The Bretton Woods System Outside the G10: Multilateralisation of Trade and Payments in Latin America's Southern Cone, 1947-62

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Wordcount: 2,723 words

1. Introduction

The intertwined histories of globalisation and economic multilateralism have shaped the international order since the end of World War II. Modern economic multilateralism, where countries engage in cooperation through international agreements and supranational bodies, emerged from Anglo-American wartime discussions and took shape through the Bretton Woods arrangements (1944) and the General Agreement on Tariffs and Trade (GATT) (1947) (Obstfeld, 2024). These frameworks aimed to establish a rules-based international economy and promote non-discriminatory trade relations, with the goal of fostering global benefits and peace. To realise this vision, postwar policymakers created new institutions, most importantly the International Monetary Fund (IMF), to assist countries in their effort to dismantle protectionistic measures inherited from the interwar period (Daunton, 2023). Over time, most economies drastically reduced their discriminatory devices for managing trade and payments, a trend that endured even after the collapse of the Bretton Woods system (BWS, 1945-1971). Economic multilateralism not only survived the difficult 1970s but also laid the foundation for the rapid expansion of international trade starting in the latter decades of the 20th century.

Yet, the post-2008 resurgence of protectionism and the rise of populist political movements across major economies have cast doubt on the resilience of this multilateral order.[1] These developments prompt not just concerns about the future of globalisation but also a re-examination of its past. The challenges facing today's international economy, namely fragmented trade networks and currency rivalries, echo the obstacles encountered during the formative years of the BWS. This historical juncture provides an opportunity to reassess the foundational assumptions of multilateralism, particularly the uneven pathways toward currency convertibility and trade multilateralisation. Conventional narratives of the BWS focus on industrialised or G10 nations and the successful transition to current account convertibility in the late 1950s (Eichengreen, 2019).[2] This emphasis overlooks how developing

[1] See, for example, "'Brave new world': Donald Trump's victory signals end of US-led postwar order", Financial Times, 7 November 2024.

[2] In the BWS years, currency convertibility meant the freedom of individuals and companies to engage in foreign exchange transactions (current account) without government controls (Bordo, 1993). Due to wartime controls, non-residents could not, for example, use their sterling receipts and convert them freely into, say, French francs. Convertibility was a crucial step towards multilateralisation as it removed the restrictions that fragmented global trade and payments into currency zones, like the sterling or dollar areas.

countries, facing unique structural constraints, navigated the so-called "unconvertible phase" of the BWS (1945-1958) using alternative strategies. Latin American economies, as key suppliers of raw materials for postwar reconstruction, occupied a complex position within this system. Their simultaneous pursuit of state-led industrialisation and economic sovereignty, coupled with exchange controls and protectionism (Lewis, 2005), placed them at odds with the multilateral ideals promoted by the IMF and other international actors.

This paper addresses a key historiographical gap by examining the distinct pathways to multilateralisation pursued by the Southern Cone economies, drawing on an extensive range of published and unpublished sources, including the IMF Archives, Bank of England Archive, and US National Archives (NARA), and domestic reserved documents of Chile and Argentina. To date, no scholarship has situated Latin American countries within the broader context of the BWS. Existing studies have primarily focused on specific bilateral relationships with the IMF (e.g., Kedar (2013)), but neglected system-wide developments such as the multilateralisation of trade and payments. Shifting the focus away from the traditional Anglo-American narrative, this research repositions the experiences of developing economies and offers a more nuanced perspective on the BWS. In doing so, it sheds light on its complexities and provides insights into today's global challenges of protectionism and fragmentation.

