plateau regions of the Andes. Only two cities have populations of more than 100,000—Guayaquil, the principal seaport and commercial city, and Quito, the capital.

It is estimated that about one-third of the people of Ecuador are Indians; that somewhat more than one-fourth are of European extraction; and that the remainder are of mixed races, with the Indian strain predominating. A few Negroes live in the coastal plain. Ecuador has received relatively few immigrants since the colonial period.

The Ecuadoran economy. ^{2/}

Ecuador is essentially an agricultural country. The principal export crop, cacao, which usually accounts for one-fourth to one-third of the value of all exports, is grown chiefly in the coastal regions. In recent years production of cacao has exceeded 40 million pounds annually, almost all of which is exported. The Ecuadoran product is of high quality, and Ecuador is one of the leading sources of cacao, although, as a result of plant diseases, production has declined since about 1920. Some of the acreage formerly devoted to this product has been replanted to other crops.

^{1/} Officially known as República del Ecuador (Republic of the Equator).

^{2/} This brief description of the Ecuadoran economy relates principally to the period before the outbreak of the war.

The second most important crop, coffee, ordinarily constitutes about one-seventh of total exports in terms of value. In recent years exports have amounted to about 30 million pounds annually. Other agricultural products include rice, sugar, cotton; tobacco, corn, potatoes, and a wide range of other vegetables; and bananas, pineapples, oranges, lemons, and other fruits. Most of these are consumed almost entirely within the country.

Extensive grazing lands in the coastal and interior regions provide ample forage for the raising of cattle, which is the principal pastoral industry. Sheep are raised in the highlands. Of the country's pastoral products, only cattle hides are exported.

In addition to hardwoods and softwoods, Ecuadoran forests yield a number of products, including tagua nuts (vegetable ivory), rubber, annatto seed (the source of an edible vegetable coloring), red man-grove (a source of tannin), and kapok.

The mining of gold, found in several of the provinces of Ecuador, is the country's most important mineral industry. The value of the gold produced in 1939 was estimated to be 2.6 million dollars. Petroleum production, next in importance to that of gold, has expanded substantially in recent years, increasing from 1.4 million barrels in 1929 to 2.3 million in 1940. In the period 1936-38 two-thirds or more of all crude petroleum produced in Ecuador was exported. Other minerals occurring in the country include silver, platinum, copper, coal, lead, zinc, corundum, magnesium, sulfur, marble, and salt, but, except for silver and copper, the deposits have been developed only slightly.

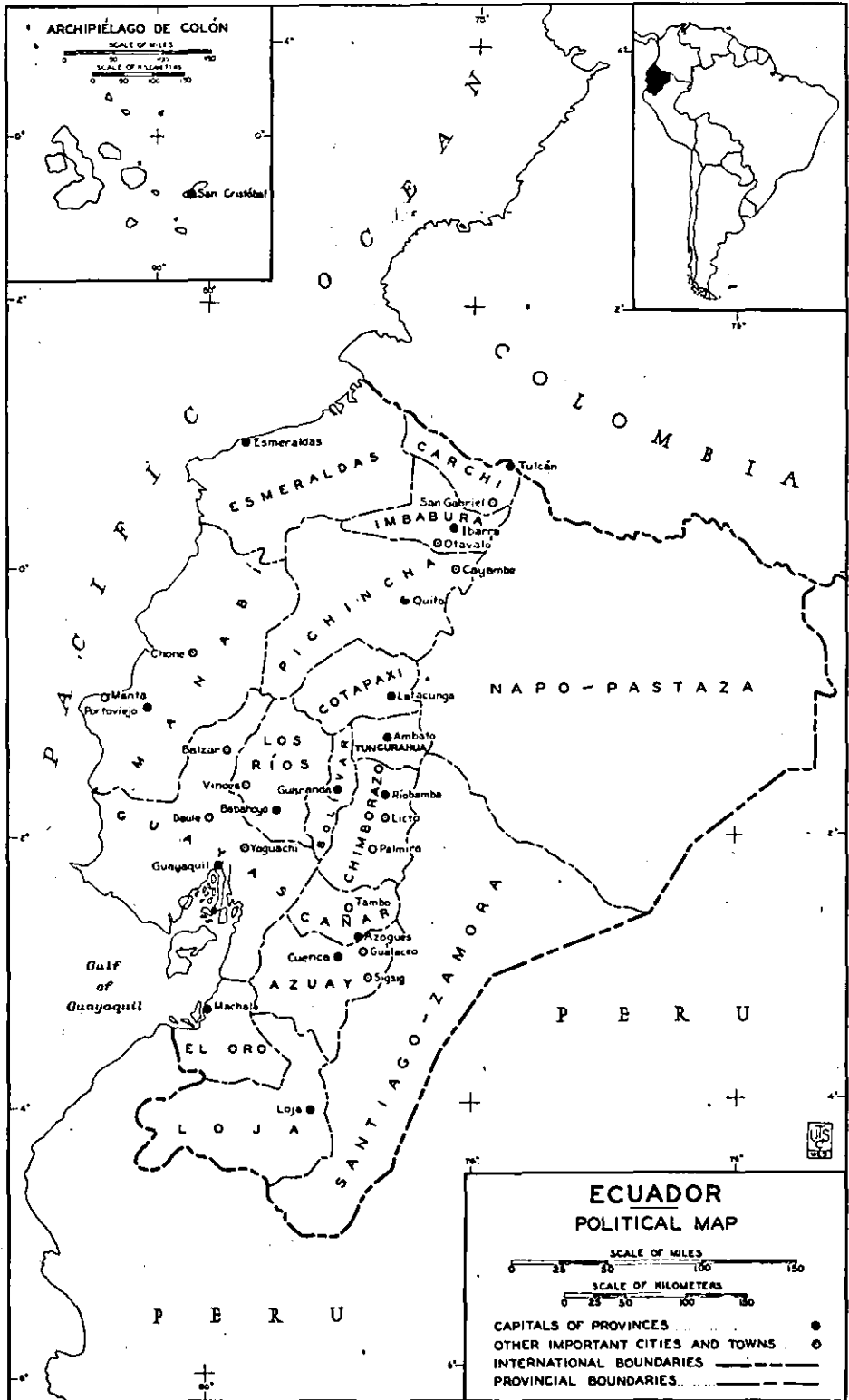
Although the Ecuadoran economy is based primarily upon the production and exportation of agricultural products, efforts have been made in recent years to develop manufacturing industries. As a result of the small domestic market, the scarcity of developed raw materials, and inadequate transportation facilities, however, the country's industrial development has not been rapid. In light consumer goods a number of industries have been able, with tariff protection, to offer effective competition to imported commodities. Among these are industries producing cotton textiles, rayon fabrics, drugs and medicines, toilet preparations, confectionery, biscuits, and rubber goods. The most important manufacturing industry in Ecuador is that producing textiles.

Pre-war foreign trade.^{1/}

Exports from Ecuador in 1938 were valued at 169 million sucres (12.6 million dollars) and imports at 148 million sucres (11.1 million dollars).^{2/} According to the trade statistics, Ecuadoran exports have customarily exceeded imports, the export balance in 1936-38 ranging from 1.6 to 3 million dollars. A considerable part of the Ecuadoran exports consists of petroleum and of cyanide precipitates, which are produced by foreign-controlled companies. Financial

^{1/} For a detailed analysis of the foreign trade of Ecuador as well as the other countries of Latin America in the decade 1929-38, see U. S. Tariff Commission, The Foreign Trade of Latin America, (4 vols.), Report No. 146, Second Series, Washington, 1942.

^{2/} In 1938 the average exchange rate of the sucre was \$0.0746.



returns to the foreign companies included in the sales value of these products do not ordinarily represent purchasing power available to Ecuador, and therefore this trade does not always provide foreign exchange in amounts commensurate with the values reported in the trade returns.

Cacao and coffee, the leading Ecuadoran export commodities, ordinarily have constituted two-fifths to one-half of the value of all shipments abroad. Mineral products accounted in 1938 for more than a third of total exports. A notable feature of the Ecuadoran export trade in the decade 1929-38 was the substantial increase in the quantity of coffee exported. In 1938 the principal markets for Ecuadoran exports, and the share of the total value taken by each, were the United States, 37 percent; Germany, 17 percent; France, 8 percent; Peru, 7 percent; and Uruguay and the United Kingdom, 5 percent each.

