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TIONS WITH LATIN AMERICA AS SEEN FROM THE NATIONAL STANDPOINT

by

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I

r the Good Neighbor Policy of the Roosevelt Administration, our th the republics of Latin America have undergone marked improve- of the Seventh Pan-American Conference at Montevideo in 1933, the can Conference for Peace at Buenos Aires in 1936, the Eighth Pan- nference at Lima in 1938, and special consultations of Foreign t Panama in 1939 and at Havana in 1940, have come increased under- mutual problems and the establishment of permanent agencies of on, such as the Inter-American Neutrality Committee and the Inter- onomic Committee. Specific actions on the part of the United as the abrogation in 1934 of the Platt Amendment which limited gnty of Cuba, the withdrawal of Marines from Haiti in the same relinquishment of our control over the customs of the Dominican n 1940, the negotiation of reciprocal trade agreements with 11 ican countries, the loans of the Export-Import Bank, the establish- Division of Cultural Relations in the State Department, and the of Mr. Nelson Rockefeller as Coordinator of Commercial and elations between the Americas have shown that our statements of tion have not been empty words.

h the spread of the war and the alignment of nations beside and e Axis, our efforts to improve political, cultural and economic ips have been widened and intensified. The reasons require no discussion. The Axis threat to the United States is by strategic a threat to the entire Western Hemisphere. It is of vital con- ll countries on the continents of North and South America that striking power of the entire Western Hemisphere be mobilized hat threat or any future threat from whatever source. This requires um utilization of the economic resources of the hemisphere, involving, er things, a complete reconsideration of our trading relations n America.

is paper is an attempt to do some reconsidering. I am painfully the difficulty of saying much that is concrete and constructive. t easy to generalize with accuracy about Latin America. The areas le which we commonly designate as Latin American embrace over 8 square miles, over 130 million people of varying racial mixtures, ndependent republics. Furthermore, the basic trading relationships in America are distorted and beclouded by the exigencies of war s, while the shape of things to come can only be surmised.

II

I shall try to get at the issues involved under six topics: (1) a tline of some of the major characteristics of the economy of Latin , particularly its trade relationships prior to the outbreak of war; xamination of the impact of the war upon these trading relationships;

mic relations between the United States and Latin America during d of belligerency abroad and of our defense effort; (4) alternative policies toward Latin America during a period of post-war reconstruc- difficulties of economic collaboration with Latin America; (6) the the economist in Inter-American economics.

III

though I do not wish to burden you with figures, it seems necessary with a few quantitative facts, the significance of which I hope will lear as we proceed. In outlining the economic position of Latin before the outbreak of war, I shall refer briefly to the volume of its he composition, destination, and origin of the trade, and the position nited States.

he foreign trade of Latin America has constituted a significant part world trade. During the decade preceding the war, the 20 republics America accounted for about 10 per cent of total world exports and er cent of total world imports, the excess of exports being due in rt to the debtor position of most of the Latin American countries. the total value of Latin American exports exceeded 1.8 billion dollars, ports were over 1.5 billion dollars,

espite great mineral resources, which are the basis of the economy mber of countries--notably Bolivia, Chile, Venezuela, Peru and Mexico-- growing industrialization of many areas, agriculture, including the of livestock, is the principal occupation, engaging over two-thirds population. In 1938, agricultural exports from Latin America accounted ut 55 per cent of the total, the remainder being largely minerals, r with a few forest products, Some idea of the importance of the tural products may be gained from the fact that coffee from Latin accounted for nine-tenths of the world trade in that commodity; fresh, , and frozen beef for two-thirds; flaxseed for one-half; cane sugar, and castor beans for a third each; lamb and mutton for a fifth. Imports, d be expected, embraced the whole range of fabricated goods, ranging nsumption goods such as automobiles, radios and textiles to production uch as machinery, locomotives and airplanes.

The bulk of the foreign trade of Latin America is accounted for by ountries. In 1938, 86 per cent of the exports were distributed as :

Argentina, 24 per cent, Brazil, 16 per cent, Venezuela, 15 per cent, 10 per cent, Cuba and Chile, each 8 per cent, Colombia, 5 per cent. 10 per cent was accounted for by the three republics in the West --Cuba, Haiti, and the Dominican Republic. With one or two exceptions, countries maintained a similar position with respect to imports.