2. From bilateralism to multilateralism in the Southern Cone

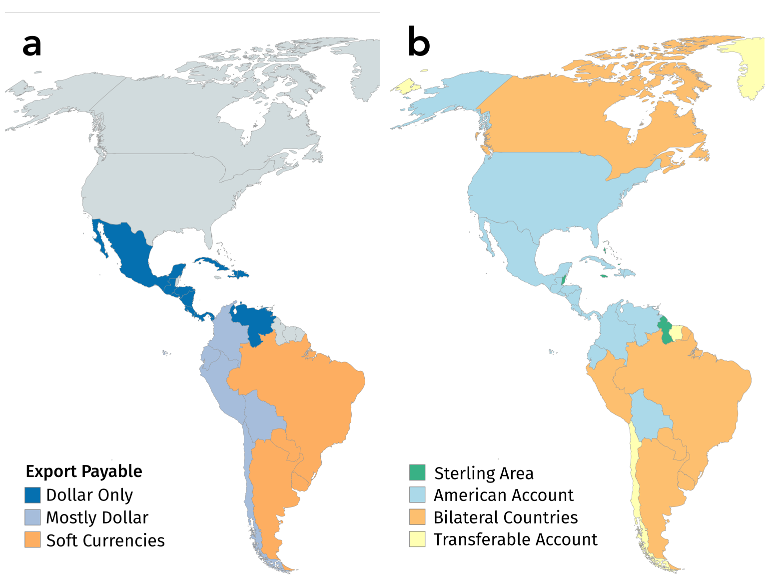
In the immediate postwar years, the convertibility of major currencies was envisioned as the cornerstone of a multilateral, market-driven trade system. American policymakers prioritised the convertibility of key Western European currencies, beginning with Britain's sterling, to facilitate trade with the US. Leveraging its dominant leadership role, the US made sterling convertibility a condition of the 1946 Anglo-American loan. However, this early push proved premature: Britain's attempt at convertibility collapsed just five weeks after it began, as the government was forced to reimpose exchange controls in August 1947 (Naef, 2022). The 1947 sterling crisis marked a turning point for the BWS, prompting a reassessment of its priorities. Instead of rapidly transitioning to convertibility, the lack of international liquidity (known as "dollar shortage") led policymakers to shift towards regional and discriminatory solutions, like the European Payments Union (EPU) (Schenk, 2021).

Globally, this delay in achieving convertibility entrenched a fragmented international of bilateral trade and payments agreements, divided between currency areas. The Western Hemisphere split between the American-led dollar area, where transactions were exclusively settled in the US dollars, and several soft currency areas, including those dominated by sterling and the French franc. This fragmentation shaped the geopolitical and economic dynamics of the early postwar period, complicating and delaying the broader goal of multilateralism. Instead, discriminatory trade practices proliferated, which, as the Economic Commission for Latin America (ECLA) noted in its first report, were a "shortcoming... [that] cannot be too strongly emphasized".[3]

[3]ECLA Archive, Economic Survey of Latin America 1948, p 185.

Within this fragmented global trade landscape, Latin American countries adopted diverse strategies shaped by their export profiles and domestic priorities. These priorities were primarily influenced by the need for governments to move away from the export-led models that had characterised their economies since the 1880s. The expansion of democratic forces, urbanisation, and a broadened electorate fostered consensus across political parties on the importance of promoting import substitution industrialisation (ISI). This approach was state-led but remained fundamentally capitalistic, with governments seeking to support domestic private businesses from foreign competition (Bértola and Ocampo, 2023). Yet trade remained crucial for the success of ISI, as Latin American economies required imported capital goods and other essential inputs to sustain local and infant industries. While many countries supported multilateralism, crucial events in 1947-1948 —the sterling crisis and the end of the postwar export boom— forced them to recalibrate their trade and payments strategies. This shift revealed the complex interplay between domestic development goals and the constraints of a fragmented global trading system.

Figure 1: LATAM's currency for international payments (1954) (a) and UK Exchange Control (1949) (b)

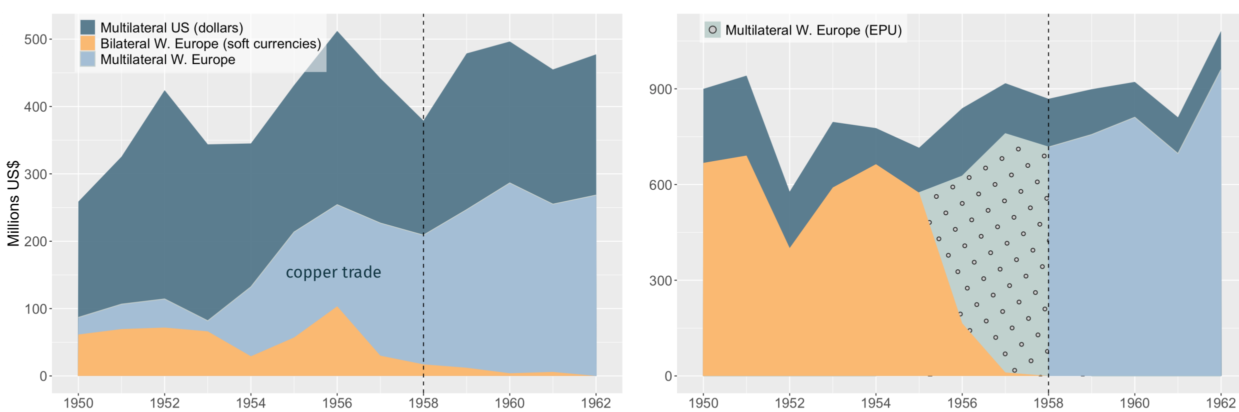


Source: Bank of England Archive (BoEA), OV102/135, f.8 and de Looper (1954).