Ecuadoran imports consist of a wide variety of manufactured products and small quantities of raw and semimanufactured materials. Outstanding developments in the import trade in the decade 1929-38 were the rise in the relative importance of Germany and Japan as suppliers of imports and the declining importance of the United States and the United Kingdom. In 1938 the principal sources of Ecuadoran imports, with the share of the total supplied by each country, were the United States, 35 percent; Germany, 24 percent; the United Kingdom, 8 percent; and Japan, 7 percent. Other suppliers included France, Switzerland, Italy, Belgium, Chile, and Peru.

General Character of Economic Controls and Commercial Policy

The Government of Ecuador currently maintains a number of controls over both the internal economy and the foreign trade of the country. Controls affecting foreign trade have been employed to raise an important share of the national revenues, to foster domestic industry, to promote the sale of Ecuadoran exports, to husband and allocate exchange balances, to stabilize the coffee industry, to ration essential imports during wartime, and to mobilize the production of strategic materials. Internal controls, which have been used less extensively, have been directed to related objectives, including the development of Ecuadoran agriculture and industry, the raising of revenues through Government monopolies, and the control of prices.

In addition to providing revenue, the tariff has been employed in recent years to foster domestic industry and to conserve exchange balances. Import duties, together with import surtaxes, are a major source of governmental revenues in Ecuador, having accounted for nearly 30 percent of the total in the past two decades. Export taxes, on the other hand, have played a declining role over a period of years and now contribute less than 1 percent of the national revenues. Exchange control, inaugurated in 1932 and in effect during two periods before 1938, was reimposed in 1940. All foreign-exchange operations are now subject to control by the Central Bank, and permits, issued by the Department of Control of Imports, Exports, and Exchange, are required for all imports and exports. From time to time both import and export prohibitions have been employed in Ecuador. Export prohibitions have also been utilized to protect domestic producers when shortages of materials

were imminent. In 1940 Ecuador became a signatory to the Inter-American Coffee Agreement, which established export quotas for all coffee-producing areas in Latin America. Since the outbreak of the war, Ecuador has taken steps to mobilize the domestic economy to meet the needs of hemispheric defense; the measures adopted include control of exports of domestically produced strategic materials and of reexports of imported goods.

What may prove to be the most significant influence on the economy of Ecuador since 1940 is the recently organized Ecuadoran Development Corporation. With the aid of three United States agencies--the Export-Import Bank, the Rubber Reserve Company, and the Defense Supplies Corporation--the Development Corporation has surveyed the agricultural and industrial potentialities of the country, in order to promote the development of the national economy and especially to expand the production of rubber and cinchona.

In Ecuador, Government monopolies yield an important share of national revenues, usually accounting for more than 20 percent of the total. The most important monopolies are those which control the trade in tobacco, matches, alcohol, and salt. Since the outbreak of the war price control over essential commodities has been attempted along two lines. A committee has been authorized to establish price regulation for basic food products and other prime essentials. Similar control is exercised over the prices of essential imports by the Office of Priorities and Distribution of Imports; this agency also supervises the internal distribution and rationing of these commodities.

Economic Controls and Commercial Policy Before 1940

Economic controls in Ecuador prior to the war related primarily to foreign trade and were usually imposed to raise revenue, to foster domestic industries, or to husband exchange balances. These controls included both import and export taxes, export prohibitions, intermittent exchange control, and quantitative import control, as well as the operation of Government monopolies.

The tariff.

The basic tariff policy of Ecuador is embodied in a law which became effective March 30, 1938.^{1/} A substantial number of modifications of tariff rates have since been made, most of which have increased rates of duty. The law of 1938 was, in fact, one of a series of upward revisions which have taken place since 1929. In 1931 two measures increased duties on luxuries, as well as on food and alcoholic beverages, in order to limit the importation of nonessential commodities and to promote national self-sufficiency in food production. Three decrees in 1935, establishing higher duties on a long list of imported articles, were promulgated to provide additional revenues for the Government, to limit further the importation of nonessential commodities, to preserve exchange balances, and to strengthen the national currency.

^{1/} Executive decree, effective Mar. 30, 1938; see also Ley Arancelaria de Aduanas, Quito, 1938.

Further changes in the tariff were provided by four measures in 1936. Duties once more were increased on articles considered to be nonessential, as well as on automobiles, lubricating oils, and a limited number of additional items. One of these decrees provided for the incorporation into one law of all modifications in the tariff since the act of July 1, 1927. ^{1/} In 1937 substantial increases in duty were provided for more than 300 commodities. ^{2/}

The new law of March 30, 1938, repealing the act of October 31, 1936, provided increases in rates of duty for about four-fifths of the items listed in the tariff. The increases averaged about one-sixth of the previous rates. Few other changes of significance were made in the tariff until 1940.

In Ecuador the authority of the Executive to determine and modify the tariff has been very broad and has been exercised extensively. Before 1935 the Executive was empowered (1) to increase duties by not more than 50 percent of the basic rates or reduce them by not more than 30 percent, in the event of a national emergency; ^{3/} (2) to grant tariff reductions on or duty-free entry of the products of another country in exchange for reciprocal concessions; ^{4/} (3) to increase import duties by not more than 100 percent on luxuries and articles similar to those produced in Ecuador, and to decrease duties on all other commodities by not more than 50 percent; ^{5/} (4) to increase by not more than 150 percent the rates of duty applying to a list of specified luxury articles; ^{6/} (5) to conclude commercial agreements providing preferential tariff rates, if "convenient" to the interests of the country; ^{7/} and (6) to increase duties affecting luxury items and dispensable articles, by any percentage deemed necessary to stabilize exchange balances. ^{8/} The Executive was required to report all such modifications to the Congress, but their enforcement was not dependent upon legislative sanction. After September 26, 1935, the Executive exercised not only administrative but also legislative functions and thereby had exclusive control over tariff rates as well as the general administration of customs policy.

Since 1931 the tariff has been employed with progressive emphasis as an instrument of protection. Many of the increases in rates of duty have been initiated in order to foster domestic production; some care has been exercised to confine the protective duties to goods which are or might be successfully produced by domestic industry. As a consequence a number of domestic industries have been stimulated, as is best illustrated by the expansion of the textile industry since 1935. The tariff, however, is not the only protective device which has been employed; others include the devaluation of the sucre and various import prohibitions.

^{1/} Executive Decree No. 803, Oct. 31, 1936, effective Feb. 1, 1937.

^{2/} Executive Decree No. 254, June 30, 1937, Registro Oficial, July 5, 1937.

^{3/} Article 9, legislative decree of Oct. 27, 1931, amending article 4, tariff of July 1, 1927, as published in the codified customs law, Registro Oficial No. 335, Nov. 10, 1935.

^{4/} Article 2, legislative decree approved Dec. 9, 1931, amending article 5, tariff of July 1, 1927; also articles 4 and 5, codified customs and tariff amendments, Mar. 30, 1938.

^{5/} Article 1, legislative decree, Nov. 8, 1933.

^{6/} Ibid., article 3.

^{7/} Ibid., article 6.

^{8/} Article 11, legislative decree, Dec. 7, 1934.

Despite the recent emphasis on protection the customs tariff on imports still provides an important portion of the national revenues. In 1928, 34 percent of total governmental receipts came from this source. In 1940 customs revenues amounted to 23 percent of the total; an additional 6 percent was derived from consular fees.

About three-fourths of the Ecuadoran tariff rates are specific; the remainder are either ad valorem or are specific with minimum ad valorem provisos. A general basket clause establishes a 15 percent minimum for raw materials and 40 percent for other products; numerous exceptions, however, are provided. Until the passage of the tariff act of January 1935 Ecuador maintained a single-column tariff, but it now has a four-column system based in part on trade balances. ^{1/} In establishing this system a limited maximum-minimum system was first established by fixing higher rates on about 300 tariff classifications and authorizing reductions therefrom by three-tenths; then conventional reductions outside of this maximum-minimum system were employed. Finally, a new general maximum was established, to be imposed on imports from any country if such imports exceeded by more than 30 percent the exports of Ecuador to that country.

