

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date March 3, 1947

To Chairman Eccles

Subject: \_\_\_\_\_

From J. Burke Knapp

With reference to the attached letter to the Mexican Ambassador, he has now filed formal applications with the Export-Import Bank for credits totalling \$175,000,000 distributed as follows:

- (1) \$100,000,000 for a variety of industrial projects
- (2) 50,000,000 for highway construction
- (3) 25,000,000 for the development of tourist facilities.

All of the loans are requested to cover the cost of goods and services imported from the United States in connection with these projects. The Ambassador points out in a covering letter to the Export-Import Bank that the large holdings of gold and foreign exchange accumulated by Mexico during the war years were drawn upon very extensively during 1946 and that foreign assistance on a large scale is necessary if Mexico is to continue its present rate of imports.

The Ambassador points out that "of the total volume of imports in 1946, nearly three-fourths consisted of consumers goods, foodstuffs and luxuries, instead of capital equipment which is needed to further permanent economic development of the country." He might also have added that there was a substantial flight of capital from Mexico during the year as a result of uncertainties concerning the future of the Mexican exchange rate. The Ambassador does not suggest, however, that Mexico take any measures to make a more effective use of its foreign exchange resources. On the contrary, he states that as a signatory of the Articles of Agreement of the International Monetary Fund Mexico desires to avoid recourse to exchange control, quantitative import restrictions and "other discriminatory measures", so that it wants to finance its special requirements for imported capital equipment through foreign loans.

As I see it at present, pending further study of the specific projects that are proposed, there are two main policy problems in connection with the Mexican program:

- (1) To what extent should Mexico be required to make more effective use of its own foreign exchange resources?
- (2) To the extent that foreign financing is considered justifiable, how far should it be undertaken by the Export-Import Bank as distinguished from the International Bank, which is now getting ready to handle just this kind of development loans?

Attachment