Taking advantage of the flexibility of not being members of any formal currency zones, Latin American countries thus split into three distinct groups (Figure 1a). North and central countries plus Venezuela (the world's second-largest oil exporter) remained closer to the dollar area as they demanded American currency for payments against their exports. Atlantic countries instead opted for maintaining their traditional European partners relying on a substantial number of bilateral agreements and thus conducting most of their trade in soft currencies, like with Britain (Figure 1b). These agreements established clearing account systems for specific commodities or goods at special pegged rates and provided short-time financing or swing credits.[4] A third group, namely Pacific or Andean countries, stayed somewhat in the middle, maintaining some ties with Europe but demanding dollars for their key strategic commodities.[5] This regional divergence underscored the complex interplay between global fragmentation and local economic imperatives.

As the 1950s progressed and international liquidity expanded, trade bilateralism began to show signs of strain and faced mounting criticism from various international actors. The gradual easing of payment restrictions, facilitated by inter-area settlements, currency transferability, and transit trade, introduced greater flexibility in international payments. At the same time, some bilateral agreements were increasingly exposed as exploitative, with stronger economies leveraging their superior bargaining positions to isolate weaker partners from more advantageous markets. These imbalances, coupled with the easing of the global dollar shortage, prompted multilateral institutions to take a firmer stance against discriminatory practices. After six months of deliberation, IMF Managing Director Ivar Rooth called for "the full collaboration of all its members… to reduce as rapidly as practicable reliance on bilateralism".[6] Through the Annual Consultations under Article XIV, the IMF began systematically monitoring the evolution of bilateral agreements among its members (Horsefield, 1986).

Figure 2: Exports by main regions in Chile (left) and Argentina (right)
in current US dollars (1950-1962)



Source: IMF DOIT database, IMFA (Consultations Art.XIV) and Argentina's and Chile's domestic annual trade reports (Anuarios Comerciales Estadísticos).

In the Southern Cone, these global trends coincided with domestic political and economic shifts. In Chile, a new coalition government (1952) pushed back against the more protectionist tendencies of ISI, while Argentina's post-1955 military regime took steps toward trade and payment liberalisation. The degree to which each country relied on bilateral agreements heavily influenced their respective transitions to multilateral trade (Figure 2). Chile's strategic reliance on copper exports, a key commodity in the Cold War era, enabled it to prescribe

[4]IMF Archives (IMFA), SM/55/31, 12-May-1955.
[5]IMFA, DM/54/66, 29-Dec-1954.
[6]IMF Annual Report 1955, p. 123.

US dollars as the standard currency for trade payments, even in dealings with Western Europe. This strategic advantage placed Chile in a more favourable position to phase out its bilateral trade agreements and integrate more seamlessly into a multilateral framework. In contrast, Argentina's postwar trade strategy was deeply entrenched in bilateral agreements, with over 90% of its trade conducted in non-convertible currencies.

Figure 2 also shows that the transition towards multilateral trade in both countries started well before 1958 when EPU participating countries declared their currencies convertible. Archival evidence sheds light on the main drivers and steps of that process. Chile's more gradual end of bilateralism was led by a major financial reform under the guidance of Klein-Saks (1956), a prestigious Washington-based consulting firm. These changes overhauled the postwar management of the country's external sector which undermined key features of trade bilateralism. First, the authorities replaced bilateral-specific import lists with a single, unified list that guaranteed equal access for all countries;[7] second, and with the assistance of Chile's first IMF stand-by arrangement (SBA), Klein-Saks abolished the complex multiple exchange rates regime, implementing a dual floating system. In the words of the Minister of Finance, this change was "the most effective method of making soft currencies as soft as they really are… [and a way to get] quickly away from the distortions of trade through bilateralism which have (sic) harmed Chile so greatly".[8] European partners also contributed to this gradual end of bilateralism, with Western Germany agreeing to trade exclusively in convertible currencies and providing credit to settle bilateral balances.[9]