Preferential reductions were made by the decrees of January 5, March 7, and April 30, 1935. These decrees designated "preferential" lists of about 300 tariff classifications for which the rates were to be subject to bargaining reductions by as much as three-tenths. First, however, the rates on most of these classifications were increased by one-half, so that the maximum permitted reductions would approximate the increase. ^{2/} In fixing preferential percentage reductions the trade balance with individual countries was to be taken into consideration. It was further provided that the most-favored-nation clause in existing treaties would not carry the right to such reductions, but that to secure such treatment, customs advantages at least equal to those which Ecuador may accord must be given by the other country.

Customs surcharges.--Customs surcharges have played an important role in Ecuadoran commercial policy. Used at first primarily as an instrument to supplement the regular tariff in raising national revenues, in recent years they have been employed to regulate the balance of trade. Thus, in the years immediately prior to 1940, two types of customs surtaxes were employed--revenue surtaxes and trade balance (penalty) surtaxes.

Revenue surtaxes were employed as early as 1865. ^{3/} Until recent years a wide variety of these duties usually were levied on many imports either at all or at designated customs ports; the revenues thus collected ordinarily were allotted to specified purposes or projects.

^{1/} U. S. Tariff Commission, The Foreign Trade of Latin America, part II, vol. 1, p. 169.

^{2/} The preferential tariff list, with reductions by the full, authorized three-tenths, was accorded to France (July 12, 1935), and later extended to Germany (Jan. 1, 1936), Switzerland (May 16, 1936), and the United States (June 12, 1936).

^{3/} A description of the surtax system before 1916 may be found in Tariff Systems of South American Countries, by Frank R. Rutter, U. S. Department of Commerce, 1916.

This practice was greatly simplified by later customs laws. A decree of 1936 provided for a surcharge of 5 percent ad valorem on all dutiable merchandise imported into the country and a surcharge of 1 percent on duty-free merchandise, except that imported by the Government, its subdivisions, or its instrumentalities. ^{1/} Similar taxes were levied on merchandise entering the country by parcel post.

More important in the past decade, however, have been the trade-balance surtaxes. The exchange crisis experienced after 1929 was met, in part, by imposing new tax restrictions upon imports from those countries with which Ecuador had a substantial import trade balance.

In April 1935 surtaxes ranging from one-half to one-fifth of the duties were authorized on products specified under 18 tariff classifications, if these commodities originated in countries with which the Ecuadoran trade balance showed imports exceeding exports by 50 percent or more. These surtaxes were to be discontinued if imports from a particular country fell below 50 percent of exports to that country for at least 6 months. ^{2/} In February 1936, as an alternative to the establishment of a compensation system, the trade-balance policy was strengthened by a decree providing that, when imports from a country exceeded exports to the same country by more than 30 percent (based on the previous year's balance and without limitation as to tariff numbers), the Ministers of Finance and Commerce might order the establishment of a surcharge amounting to as much as one-half of the import duties on merchandise comprising such importation. ^{3/} These measures, which appear to have been directed primarily at Japan, were intended to protect the domestic textile industry; ^{4/} they were, however, applied from time to time to imports from other countries.

An increase in the surcharge rate (to 75 percent of the rates of duty) was authorized by a law of March 7, 1939. For purposes of computing the trade balance, the proportion of the declared value of minerals exported was decreed on March 3, 1939, to be as follows: Crude petroleum, 15 percent; and silver-bearing quartz and mineral earth, 20 percent. ^{5/}

Other charges to which imports are subject are the fees for the legalization of required consular invoices and certificates. These charges yield substantial revenues, averaging more than 5 percent of the total Government income in the years immediately preceding 1940. A consular fee of 6½ percent ad valorem has been assessed on all imports since April 1, 1936, the previous fee having been 4 percent. Until 1941 imported commodities also were subject to a sales tax (collected at the time of customs clearance) of 5 percent ad valorem on all dutiable goods and 1 percent ad valorem on duty-free goods. These taxes were somewhat higher than the sales taxes which applied to similar products of domestic origin.

^{1/} Executive decree, Jan. 27, 1936, effective Apr. 1, 1936.

^{2/} Article 3, Executive Decree No. 217, Apr. 30, 1935.

^{3/} Article 8, Executive Decree No. 83, Feb. 13, 1936, effective Mar. 1, 1936.

^{4/} Great Britain, Department of Overseas Trade, Report on Economic and Commercial Conditions in Ecuador, 1938.

^{5/} U. S. Tariff Commission, The Foreign Trade of Latin America, part II, vol. 1, p. 170.

Import prohibitions.

Import prohibitions employed by Ecuador from time to time have usually been designed to conserve exchange balances or to protect domestic industry. ^{1/} The tariff law of 1927 authorized the Executive to impose import prohibitions whenever it was in the national interest to extend protection to agriculture. Decrees issued in accordance with this policy have ordinarily declared their protective intent and have usually been temporary in duration. Examples of this type of control are the prohibition of imports of sugar in 1930; of vegetable lard, shoes, livestock for slaughter, crude petroleum, and pine lumber in 1931; and of raw cotton in 1935. Many of the import prohibitions inaugurated to husband exchange balances have served also to protect domestic industry, as the commodities subjected to control frequently have been selected with that purpose in mind.

Export duties.

Export duties no longer possess their former significance in the Ecuadoran fiscal system. As late as 1913 nearly one-half of the national revenues were derived from this source; ^{2/} a large number of export duties and surtaxes were then in force, the most important of which was the tax on cacao. A part of the revenues derived from the export tax on cacao was allocated to the Association of Agriculturists for use in promoting the sale of Ecuadoran cacao in foreign markets and to support operations of the Association designed to control domestic and foreign prices of the product. By 1936 this tax, as well as those upon a substantial number of other export commodities, have been completely removed. Only 10 percent of the national revenues in 1928 came from export duties and, in 1938, less than 1 percent. In the years immediately preceding 1940, coffee, leather, hides, cottonseed, rice, and bananas, were at one time or another subject to export duties.

Exchange and import control.

In the decade preceding 1940 Ecuador shifted its policies considerably in an attempt to cope with the problems of currency control and foreign exchange. Exchange control was initiated, relaxed, and then abandoned. The national currency was devaluated, and subsequently exchange control was reimposed, modified once more, and then abolished. A period of free exchange was again attempted and finally import control was established, only to be terminated on January 1, 1940.

In 1931 Ecuador experienced one of the most severe depressions in its history. The world economic crisis, the failure of the cacao crop, the loss of export markets, the low prices of export products, the flight of capital from the country, and the decline of gold reserves all combined to create a period of financial distress. To adjust the economy of this situation, two measures, adopted in 1932, provided for the abandonment of the gold standard and for the inauguration of exchange control. ^{3/}

^{1/} See the section on exchange and import control.

^{2/} U. S. Department of Commerce, The Tariff Systems of South American Countries, Frank R. Rutter, 1916.

^{3/} U. S. Tariff Commission, The Foreign Trade of Latin America, part II, vol. 1, pp. 170-172.

The gold standard was officially suspended on February 8, 1932, after the gold reserves of the country had been almost completely exhausted. Before that date the gold value of the sucre was fixed at 0.300933 gram of fine gold (equivalent to \$0.19998, based on the gold content of the dollar before 1934). On December 19, 1935, the sucre was devaluated, the profits being employed to pay a portion of the Government's debt to the Central Bank (Banco Central del Ecuador) and to provide for the economic development of the country. Further devaluation of the sucre took place on June 13, 1936.

Exchange control was established by a decree of May 21, 1932. ^{1/} All exchange transactions were made subject to the control of the Central Bank, and it was required that the proceeds from all exports be surrendered to the Exchange Control Commission (a department of the Central Bank) at the official rate of exchange. The exchange balances thus made available were first allocated to build up the gold reserves of the country; the remainder was apportioned by a system of preferences which favored the importation of prime necessities as well as agricultural and industrial machinery.

Exchange restrictions were relaxed considerably on December 9, 1933; after that date it was required that only 25 percent of the value of export bills be sold to the Central Bank at the official rate, the remainder being available for disposal in the free market. These regulations remained in force until October 1935, when, as a result of widespread dissatisfaction among Ecuadoran commercial interests, exchange control was abolished, and exporters were authorized to dispose of the entire proceeds of their bills in the open market.

