UNITED STATES-LATIN AMERICAN TRADE RELATIONS: IMPORTANCE TO U. S. AGRICULTURAL POLICY DECISIONS

Latin American Extension Team[1]

The team visited the eight countries of Mexico, Panama, Colombia, Peru, Chile, Argentina, Brazil, and Venezuela between April 21 and May 25, 1960.

In this report the team attempts to set down its own general impressions of the requirements for long-range development of U. S. markets in Latin America. It also makes numerous observations on the more immediate issues in trade between the U. S. and Latin America.

THE GENERAL ECONOMIC SITUATION

Perhaps the most significant impression was that the Latin American countries are on the verge of a period of great economic development.

Latin America is expanding and diversifying its production. She will not be satisfied to be only a source of raw materials for the industrial areas of Europe and North America. Her leaders are working vigorously and with visible results to develop her own industry and manufacturing.

Many industries are, in fact beginning to produce efficiently and in substantial volume. Kaiser has automobile plants in Argentina and Brazil. Cotton textile plants are in operation in Colombia. Most of the countries have a variety of industries. Some have been developed in partnership with U. S. firms and a few with European and Japanese firms.

Industrial production is increasing rapidly in nearly all the countries visited. Most countries are taking steps to get the profits of the industries reinvested in the country. Many are working to get foreign capital and industrial management to come into the country on a new kind of partnership basis, which would develop local leadership and management responsibilities. Most countries are attempting to guide industrial expansion into the kind of production most needed for an over-all balanced develop-

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ment. The Prudential Life Insurance Company made a development loan to the Mexican government of 100 million dollars, to be invested in projects the Mexicans feel are most needed.

At the same time, Latin America's population is expanding rapidly. The increase is estimated at more than 3 percent a year in many of the countries. Much of this increase gives no promise of adding to national productivity, however, because it occurs among families who are actually outside the economic system. They gain all their living from their land. They buy nothing and sell nothing, and have access neither to money nor markets. Latin America's greatest need (and the greatest hope for U. S. trade expansion in that area) is to find ways to give employment to the people now outside the economic system, and thus to assure the over-all increased population a higher level of living.

We found signs, too, that these people are beginning to know about and want a better living. Latin American governments are aware of this pressure; we believe that it should also be more widely acknowledged in the U. S.

Inflation seemed to be a general problem in Latin America. The price level in Brazil went up nearly 50 percent in one recent year, and in Argentina prices rose nearly 100 percent in 1959. In Chile the price level increased nearly 80 percent in 1955, and has risen nearly 35 percent a year since then.

Under such conditions no wonder some businessmen find it hard to conduct any kind of a business enterprise. The Chilean representative of one U. S. company said that even the tax responsibilities of individuals and corporations are uncertain and unpredictable during severe inflationary periods.

Most Latin American governments are making major efforts to curtail inflation. The Development Bank and other international lending agencies are encouraging these countries to take firm steps to balance their budgets, restrict imports, and stop printing money. Some countries showed evidence of more stable prices. But it would be unduly hopeful to say that inflationary forces have been brought under satisfactory control.

THE POLITICAL SITUATION

The two critical issues in Latin American politics are both strongly influenced by internal economic conditions and by the economic policies of the U. S. These critical issues are generally conceded to be nationalism and government stability.

Economic Nationalism

Nationalism, we were told, is growing rapidly in most of the countries. Certainly we heard, both before and during our stay in these countries, that the Latin American people do not like the United States. Yet the team was impressed with the many close and cordial ties between the people of Latin America and of the United States. Many people who have been educated in the United States now hold responsible positions of leadership. In the Ministry of Agriculture in Chile we visited with five young officials, each of whom had been trained in a different U. S. state university.

Furthermore, the people in Latin American countries seem to have an affinity for the U. S. They like our products, and they try to pattern many of their activities after the U. S.