In contrast, Argentina's path to multilateral trade required more than domestic reforms; it demanded comprehensive international cooperation. The rapid accumulation of short-term bilateral liabilities, including swing credits, left the military government no choice but to negotiate with major European partners beginning in late 1955.[10] European creditors recognised that failing to support Argentina "would more likely cement Argentine in bilateralism for a far longer period".[11] Britain, given its historical connections to Buenos Aires, led these efforts, rallying other Continental nations to devise a cooperative solution. These difficult negotiations culminated in the creation of the Paris Club in May 1956, an informal forum of creditor countries that remains active to this day. The Club's agreement addressed two key issues: the consolidation of Argentina's short-term debt into a single 10-year loan and a limited multilateralisation of its trade. Under this agreement, Argentina could convert currencies freely among Club members, marking a clear departure from strict bilateral agreements.[12] This partial multilateralisation effectively positioned Argentina as an EPU "associate member", granting it access to the European currency arbitrage system, as a previous step before full convertibility in late 1958.[13]

[7] IMFA, EBS/56/8, 27-Feb-1956.
[8] NARA RG 59, Entry A1205-N, Box 4282, 9-Mar-1956.
[9] Kew FO371/114119, 29-Oct-1955.
[10] NARA RG 56, Entry UDUP 734 A1, Box 34, 2-Mar-1955.
[11] Kew FO371/119878, 3-Jan-1956.
[12] BoEA, OV102/37, f. 45C, 15-Jun-1956.
[13] Roberto Alemann Archive (Argentina), Folder Multilateral Agreements, Memorandum 7-Feb-1956.

The final chapter of Southern Cone's multilateralisation centred on intra-regional trade. While fostering trade among Latin American countries had long been a shared goal of regional governments, policymakers were reluctant to adopt convertible currencies to achieve this effectively. Multilateralisation only gained momentum between 1961 and 1964, following the establishment of the Latin American Free Trade Association (LAFTA) by the Montevideo Treaty. Signed in February 1960, the Central Bank of Chile's governor deemed it the nation's "most important treaty in its independent life".[14] According to the architects of this Association, one of the reasons for low intra-regional trade is that it was highly centralised under governments, "leading to a misalignment of exchange rates and the absence of multilateralism".[15]

Multilateralising intra-Latin American trade was then a priority. For that, LAFTA sought technical assistance from organisations like UN's ECLAC, which proposed a transitory period involving the creation of a clearing agency as a precursor to a payments union and, eventually, a common market.[16] However, LAFTA ultimately adhered to IMF's recommendations, which advocated for a rapid transition aligned with GATT's non-discriminatory principles. The Fund's involvement went beyond policy guidelines, as it provided financial support for Southern Cone countries. In January 1961, the IMF granted Chile a stand-by-arrangement –the institution's flagship programme– for the equivalent of US$16 million in Argentine pesos to exclusively settle the bilateral balance between the two countries. The Chile-Argentina operation marked a milestone in the IMF's history, being the first time a Latin American member's currency was drawn.[17] More generally, this intervention highlighted the Fund's role in fostering multilateralism and underscored how Southern Cone countries gradually integrated into a more interconnected regional and global trade framework.

3. Conclusion

This paper has explored the challenges of achieving multilateralism within the BWS by examining the less-studied cases of Chile and Argentina. The findings expand the focus of existing narratives, which often emphasise industrialised nations' linear paths to currency convertibility, typically framed through the lens of the EPU, to include the overlooked experiences of developing economies. By bringing Latin America's Southern Cone into the discussion, this study underscores the uneven nature of postwar multilateralism and highlights the adaptive strategies employed by developing economies to integrate into the evolving BWS. These cases demonstrate that multilateralism was not a uniform or uncontested process but rather a fragmented and negotiated one, influenced by global shifts and the exhaustion of domestic development strategies, international cooperation and regional integration.

In light of today's rising protectionism and fragmented global trade networks, these historical lessons offer critical perspectives. The current fragmentation of global trade, marked

[14] Central Bank of Chile Archive, Board Minute 1767, 24-Feb-1960.

[15] Banque de France Archive, 1495200501 AR 822, Politique de change, Banque Française & Italienne pour l'Amérique du Sud, Note Mensuelle, Dec-1961, p. 41.

[16] ECLA Archive. Second Working Meeting of Central Banks, 24-Nov-1958.

[17] IMFA EBM 61/5, 10-Feb-1961.

by regionalism and the resurgence of some kind of bilateralism, echoes the mid-20th-century challenges of reconciling national priorities with global economic integration, particularly for developing economies. As global trade tensions persist, understanding how past actors mitigated fragmentation through adaptive strategies and regional cooperation offers a valuable lens for navigating contemporary obstacles to multilateral engagement.

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