Exchange control has frequently been supplemented by various restrictions upon imports. Under the power granted to him by the law of 1931, the Executive increased customs duties on a long list of luxury commodities and of articles which could be produced by Ecuadoran manufacturers. In 1934 the exchange situation once more became acute and the Government temporarily prohibited the importation of a large number of articles, with a view to reducing the demand for foreign exchange. ^{2/}

The abandonment of exchange control in 1935 was followed by a marked expansion of imports, an increased demand for foreign exchange, and a further reduction in gold reserves. In order to avoid the impending crisis, exchange control was again imposed by a decree of July 30, 1936. ^{3/} By the terms of the decree only the Central Bank was permitted to deal in foreign exchange. A rigid import and export licensing system was established, and imports were not authorized if in the judgment of the Central Bank they were not in harmony with the national interest, or if insufficient foreign exchange was available. Preference was granted to imports from countries not discriminating against the importation of Ecuadoran products. This policy was the

^{1/} Executive Decree No. 90, as amended by Executive Decrees Nos. 91, 92, 93, 94, 121, 239, and 250, promulgated during 1932, and by Executive Decree No. 20, of Jan. 31 and No. 166, of May 5, 1933.

^{2/} Executive Decree No. 281, Apr. 30, 1934, issued under the authority of article 16, Law of Partial Exchange Control, Nov. 27, 1933. This embargo was lifted by Executive Decree No. 689, Dec. 31, 1934.

^{3/} Executive Decree No. 596.

subject of widespread criticism and opposition, both by commercial interests in Ecuador and by the representatives of foreign countries, and on July 31, 1937, exchange control was again abolished. ^{1/} Thereafter, all products except gold could be exported without permit, but import permits were still required for designated articles.

The increased volume of imports following this relaxation of control led the Government to adopt new measures in 1938 to check the drain on exchange balances. All previous forms of control having met with opposition, it was decided to pursue the desired objectives by imposing restrictions upon imports rather than upon exchange itself. ^{2/} An Import Control Commission was created under the Banco Central and all imports were made subject to official permits; it was required that these permits be presented to the banks before exchange could be purchased. Various modifications and refinements of this program were placed in effect from time to time; these included exchange quotas and the advance deposit of the purchase price of imported goods in the Central Bank. ^{3/} The system of import permits, however, was abolished in 1938.

Commercial treaties and agreements. ^{4/}

During the decade ended in 1940 Ecuador entered into commercial agreements involving tariff concessions with France (1935, 1936, 1937, 1938), Germany (1936, 1938), Chile (1936, 1938), Switzerland (1936), the Netherlands (1937), and the United States (1938). Agreements providing for import quotas for Ecuadoran products in the respective markets were concluded with France (1935, 1936, 1937, 1938), Germany (1936, 1938), Switzerland (1936), the Netherlands (1937), and Italy (1936).

Under the terms of the trade agreement with the United States, effective October 23, 1938, Ecuador granted tariff concessions on 33 items, representing nearly one-half of United States exports to that country (as measured by the trade in 1937). Reductions in duty ranging from 25 to 50 percent were provided on 15 tariff items, and 18 other items were bound against increases in duty. More than 200 individual commodities were affected. ^{5/} Ecuadoran export products on which concessions were granted by the United States consisted mainly of tropical commodities. Reductions in duty of 50 percent were granted on 5 commodities, of which toquilla ("panama") hats were by far the most important; 11 commodities, including cacao, coffee, bananas, and tagua nuts, were bound on the free list. Products covered in the agreement represented more than three-fifths of total United States imports from Ecuador in 1937.

^{1/} Executive Decree No. 322, July 31, 1937.

^{2/} Executive Decree No. 331, May 19, 1938, and Executive Decree No. 360, May 26, 1938.

^{3/} Executive Decree No. 156, June 1939, effective July 1, 1939.

^{4/} U. S. Tariff Commission, The Foreign Trade of Latin America, part II, vol. 1, 1942, p. 171; see also U. S. Tariff Commission, Reference Manual of Latin American Commercial Treaties, 1940, pp. 132-144.

^{5/} Effective June 15, 1940, import quotas were established on certain products included in schedule 1 (tariff concessions by Ecuador) of the trade agreement with the United States.

Compensation, clearing, or exchange agreements have been concluded by Ecuador with France (1933, 1936, 1937, 1938), Germany (1936, 1938, 1939), Switzerland (1936), the Netherlands (1937), Czechoslovakia (1938), and Italy (1938). Prior to the inauguration of compensation trade, Germany ranked fourth or fifth as a supplier of Ecuadoran imports. In 1935, when compensation trade began, Germany advanced to third place and in each of the following 3 years (1936-38) occupied second place.

Government monopolies.

Receipts from Government monopolies are an important source of national revenue, ordinarily accounting for 20 to 30 percent of the total. At present, public monopolies include alcohol, tobacco, matches, and salt; ^{1/} they are administered by the General Administration of Monopolies (Dirección General de Estancos), a division of the Ministry of Finance. The salt monopoly (Estanco de Sal) was operative as early as 1867 but has never been considered particularly successful as a commercial venture. The alcohol monopoly (Estanco de Alcohol) now includes the trade in ether, perfumes, and iodine. The tobacco monopoly (Estanco de Tabacos) extends primarily to the trade in crude tobacco; the Government exercises the exclusive right to purchase this product, which it in turn sells to the manufacturers of cigars and cigarettes. The finished product is thereafter resold, at designated prices, either to the monopoly or to wholesalers and retailers. A monopoly of the sale of matches was granted to a Swedish company in 1927, canceled in 1931, and restored in 1935. ^{2/} Since that time, the Government has returned to the system of producing and importing matches on its own account through the medium of a national monopoly (Estanco de Fosforos).

Economic Controls and Commercial Policy Since the Outbreak of the War

The impact of the war upon Ecuador has resulted in the modification of existing economic controls and the imposition of new ones. Loss of the European market contributed to another exchange crisis in 1940. This was met by new measures designed to conserve and allocate exchange balances; tariffs and other devices were used to restrict imports, and exchange control was reimposed. When, because of the war, it was necessary for the United States to initiate export control, Ecuador inaugurated a program to ration and distribute the commodities thus affected. Other measures include reexport control of industrial essentials, the promotion of rubber and quinine production, the freezing of Axis funds, price control, standardization of export products, the Inter-American Coffee Agreement, and the creation of the new Development Corporation.

^{1/} The commodities subject to Government monopoly have varied from time to time and have included gasoline, playing cards, and firearms, in addition to those which are still thus controlled.

^{2/} The monopoly was granted in exchange for a loan of 2 million dollars by the company.

Modification of import duties.

Since the outbreak of the war the basic framework of the Ecuadoran tariff system has been retained, but with several significant modifications. The first important change took place in June 1940 ^{1/} when tariff rates on many items were increased in order to restrict imports and to support the newly inaugurated system of exchange control. Among the articles affected were canned meats and vegetables, vegetable lard, edible oils, confectionery, varnishes, driers, gum lacquers, office furniture, and cotton knit goods. Although the primary purpose of the measure appears to have been the conservation of exchange, incidental protection also was extended to domestic producers. In accordance with the policy of fostering domestic industries, the same decree reduced the rates of duty on a limited number of essential industrial raw materials, including lubricating oils, iron and steel bars, iron sheets, hand tools, iron and copper wire, and scientific and precision instruments.

The second important modification of import duties was made in 1941. ^{2/} This revision incorporated all changes in rates made after the passage of the basic tariff law of March 1, 1938; moreover, new rates were established on a long list of items. Most of the changes provided lower rates than those formerly in force and primarily affected industrial raw materials such as semifabricated iron and steel products, cotton yarn and thread, hat forms and shapes, cornstarch, sago, asbestos, tallow, copper sulfate, and unworked silver. Increases in rates were limited to eight tariff items, primarily finished products such as rugs, crackers and biscuits, flat glass, and iron beds and frames.

Customs surcharges since 1940.--Surtaxes upon imports have been employed since 1940 both to provide a source of additional revenue and also to preserve exchange balances.