But Latin America is keenly aware that about half of its trade is with the U. S., that about one-fourth of U. S. foreign trade is with Latin America, and that about one-third of U. S. foreign investments are made in Latin America.

One of the stirring moments of the mission occurred during a meeting of the team with nearly a hundred members of the Argentina grain trade. One of their representatives made an eloquent plea for free trade among all the nations of the hemisphere. The applause and enthusiasm from the other Argentineans was immediate and spontaneous. The people know they are dependent on trade with the U. S., but they are not sure the U. S. always understands how its actions affect Latin American economies.

Nationalism, to the extent that it is growing in Latin America, is in a large part economic in nature and origin and consequently more understandable if the economic interrelations are kept in mind.

In nearly every country visited, a scarcity of foreign exchange, particularly dollars, is seriously limiting imports. And imports of certain capital items are urgently needed for the new industrialization toward which these countries are working.

In Argentina the case was made more forcibly that the country must increase its exports to pay for the imports needed for economic development. In Chile foreign exchange is so important that government agencies received their budgets part in escudos (Chilean currency) and part in U. S. dollars. And in several countries industries were encouraged to expand by being allowed to use directly the dollars generated by the sale of their products in the United States.

Despite the vital need for foreign trade, many countries find their foreign exchange dropping. Lower world prices for raw materials, import restrictions, or slower rates of foreign investment are common causes. In this situation most of the governments have taken control of exchange and prevented free convertibility. International currency stabilization funds are available, but usually only if the nation takes steps to bring imports into balance with exports. Since exports are not easily expanded, imports have to be restricted. Few countries are willing to restrict imports of machinery and equipment. Most countries choose instead to restrict food imports and encourage domestic food production. Attempts are being made to diversify production so that the nation's economy will be, so far as possible, independent of the actions of other countries or of international prices for its products. Many of these actions, if taken by themselves, would undoubtedly be called uneconomic, but they are inescapable in the face of limited foreign exchange.

Another aspect of reduced foreign exchange is that most countries have been forced to reduce sharply their imports of materials needed for building roads, power projects, schools, etc., as well as for private development. Moreover, in the interest of a balanced budget, they often are curtailing domestic expenditures for such necessary items as schools, roads, water development, research, etc.

Stability of Governments

Uncertainty about the future of the government has unquestionably been a deterrent to investment, trade, and other forms of business.

Although political stability was not the focus of the survey, we concluded that this issue, too, has economic origins. In many countries nearly 50 percent of the population is now outside the economic stream, in a subsistence, nonmonetary life. Most of the people, but especially these people, are faced with a critical lack of educational facilities. Medical services and sanitation are inadequate. A postal system, telephones, and other forms of communication are sorely needed for industry and commerce.

Any government, to be stable, must make significant progress in filling these needs. Rural people, uneducated for urban life or urban employment, are migrating to the edges of the large cities, where their economic plight is often worse, not better.

Venezuela, Argentina, and Colombia have recently overthrown dictatorships, and the United States lost considerable prestige in Latin America because of recognition and support given those dictatorships. Even more important, however, the present governments found considerable indebtedness when they took over and have had to tighten their belts financially. These countries still have violence groups that would like to overthrow the new governments, but in general the changes have brought forth political leaders who are trying to give the individual some status and the countries some democracy. Here again the U. S. is the model; hence, the U. S. has a vital interest in the success of these governments. If they do not succeed, the communist organization, which does not now appear strong, would be quick to blame the U. S. and democracy for shortcomings in the national situation.

THE LONG-RUN AGRICULTURAL POTENTIAL

The largest area of good agricultural land as we know it is in the pampas of Argentina, which includes over 150 million acres, most of which is rich flat land. It is currently being used very extensively for livestock grazing and for some crops, particularly wheat and some corn. The pampas can probably compete with almost any agricultural area in the world. We were told that livestock producers are making a profit selling beef at seven cents a pound.