A measure effective January 1, 1941, imposed two surcharges to provide funds for the maintenance and expansion of the water systems of Quito and Guayaquil. ^{3/} The first surcharge was an additional duty of 5½ percent ad valorem on all goods imported into Ecuador, except duty-free articles and medicines; the second was a surtax of 7 percent on existing import duties. ^{4/}

In December 1941 another surcharge of 5 percent ad valorem on all dutiable and 1 percent on all nondutiable imports (with certain specified exceptions) was levied; ^{5/} the surcharge involved no additional burden upon imports, but replaced a previous sales tax. A decree of September 15, 1942, placed an additional surtax upon all exports as well as imports, the proceeds to be used to finance the construction and maintenance of a hospital for tubercular patients.

^{1/} Executive Decree No. 81, June 6, 1940, effective June 15, 1940.

^{2/} Executive Decree No. 204, effective Mar. 1, 1941.

^{3/} Executive decree, Oct. 22, 1940.

^{4/} Executive decree, Mar. 2, 1942, Registro Oficial, Mar. 16, 1942.

By an exchange of notes between Ecuador and the United States, imports from the United States became subject to these surcharges after April 1, 1942. This action was in accordance with the terms of the reciprocal trade agreement, signed Aug. 6, 1938.

^{5/} Executive Decree No. 1239, Dec. 31, 1941.

Penalty surcharges imposed upon products from countries with which Ecuador has an import balance of trade have been retained. Since 1940 they have been applied to the following: Aruba, Bulgaria, Canada, Ceylon, Cuba, ^{1/} Curaçao, Cyprus, El Salvador, Straits Settlements, Estonia, Greece, Guatemala, Hong Kong, British India, Iraq, Jamaica, Japan, Java, Sumatra, Latvia, Norway, Iran, Portugal, the Soviet Union, the Sudan, Switzerland, Turkey, and Zanzibar. ^{2/}

Because of the difficulties experienced after the outbreak of the war in securing various materials essential to agriculture and industry, Ecuador found it necessary to relax these penalty duties on designated articles. In December 1939 imports of machinery, aniline dyes, and rayon and cotton thread, intended exclusively for Ecuadoran industries, were exempted from the surcharge of 50 percent applied to the basic rates of duty. ^{3/} Another measure in August 1942 provided similar relief for imports of chemicals, pharmaceuticals, and typewriters. Imports from Switzerland were exempted from the surtax in September 1942.

The maximum penalty ^{3/} of 75 percent was applied to imports of Japanese textiles in 1940. ^{4/} Throughout 1938 and 1939 Ecuadoran imports from Japan exceeded exports; this adverse balance, under the method used to calculate such balances, was considered to be 54 percent. Because of this balance and because of the strong competition of low-priced Japanese goods in domestic markets, there were numerous appeals for the application of the full force of the law to all Japanese imports. Partly in response to opposition which developed, however, the full penalty surcharge of 75 percent was applied only to Japanese textiles; all other imports from that country remained subject to the 50 percent surcharge.

Export controls.

Little change has taken place with respect to the system of export taxes, which continues to be of minor importance in the fiscal system of the country. In September 1942 an export tax of 1 percent ad valorem was imposed on all exports; the revenues from this tax are to be used to finance a program for the care of tubercular patients. Other decrees reduced the export duties on hides and rice; in April 1943, however, in order to restrict exports and conserve the domestic supply, the duty on cowhides was increased 100 percent above the basic export duty.

Export prohibitions and restrictions.--Export prohibitions and restrictions have been employed by Ecuador in recent years to conserve materials essential to domestic production. The extraordinary demands created by the war resulted in decrees in 1941 prohibiting the exportation of vegetable and animal fibers, as well as of scrap metals. ^{2/} Late in the same year the Executive was authorized to regulate exports of food products and prime necessities; ^{6/} the Office of Export

^{1/} Suspended July 17, 1943.

^{2/} Executive Decrees No. 48, Mar. 28, 1940, and No. 58, Apr. 25, 1940.

^{3/} See the section on customs surcharges.

^{4/} Executive Decree No. 58, Apr. 25, 1940.

^{5/} Executive Decree No. 950, Sept. 6, 1941; this measure was modified by an Executive decree of Sept. 25, 1942, to permit limited exports of wool.

^{6/} Executive Decree No. 1285, Oct. 31, 1941; see the section on The Office of Export Control.

Control was authorized to refuse permits for the exportation of prime necessities whenever supplies in the domestic market are inadequate. Export restrictions were applied during 1942 to sugar, rice, wheat, wheat flour, and potatoes, in order to prevent threatened food shortages and to conserve existing stocks. The prohibition of exports of sugar, instituted in April 1942, remained in force throughout the remainder of the year. In August of that year two measures limited the quantities of rice which could be exported. When it became apparent that the 1942 rice crop would be adequate for domestic requirements, unrestricted exportation was again permitted late in September; shortly thereafter, however, all exports became subject to government permit. The exportation of wheat and wheat flour was prohibited in September, and of potatoes, in October.

Steps were taken in May 1942 to protect the domestic soap, candle, and vegetable oil industries from anticipated shortages of raw materials. The exportation of copra was prohibited, and quantitative restrictions were applied to the exportation of palm nuts and palm-nut oils. Largely in response to complaints from producers, the embargo on copra was lifted in October. Late in 1942 all shipments of cottonseed and its derivatives were made subject to the approval of the Ministry of Agriculture; this step was taken after domestic processors had sought relief from excessive shipments which they held to be injurious to the industry. To assure sufficient supplies for domestic producers, quantitative restrictions on the exportation of hides and sole leather became effective in April 1943.

The Inter-American Coffee Agreement.—Coffee is ordinarily Ecuador's third most important export product; in Ecuadoran agriculture it ranks second only to cacao. In 1941 the 14 coffee-producing countries of the Western Hemisphere and the United States entered into an agreement to stabilize the coffee market and to deal with the problems of coffee surpluses. A tentative plan for cooperative action was drawn up at the Third Pan American Coffee Conference held at New York City during June and July 1940. Because no agreement among the producing countries was reached at this meeting, the Foreign Ministers of the American Republics, meeting in Habana, ^{1/} instructed the Inter-American Financial and Economic Advisory Committee to study the problem and to devise, if possible, a cooperative coffee-control agreement which would assure "equitable treatment" for both producers and consumers. On November 28, 1940, an agreement was reached, and on that date the United States and the 14 American coffee-producing countries signed the Inter-American Coffee Agreement. ^{2/} The agreement which became effective April 15, 1941, established a control system involving, in effect, four types of annual quotas: (1) An export quota for each producing country signatory to the agreement, regulating shipments to the United States; (2) an export quota for each producing country controlling shipments to all other regions; (3) and import-quota system controlling the quantity of coffee that might be received in the United States from each producing country in Latin America; and (4) a much smaller aggregate quota for United States imports from sources other than the American Republics.

^{1/} Meeting of Foreign Ministers of the American Republics, Habana, July 1940, Resolution XXV.

^{2/} The Ecuadoran Government approved the Inter-American Coffee Agreement by the Executive decree of Mar. 28, 1941, Registro Oficial, Apr. 21, 1941.

The Coffee Agreement provides for an Inter-American Coffee Board to which is delegated the responsibility of establishing the annual quotas. Increases or decreases may not be made more often than once in 6 months, except in an emergency, and no change may exceed 5 percent of the basic quotas at any given time. ^{1/} In the original 1940 agreement Ecuador's annual quota on exports to the United States was established at 150,000 bags of 60 kilograms each; exports to the rest of the world were limited to 89,000 bags. This allocation awarded Ecuador approximately 1 percent of the total world quota. The quotas for Ecuador, and those for other producing countries have been adjusted from time to time; the 1942-43 quota for imports of Ecuadoran coffee into the United States is 187,238 bags. Although, in terms of quantity, exports in 1942 declined 19 percent as compared with 1941, the value increased by 45 percent. The average wholesale price for first-grade coffee in Guayaquil increased from 6.8 cents (U.S. currency) per pound in November 1940 to 7.9 cents in November 1942.