Argentina supplies a large share of the world trade in agricultural products, and can supply much more. Its products compete in the world markets with those from the U. S. Its leaders are extremely interested in and well informed about U. S. agricultural programs. The decisions of the U. S. Secretary of Agriculture seem to be as important to the Argentine farmer as to the U. S. farmer.

Latin America also has large land resources to grow tropical agricultural products. The team flew 2,700 miles nonstop from Rio de Janeiro, Brazil, to Caracas, Venezuela, mostly over underdeveloped tropical areas.

Most sugar producing countries would like to sell the U. S. more sugar.

Fruit growing countries can expand production with little difficulty if markets are established. Improved cultural practices and storage facilities would come almost as a matter of course.

Coffee is in serious oversupply, and coffee prices would be extremely low were it not for the stabilization efforts of the producing countries. The producing countries would like the U. S. to negotiate a price and allocate quotas among producing countries for coffee as it does for sugar.

Most of the land now being commercially farmed, such as the savannahs in the mountain valleys of Colombia and the irrigated valleys of Peru and Chile, will continue to be profitable. The countries will probably continue to encourage more intensive agricultural production and to produce more food products.

With so much mountainous country, the possibility of increasing water supply for irrigation should be rather carefully investigated. Some reports indicate that the value of existing irrigation projects could be increased with more efficient use.

Livestock probably offers the biggest potential for increase in agricultural production in Latin America. Colombia is studying the feasibility of encouraging new settlement and the expansion of the livestock industry on the eastern slope of the Andes Mountains. Venezuela has a good road to the upper llanos, where livestock production has some possibilities. Peru is putting major emphasis on developing the livestock enterprise, and the agricultural college now has a model packing plant. The livestock enterprise could bring the Indians of the mountain areas of Peru, mostly now on a subsistence level, into the national economy.

So far, the dairy industry in Latin America is not substantial, particularly the fluid milk phase of the industry. More dependable sanitation and much better market facilities will be needed if fluid milk is to become a major source of food. A few countries are beginning by establishing reconstituting plants.

Sweetened condensed milk gets considerable use because it makes a popular candy and incidentally supplies nutritional needs. Some cheese is made in a few of the countries.

The dairy product with the greatest possibility for expansion both in U. S. sales and in local production is powder—both nonfat and whole milk. The consumer wants and is getting a product that can be kept clean, fresh, and healthful without refrigeration.

The future agricultural potential cannot be considered apart from farm organization and management. This is a political and general economic issue as well.

The good land areas (the irrigated valleys in Peru, the large ranches in the Argentine pampas, the savannahs near Bogota, and the coffee plantations of Brazil, Colombia, and Mexico) are held in very large ownerships. Farm laborers are generally paid very little, and many farmers exist at a subsistence level on very small tracts of poor land.

There is pressure, of course, for simply redistributing the wealth. Subsistence farmers who get all their living from the land feel that more land would give them a better living. Apart from this, the large landowner often can wield a disproportionate influence over schools, local government, and the police force for the community. Hence, land reform, land redistribution, and land settlement are programs that greatly appeal to many people in Latin America.

A number of countries have enacted or are appraising the possibilities of land reform programs. Most countries are aware that large groups of their people are demanding some increase in status and income.

Another reason for the current emphasis on land reform is that large ownership units are often not operated to the capacity of the land. While some owners of large units operate their farms with modern, efficient methods, we were told that because enough do not, several governments hope to increase agricultural production by dividing these estates into smaller tracts operated by the cultivators.

Tax systems also have an impact on agricultural potential, and many of the Latin American countries appear to have a very inadequate tax system, particularly at the local government level and with regard to land tax.

A land tax with a system of tax foreclosures could force more intensive cultivation and discourage large landowners from leaving land idle for long. It could also raise local revenue for school purposes. The team visited a community in the Colombian Andes that had constructed a two-room rural school with running water and indoor toilet facilities. Local school board members were proud of their school, and quick to explain that it could not have been built without a recent change in laws to permit the community to organize a school district and to tax the land. This kind of tax reform merits consideration in other Latin American countries.