Extraordinary conditions, however, make it impossible to appraise the effect of the Coffee Agreement upon the Ecuadoran coffee industry. Three factors have combined to make it impossible to fill the quotas: (1) The border dispute with Peru in 1941 interfered with coffee production in the El Oro region, (2) the shortage of shipping facilities created by the war has curtailed shipments, and (3) the poor coffee harvest in Ecuador in 1942 has further reduced the available supply. Despite the fact, therefore, that the shipping quotas into the United States allotted by the Office of Economic Warfare have been lower than those assigned by the Coffee Board, they appear to be sufficient at the present time to satisfy Ecuador's coffee-export requirements.

The Office of Export Control.—Lack of standardization and the inability of consumers to rely upon the quality, uniformity, labels, and general integrity of the product has frequently been a handicap to Latin American producers. In recent years frequent recommendations have been made in Latin America for the improvement of methods of marketing export products. As a result of these recommendations, a decree issued in 1941 required more rigorous supervision of Ecuadoran export products. ^{2/} The Office of Export Control was created, and the exportation of agricultural products was prohibited except with prior authorization by this office. The chief responsibility of the Board is to inspect all products exported, to examine all containers to determine whether they comply with legal requirements, to establish standards of quality and to require export permits, and to study export practices as well as to recommend methods for improving export trade. The Office of Export Control has proceeded, therefore, to establish standards of quality, count, weight, and packaging, in order to enhance the prestige of Ecuadoran products abroad. It now issues certificates of inspection for such vital exports as cacao, coffee, balsa wood, rubber, and straw hats, as well as for many other articles.

^{1/} The United States, as a signatory to the Agreement, selects one-third of the members of the Inter-American Coffee Board. The consumer in the United States is protected from unwarranted price control by a provision in the agreement that in the event of an "imminent shortage," imports may be increased beyond the established quota by a one-third vote of the Board.

^{2/} Executive Decree No. 1285, Oct. 31, 1941, effective Dec. 1, 1941.

Reimposition of exchange control.

In the early months of 1940 the foreign exchange situation in Ecuador once more became critical. Several factors contributed to this crisis. A decline in export crops, particularly of cacao, which was 20 percent below the previous year's harvest, led to a shortage of exchange. This condition was aggravated by the war, which closed the European markets for many export products. On the other hand, excessive purchases of imports, in anticipation of possible material shortages and price increases, created extraordinary demands for foreign exchange. The exchange rate rose rapidly from 15 to 20 sucres to the dollar during April and May. The demand for exchange was far in excess of the available supply, and gold reserves declined rapidly.

On June 4, 1940, therefore, exchange control was again imposed.^{1/} The Central Bank was given the exclusive right to deal in foreign exchange, and exporters were required to sell the entire proceeds of their drafts to the Central Bank. A Department of Exchange Control (Departamento de Control de Cambios) was created under the supervision of the Minister of Finance^{2/} to cooperate with the Central Bank in the administration of exchange control. Importers now are required to secure prior authorization before goods may be imported, and consular officials may not certify documents covering shipments to Ecuador unless exchange has been authorized.

The exchange-control office early in its operation established a system of preferences for the allocation of available exchange; in general, permits have been restricted to indispensable articles, and import quotas have been established for many commodities.^{3/}

The Department of Control of Imports, Exports, and Exchange.--The Ecuadoran system of exchange control was modified and strengthened by measures adopted in October 1940.^{4/} The name of the exchange-control authority was altered to the Department of Control of Imports, Exports, and Exchange. The major feature of the new regulations was the establishment of a system of import controls to supplement the control of exchange. All exchange arising from exports must be sold to the Central Bank at the official rate, and all imports are subject to permits, allocated on a quota basis. The Central Bank is authorized to establish a quarterly quota of available exchange, which is assigned by the Department of Control to importers in equal monthly amounts. Quotas assigned to individual importers are distributed in proportion to their capital and the previous volume of imports. The new regulations, however, provided for a system of exchange preferences. Twenty-five percent of the available exchange is assigned for the payment of obligations existing prior to the establishment of exchange control on June 4, 1940. The balance is allocated to new imports in

^{1/} Executive Decree No. 80, June 4, 1940, Registro Oficial, June 16, 1940. This measure was later ratified and strengthened by the Legislative decree of October 12, 1940.

^{2/} The regulations governing exchange control were set forth in Executive Decree No. 94, Registro Oficial, June 16, 1940.

^{3/} Decree No. 81, June 6, 1940, effective June 15, 1940. This same decree imposed the import duties previously described as an additional method of restricting imports.

^{4/} Legislative decree, Oct. 12, 1940; and Executive Decree No. 25, Oct. 14, 1940, Registro Oficial, Oct. 16, 1940.

the following order: (1) Essential imports by the Government or its subdivisions, (2) articles indispensable to public utilities or public service industries, (3) materials essential to agriculture and industry, (4) materials used by commerce in general, and (5) articles employed for other purposes. Imports designated as luxuries have at times been accorded separate and more restricted treatment; at times their valuation for this purpose has been increased by as much as 20 percent in the calculation of individual monthly exchange quotas. ¹

Trade with Japan was established substantially on a compensation basis in October 1941 by the application of special exchange regulations requiring that payments for Japanese merchandise be made in Ecuadoran currency and that they be deposited in an Ecuadoran bank for the account of the foreign firm. These funds could be used only for the purchase of Ecuadoran goods for export to Japan.

Before June 4, 1940, there were two exchange rates in Ecuador--the Central Bank rate and the free, or bank, rate. In practice, however, there was but a small spread between these rates. On June 4, 1940, the free rate was abolished, leaving only the Central Bank (official) rate. ² In recent months there have been limited operations on the curb or black market (bolsa negra); the difficulty of securing exchange through regular channels in 1940 and 1941 for a while stimulated activity on the curb, where higher prices were paid than at the official rate. The decree of June 4, 1940, reestablishing exchange control, also provided for the revaluation of the gold reserves of the Central Bank at the equivalent of 15 sucres to the dollar; the additional funds thus created were transferred to the Monetary Stabilization Fund (Fondo Estabilización de la Moneda). At the same time the Central Bank was instructed to begin its exchange operations at 18.00 sucres to the dollar and to alter that rate whenever the needs of the market warranted it. ³ The rate was reduced several times during 1940; at the close of the year it stood at 15.00 sucres to the dollar. Since that time the improved exchange position has permitted further reductions in the rate; the last, on April 28, 1942, fixed the rate at 14.10 sucres to the dollar. ⁴ This same measure provided for a revaluation of the gold reserve of the Central Bank on the basis of 14.00 sucres to the dollar; the loss thus incurred was charged to the Stabilization Fund.

Since December 1941 a tax of 10 centavos on each dollar, or its equivalent in other currency, has been imposed on all foreign exchange transactions in Ecuador. ⁵ In February 1943 a surcharge of 1 percent

¹ U. S. Foreign Service Report, Guayaquil, Nov. 22, 1940.

² Since 1929 the average dollar equivalent of the sucre has been as follows: 1929, \$0.2000; 1932, \$0.1667; 1936, \$0.0952; 1937, \$0.0910; 1938, \$0.0746. Recent quotations have been as follows: Free (bank) rate--1939, \$0.0667; May 1940, \$0.653. Central Bank rate--1939, \$0.0674; 1940, \$0.0608; 1941, \$0.0666; 1942, \$0.0695.

³ Executive Decree No. 80, June 4, 1940, Registro Oficial, June 16, 1940.

⁴ Executive Decree No. 695, Apr. 28, 1942. The rates mentioned above are the selling rates; the decree of Apr. 28, 1942, fixed the official buying rate at 13.70 (40 centavos less than the selling rate) and provided that one-half of the profit originating from the difference between the buying and selling rates should be applied on the Government's debt to the Central Bank.

⁵ Executive decree, Dec. 30, 1941.

was imposed on all foreign exchange payments exceeding \$5. (U.S. currency) to finance the Office of Priorities and Distribution of Imports. ^{1/}

Commercial agreements since 1940.

Conditions created by the war have led to significant changes in the pattern of commercial agreements between Ecuador and other nations; five agreements with European countries have been denounced and three new ones negotiated in the Western Hemisphere. On December 6, 1940, the Ecuadoran Government announced the termination of existing commercial treaties with Germany, France, Italy, the Netherlands, and Belgium. The war had almost completely disrupted direct trade between Ecuador and these countries. Most of these agreements had granted preferential tariff treatment to the country concerned and had established clearing arrangements between these countries and Ecuador.