Latin American countries are making strong efforts to increase their agricultural production. They have the land resources, but considerable improvement in production techniques will be needed.

Several kinds of programs can be expected under the broad heading of land reform. Among these one of the most important is an improvement in production credit. Many observers feel that underdeveloped countries are recognizing the need and hope for an improved agriculture to furnish the food and people for industrial development.

TRADE POLICIES

Perhaps the most important fact about present-day Latin American trade policies is that in each country trade is almost entirely dependent on, and dictated by, national economic and political decisions.

Latin American countries have historically been exporters of raw materials and importers of manufactured products and food. Today their goal is to diversify production and restrict the imports of goods that are not necessary to economic development or can be produced domestically.

A corollary to their attempts to diversify production is their effort to spread their trade among more countries. Latin American countries are definitely interested in spreading the trade to reduce their dependency on actions and decisions in the U. S. or in any other single country.

The effect (and the intent) of these policies is not necessarily to reduce trade with the U. S., but to change the nature of the trade. Latin America hopes to buy fewer finished products and more machine tools, less flour and more wheat, fewer automobiles and more steel mills.

Although U. S. products are generally favored by a wide margin, the team found substantial price and quality competition from other countries. Representatives of Japanese and European firms are very much in evidence in the capital cities. We were told that U. S. firms were being underbid on many items. One competitor nation was reported as consistently supplying wheat at above grade, while U. S. wheat was generally right on grade. Poland and Israel were sending Venezuela shell eggs at lower prices than those from the U. S.

Several suggestions were heard on how to improve our trade relations and build up demand in Latin American countries:

1. Terms of trade, and particularly credit provisions, seem to be very important. With interest rates at 25 to 35 percent, the

availability of credit with the sale often becomes a determining factor. In some cases a higher price with credit is preferred to a lower cash price. Generally it seemed that the U. S. could improve its competitive position with better credit. U. S. government risk insurance could be a substantial help to exporters who extend credit and to U. S. firms investing in Latin American countries.

2. Latin American countries do not like to feel they are just a dumping ground for surplus products. Although Latin American sales may be a very small part of the total business of a U. S. firm, special efforts to cater to that market often would increase the sales. For instance, although consumers usually want small cans of dry milk powder, many U. S. shipments are available only in five pound cans. U. S. products with English language labels are being wholesaled in Spanish-speaking countries. Several times we heard importers say that they would like representatives of U. S. exporting firms to visit the market and see first-hand what the needs are. U. S. exporters are very cooperative in making adjustments, he explained, but it is equally important for them to find out how future errors can be avoided.

3. The quality of U. S. imports is not always up to the standard the customer expects. Often the importer is at fault for specifying a grade that will not meet customer needs. But the U. S., in the public's eye, is still responsible. Poor quality in standard food items shipped from the U. S. creates ready material for anti-U. S. propaganda. It appears that the U. S. would be well repaid in better markets and better public relations with the people of Latin America if steps were taken to educate importers about grades and standards, and if increased responsibility were required of exporters.

The Great Plains Wheat Producers and FAS market development project is attempting to reduce some of the conflicts that grow out of misunderstandings about grade. U. S. exporters ship wheat on specification. In the past the importer has sometimes not understood the specification and ordered a different quality of wheat than he actually needed. The market development project is attempting to acquaint importers with U. S. specifications and help them specify exactly the quality they want. The project, by having personnel in the importing countries, probably has had some policing effect on U. S. exporters, too, since exporters know that any deviation from specified grades will be known at once to the association of U. S. wheat producers and the USDA.

TRADE RESTRICTIONS AND TRADE CONTROL DEVICES

Few members of the team had realized the extent to which the Latin American governments regulate all aspects of their international trade. Tariffs and import quotas were, of course, expected, but most countries use many other devices that are equally effective. Although trade control devices cannot be appraised or evaluated apart from the total policies of the country, it is useful to know what some of these devices are:

1. Tariffs and quotas, which are quite commonly understood in the U. S.

2. Licensing, both of importers and of individual shipments. Mexico, for example, usually will grant licenses to import products considered necessary for economic development, but will refuse import licenses for other products which can be supplied domestically, even at higher costs.

3. Import deposits. A country attempting to reduce imports may require large cash deposits for specified minimum time periods. Sometimes the required deposit is as much as 50 times the value of the product, and it must be deposited for as much as six months. This can be a substantial restriction on imports into a country that is short of liquid assets and where interest may reach 25 and 35 percent per year.

4. State trading. In some of the countries and for some products, the national government takes title to domestic products for resale in foreign countries or buys abroad to resell domestically. This device can be used to direct and control trade and also to regulate prices within the country. For instance, Colombia has imported wheat for resale in the domestic market at high prices, thus supporting prices of Colombian wheat. Peru, on the other hand, has purchased meat products at the world price and sold them at low prices in Lima in an effort to improve the diet and hold down the cost of living. (This policy is currently being changed since it conflicts with the policy of increasing domestic livestock production.) State trading is also used on the export side. Coffee is often exported by quasi-public agencies, with the difference between the price paid to producers and the world price paying the cost of coffee promotion, storage, and regulation of the supply going on the world market. Under the Peron regime in Argentina, beef and wheat bought at low domestic prices were resold at higher world prices. The "profit" was used by the government. Food prices were kept low, but in time these low prices discouraged agricultural production. Since 1955, Argentina has been trying to reverse this policy and the state trading procedure. It still has,

however, a tax on exports of beef and wool of 23 percent, and on wheat of 32 percent.

5. Mixing requirements. In Colombia and Venezuela, a specified proportion of certain domestic products must be purchased with every similar purchase on the world market. Colombia requires bakers to use minimum proportions of domestic wheat; Venezuela uses this type of requirement in feed grain purchases and in dairy.

6. Manipulation of foreign exchange. Most countries (Peru and Venezuela were exceptions) used this device to some extent. Brazil had the most complicated system. For importation of a product whose purchase was being discouraged, dollar exchange could be purchased only at a high rate. For importation of goods needed in the country's development (oil machinery, for example), the dollar could be purchased for as low as five cruzeiros.

SUMMARY

The market for some U. S. products in Latin America may be expected to continue firm and even expand some if the P. L. 480 program continues.

Wheat imports are needed by most Latin American countries. Only Argentina and parts of northern Mexico seem adapted to wheat production. Argentina is decidedly going to be a competitor for Latin American wheat markets. The other major competition will continue to come from Canada, Australia, and perhaps Russia.

Fats and oils are in strong demand in most Latin American countries. Although efforts are being directed to increase domestic production, particularly of animal fats, we should expect a continuing demand for U. S. products.

Cotton is needed by a number of Latin American countries. More will be needed as the countries industrialize and as the level of living is improved. The U. S. appears to have an advantage in cotton production over most other American countries, with the possible exception of northern Mexico, Peru, and Brazil.

The U. S. will probably continue its comparative advantage in wheat, cotton, and fats and oils for some time. Breeding stock for Latin America's expanding livestock industry may also furnish a small but expanding market for agricultural products from the U. S.

Yet the short-range picture for increasing agricultural exports to Latin America does not look particularly encouraging. Limited dollar exchange, national efforts to become self-sufficient, and encouragement only of capital imports combine to act against the purchase of food and farm products.

The long-range picture is much more heartening. Latin America wants to grow, to industrialize, to produce, and to enter into diversified world trade. The Latin American market will grow with the Latin American economy. If we are interested in an expanding agricultural market, we must be interested in the rapid economic development of the Latin American countries. One cannot become a fact without the other.