At about the same time that these bilateral arrangements were terminated, another, more liberal in scope, was negotiated with Canada. ^{2/} Under this arrangement, most-favored-nation treatment in all matters relating to tariffs, exchange control, and imports was extended by each country to the products of the other. The penalty surcharge of 50 percent, formerly levied on all dutiable goods from Canada, was thus removed.

Unconditional and unlimited most-favored-nation agreements have been negotiated with Colombia ^{3/} and Argentina; ^{4/} they will become effective when ratified. In addition to most-favored-nation assurances, the agreement with Colombia, signed in 1942, provides for the exchange of duty concessions. Colombia grants duty-free entry to a variety of Ecuadoran products, including cotton, rice, wheat, sugar, gasoline, and cacao. Ecuador, in return, grants duty-free entry to Colombian glass products, cement manufactures, cigarettes, hides and skins, toilet soap, hosiery, perfumes, and other products. The agreement with Argentina, concluded in 1943, exempts from the most-favored-nation guarantee preferences granted by either party to neighboring countries, and advantages resulting from customs unions.

The Ecuadoran Development Corporation.

In order to utilize important undeveloped resources several countries of Latin America have created development corporations to promote the expansion of agriculture, mining, and manufacturing. The Ecuadoran Development Corporation (Corporación Ecuatoriana de Fomento) was established in June 1942 ^{5/} with the objective of developing the natural resources of the country, and of encouraging all branches of industry and transportation, as well as the construction of public works. The

^{1/} See the section on the Office of Priorities and Distribution of Imports.

^{2/} Commercial modus vivendi between Canada and Ecuador, effective October 1, 1941.

^{3/} Signed July 6, 1942.

^{4/} Signed September 1, 1943.

^{5/} Executive Decree No. 925, June 4, 1942, Registro Oficial, June 6, 1942.

Corporation was capitalized at 150 million sucres (10 million dollars), one-half of which is supplied by a loan from the United States Export-Import Bank. 1/

In the short period since its organization, the Corporation has been very influential in the development of the Ecuadoran economy. Its first project involved a survey of the agricultural possibilities of the Province of El Oro, and \$500,000 was set aside for the development of that region. Another major activity of the Fomento Corporation, undertaken in cooperation with the Rubber Reserve Company of the United States, is the wartime utilization of Ecuadoran rubber resources. An agreement has been reached whereby the Rubber Reserve Company will finance projects approved by the Fomento Corporation. It is anticipated that this program will involve the expenditure of \$500,000. A number of other projects are now either under consideration or in progress, and it is expected that the Fomento Corporation will play an increasingly important role in the development of Ecuador.

Mobilization of the domestic economy.

Ecuador severed diplomatic relations with the Axis Powers on January 19, 1942. In the same month the Foreign Ministers of the American Republics, meeting at Rio de Janeiro, recommended that the American Republics adopt cooperative programs for the mobilization of strategic materials. Steps have been taken in Ecuador both before and since the entry of the United States into the war to prevent the flow of Ecuadoran products to the aggressor powers and to increase the production of these vital materials.

Action taken in November 1940 has served to strengthen the power of the Executive to cope with situations which might arise during the war. The Executive was authorized to issue emergency decrees of an economic character whenever the national welfare required it. 2/ This power was confirmed and strengthened by the Ecuadoran Congress in September 1941 3/ and again in 1942. 4/

Ecuador possesses important resources of natural rubber and cinchona, both of which are of strategic importance. A contract signed July 7, 1942, by the Government of Ecuador and the Rubber Reserve Company of the United States gave the latter, for a period of 5 years, the exclusive right to purchase all rubber produced in excess of domestic requirements. 5/ In return for this concession the Rubber Reserve Company agreed to invest \$500,000 in the development of rubber production in Ecuador. 6/

1/ The arrangements accompanying this loan are set forth in Executive Decrees Nos. 1325 and 1344, Registro Oficial, Sept. 5, 1942, and Aug. 17, 1942; see also, Executive Decree No. 1029, June 26, 1942, Registro Oficial, Apr. 13, 1943.

2/ Legislative decree, Registro Oficial, Nov. 14, 1940.

3/ Legislative decree, Sept. 22, 1941, Registro Oficial, Sept. 26, 1941.

4/ Legislative decree, Registro Oficial, Oct. 21, 1942.

5/ Executive Decree No. 1192, July 20, 1942, Registro Oficial, July 23, 1942.

6/ By terms of a contract signed October 21, 1942, between the Ecuadoran Development Corporation and the Rubber Reserve Company, the latter will have direct supervision over the rubber development program.

A similar agreement concluded February 23, 1943, by the Government of Ecuador and the Defense Supplies Corporation of the United States gives the latter the exclusive right to purchase and export cinchona bark and its derivatives. By the terms of the agreement the Ecuadoran Development Corporation has been designated as the procurement and development agency to implement a program for expanding the production of quinine products. The Defense Supplies Corporation will finance, up to a maximum of \$300,000, approved projects undertaken by the Development Corporation.

Export and reexport control.—To protect their domestic economies from the lack of essential commodities and to prevent their shipment to Axis or Axis-controlled nations, most of the countries of Latin America have undertaken to control both the export and reexport of vital industrial materials. In August 1941 Ecuador inaugurated such controls. ^{1/} The reexportation of all imported materials, as well as the exportation of essential commodities, was forbidden except under licenses issued by the Export Control Board. Permits to reexport imported merchandise are granted only to shipments destined for a country of the Western Hemisphere which maintains similar control over reexports and which accords reciprocity to Ecuador in this respect. In order to safeguard the domestic economy from depletion of essential materials, the Minister of Finance was authorized to prepare a list of articles for which export permits will be denied. The prohibition of exports of scrap metal in 1941 was a measure of this type. ^{2/} Another important decree provided similar controls for rubber products ^{3/} and furthered the objectives of the contract negotiated with the Rubber Reserve Company.

Wartime financial controls.—At the Rio de Janeiro conference of the Ministers of the American Republics in January 1942, resolutions were adopted recommending measures to block the use or transfer of funds and property held by nations (or their nationals) which had committed acts of aggression against the American Continent. Early in February 1942 controls of this nature were established in Ecuador. ^{4/} A Committee of Blocked Funds (Comité de Valores Bloqueados) was created to supervise the program, which prohibited the issue of export permits to firms on the "Proclaimed List." All assets of nationals of countries at war with nations in the Western Hemisphere were blocked. In June 1943 all properties and business affairs of persons on the "Proclaimed List" and of subjects of enemy nations became subject to Government control. This action was given legislative sanction in October 1942 by an act which specifically instructed the Executive to put into effect the recommendations and resolutions adopted by the Inter-American Conference on Systems of Economic and Financial Control, held in Washington in June 1942. ^{2/}

Another measure designed to reinforce these financial controls related to the circulation of United States currency. ^{6/} The importation and exportation of such funds, except by the Central Bank, was prohibited. All holders of United States currency were required to deliver it to the Bank, indicating both its origin and the length of time it had been in their possession.

^{1/} Executive Decree No. 817, Aug. 1, 1941.

^{2/} Executive Decree No. 950, Sept. 6, 1941; see also the section on Export Prohibitions and Restrictions.

^{3/} Executive Decree No. 1113, Registro Oficial, July 8, 1942.

^{4/} Executive decree, Feb. 9, 1942.

^{5/} Legislative decree, Oct. 15, 1942.

^{6/} Executive Decree No. 1342, Aug. 12, 1942, Registro Oficial, Aug. 17, 1942.

Rationing and control of vital materials.

Because of the war, Ecuador, like the other American Republics, has suffered from shortages of essential materials. Usual sources of supply for many prime necessities, industrial raw materials, and machinery have been shut off completely or have been restricted either by shipping shortages or by the rigid export controls imposed by the belligerents. A number of measures have therefore been adopted to conserve existing stocks and to allocate their distribution for the most essential purposes, as well as to regulate the importation and use of new supplies.

One of the first of these measures, in January 1942, established a system for the control, distribution, and rationing of automobiles, trucks, tires, and tubes. Merchants were required to declare all stocks in their possession; all sales or transfers of these commodities were prohibited except by authorization of the Ministry of Finance, which was instructed to devise and administer a system of rationing. Soon thereafter a similar system was established to control the distribution of typewriters. Because of shortages of wheat flour, rigid control was provided in May 1943 for all transactions involving wheat and flour, subject to the supervision of the Ministry of Agriculture.^{1/} Merchants and millers were required to declare all stocks and to make current reports of purchases and sales. Quotas were established for millers and bakers, and prices were fixed for their products.

The Office of Priorities and Distribution of Imports.--In order to systematize procedures with regard to the importation of scarce materials, the Office of Priorities and Distribution of Imports (Oficina de Prioridades y Distribución de Importaciones) was established early in 1942.^{2/} This office now has complete authority over the importation, sale, transfer, or movement of any article subject to export control in the United States or elsewhere. Import permits are not issued for non-essential commodities. Permits are required for all dealings in such commodities, and merchants handling these goods may be required to submit inventories of all stocks in their possession. Under this authority the Office of Priorities and Distribution of Imports has established a system of rationing for automobiles, trucks, busses, motorcycles, tires, tubes, typewriters, tin plate, structural iron and steel, nails, agricultural implements, barbed wire, staples, and newsprint. Maximum profit margins were fixed April 29, 1943 for importers and dealers of motor vehicles.

The Office of Priorities also is charged with the responsibility of compiling the data necessary to determine the requirements of the country for articles subject to export control in the United States, and whenever an export quota has been established for Ecuador, to allocate certificates of necessity to domestic importers. Under the supervision of the Office of Priorities, the Mortgage Bank of Ecuador (Banco Hipotecario) has been authorized to acquire stocks of agricultural hand tools and to arrange for their distribution to consumers.

^{1/} Executive Decree No. 712, May 5, 1943.

^{2/} Executive Decree No. 187, Feb. 11, 1942, amended by Executive Decrees Nos. 231, Feb. 19, 1942, and Nos. 1319 and 1321, Aug. 7, 1942.

Price control.

Since the beginning of the war there has been a steady rise in the cost of living in Ecuador. This has caused considerable distress among consumers and has been the object of official concern. One of the earliest of the measures to cope with this situation was a provision in connection with the tariff increases of June 1940; this provided that, after the increased duties became effective, ^{1/} no industry in Ecuador might increase the sales price of its products without authorization of the Ministry of Industries. Although this authority appears to be broad enough for the establishment of a general price-control system, it was quite obviously intended only to prevent domestic producers from taking unwarranted advantage of the additional protection provided by the increase of duties. There is no indication that this control has been particularly effective.

In December 1941 the Ecuadoran Executive appointed a commission to study problems connected with the rising cost of living; in June 1942 a committee was appointed with the power to establish and maintain price ceilings on food products and other prime essentials. ^{2/} The Ministry of Agriculture and Industries was authorized to fix the prices for agricultural products; other prices were to be supervised by the Ministries of Social Welfare and Finance. By September 1942 the Government had published maximum prices for a number of prime necessities including rice, sugar, charcoal, meat, lard, cereals, potatoes, and fish. Although penalties were provided for noncompliance, it appears that the regulations have not been successfully enforced.

The Office of Priorities and Distribution of Imports has the authority to control retail and wholesale prices of all articles subject to its control; ^{3/} it also may determine the maximum profit permitted to the importers of these products. ^{4/} This power was first employed in July 1942, when wholesale and retail prices were fixed for structural iron. Since that time price control has been extended to motor vehicles, barbed wire, agricultural implements, tires, tubes, typewriters, tin plate, nails, newsprint, storage batteries, spun rayon, writing and wrapping paper, printing ink, radios, razor blades, cash registers, cigarettes, and iron sheets.

Despite these initial efforts, prices and living costs have continued to rise even for those commodities legally subject to control, and the position of the low-income groups continues to become more serious. The cost of living, as measured by official index numbers, increased more than 30 percent between December 1939 and December 1942. ^{5/} A number of factors have contributed to this increase, one of which has been the difficulties of administration and enforcement of

^{1/} Article 4, Executive Decree No. 81, June 6, 1940, effective June 15, 1940.

^{2/} Executive Decree No. 1027 and No. 1028, June 24, 1942, and Executive Decree No. 1031, June 27, 1942.

^{3/} Import commodities subject to export control in the United States and elsewhere.

^{4/} For example, the maximum gross profit permitted for tires and tubes is 40 percent. The regulations for calculating these percentages are prescribed by the Office of Priorities.

^{5/} The actual increase was probably even greater, inasmuch as the index number since August 1942 has been based in part upon the official maximum prices fixed by the Government.

price-control ~~has been~~ **CHECKED** over, the actual shortage of materials in many lines has been ~~caused~~ **caused** by a considerable degree of speculation in and ~~among~~ **among** commercial commodities. Another factor has been the revaluation of the sucre, which has brought more money into circulation, thus contributing to a general increase in prices. Inflationary tendencies have been quite pronounced since the outbreak of the war; Government notes in circulation increased 140 percent between January 1940 and September 1942; during the same period commercial bank deposits increased 116 percent and total monetary circulation, 120 percent. In July 1943 the Government adopted measures to check inflation by requiring all commercial and savings banks to invest 20 percent of their deposits in interest-bearing gold certificates issued by the Central Bank against foreign balances which it holds. ^{1/}

Post-War Problems Relating to Controls and Commercial Policy

The economy of Ecuador is greatly dependent upon the volume and the value of the country's international trade. Such exports as cacao, coffee, bananas, tagua nuts, and petroleum play a major role in determining the well-being of the nation and its citizens. Moreover, activities associated with both the import and the export trade account for a substantial percentage of the national income as well as the revenues of the National Government.

Despite the dependence of Ecuador upon the maintenance of its foreign trade, the trend of Ecuadoran commercial policy since 1930 has been away from a liberal policy. Since that time the Government has had recourse to increased measures of tariff protection, bilateral compensation and clearing agreements, tariff preferences, import prohibitions, penalty customs surcharges, exchange and import control, and currency depreciation. Ecuador was, of course, not unique in the adoption of these restrictive measures, but did so when the world at large was resorting to numerous devices which obstructed and channeled world trade and contributed to a system of national autarchy. It is apparent, therefore, that Ecuador's return to a less restrictive trade policy can only be achieved by multilateral action in cooperation with other nations. That Ecuador is prepared to participate in such a program, if it is made possible by cooperative international action, is suggested by its recent abrogation of commercial agreements involving tariff preferences and clearing arrangements, its participation in the United States reciprocal trade program, and the recent negotiation of a most-favored-nation agreement with Canada, Colombia, and Argentina.

Future of the rubber and quinine industries.

The Ecuadoran Development Corporation, in cooperation with the Rubber Reserve Company and the Defense Supplies Corporation, has embarked on an extensive program to expand the production and collection of rubber and cinchona bark. When the war began Ecuador ranked second in Latin America in the production of rubber, and third in the production of cinchona. Important undeveloped reserves of rubber and cinchona bark are known to exist in Ecuador and the present program

^{1/} Executive Decree No. 1046, July 14, 1943.

involves the expenditure of large sums, the migration of a large number of workers, and the installation of extensive facilities. In addition to making a vital contribution to the prosecution of the war, the Government of Ecuador is interested in establishing, if possible, these industries on a permanent basis.

With the cessation of hostilities, however, these industries will face competition with the products of the Far East, and with synthetic substitutes. The extent to which Ecuador will share in the increased world demand for rubber and cinchona after the war will depend, in large part, upon the efficiency of its industries. During the period of transition, serious readjustments may be necessary if the purchases by the Rubber Reserve Company and by the Defense Supplies Corporation cease soon after the close of the war. If, however, contracts are negotiated in such a manner as to assure continued but gradually diminishing purchases over a specified period of years, the necessary adjustments may possibly be achieved with a minimum of hardship.

Prices and inflation.

The rapid rise in the volume of bank currency and the quantity of money in circulation, together with the continued increase in the cost of living, threaten to result in serious dislocations of the Ecuadoran economy. Efforts to cope with these problems have thus far been only partially effective. It would appear, therefore, that a more comprehensive and carefully articulated program of monetary regulation and price control would not only further the interests of Ecuadoran producers and consumers, but would also contribute greatly to hemisphere stability during and after the war.