By far the largest single outlet for Latin American exports has been ited States, which took over 30 per cent in 1938. The United Kingdom ted for about 17 per cent, as did Germany, France and Italy combined. port picture is similar, with the United States accounting for about cent, United Kingdom for 12 per cent, German, France and Italy com- 22 per cent. The remainder of the trade was scattered among a large f countries.

urning specifically to the United States, we find that in 1938 about nt of our total exports of approximately 3 billion dollars went to erica, while about 23 percent of our total imports of nearly 2 billion came from there. Of our exports to Latin America, about 74 percent finished manufactured goods, while the principal import items were uted as follows: crude foodstuffs, 42 percent; manufactured food- nd beverages, 23 percent; other crude materials, 23.5 percent. ly because of the debtor position of most of the Latin American coun- we have characteristically imported somewhat more from that area than rted to it. This position was reversed in 1938, when exports were y in excess of imports. About 40 percent of the imports from Latin were dutiable, which was about the ratio for imports in general. , the calculated ad valorem rate on dutiable imports from Latin Ameri- about 47.5 percent compared with a rate of about 37 percent for all ountries.

The over-all figures of our Latin American trade are likely to be ing because of wide variations as between different areas. It is ry to differentiate between our trade with the countries of the an area, Brazil, countries of the west coast of South America, and perate zone countries of the east coast.

The Caribbean area includes Mexico; the insular republics of Cuba, and the Dominican Republic; the Central American group of Guatemala, ador, Nicaragua, Honduras, Costa Rica and Panama; and the north coast es of Venezuela and Colombia. In 1938, 45 percent of the exports of ibbean group went to the United States, from which they obtained ent of their imports. Our imports from this area included such tural and forest products as sugar, tobacco, coffee, cocoa, bananas, n and mahogany; and mineral products such as gold, silver, lead, opper and petroleum.

Brazil sent 34 percent of its exports to the United States in 1938, ich it took 24 percent of its imports. Coffee accounted for over ent of the value of our imports from Brazil in that year, while cocoa, ba wax, babassu nuts and castor beans accounted for another 16 percent.

The west coast countries - Bolivia, Ecuador, Peru and Chile - sold ent of their exports to the United States in 1938 and purchased 30 t of their imports from us. Important among our imports from this were copper and nitrate from Chile; sugar, copper and lead from Peru; and bananas from Ecuador; antimony from Bolivia.

The remaining countries on the east coast - Argentina, Paraguay and y - exported only 8 percent of their total exports to the United States 8, while purchasing 16 percent of their imports from this country. s due to the fact that these countries lie in the temperate zone and ily are producers of agricultural products, most of which are produced United States in large quantities. From these countries, we obtain ntial quantities of canned meats, wool, hides and quebracho extract. ina is an important source of flaxseed.

IV

th this pre-war picture in mind, we may turn to the situation during into 1941. Because of a lag in the availability of trade data n America, it is not possible to give a fully-rounded account of happened. Reliance must be placed on scattered indicators.

th respect to the United States, the picture for 1940 is clear. In , our exports to the 20 Latin American republics totaled 726 million an increase of about 47 per cent over 1938. This expansion involved ncreases in our exports of iron and steel products, paper and chemicals. in our exports of aircraft and agricultural machinery are self-explan- Imports from Latin America in 1940 totaled 620 million dollars, an of about 37 per cent over 1938. Items such as wool, copper, crude n and semi-finished oils showed startling increases. The value of orts in 1940, for example, was six times that of 1938. Despite this ncrease in both export and import trade with Latin America, it was ow the level of 1929 when exports exceeded 900 million dollars and exceeded a billion.

The continuance of this excess of exports over imports, which began , reflected primarily the inability of Latin America to purchase from al European sources. This balance was more than offset by imports and silver from Latin America. With our civilian population beginning the pinch of the defense effort, it would have been infinitely better e point of view of our national standard of living could these so-called s metals have been replaced by consumable commodities.

The significance of Latin America in our total trade did not alter ably in 1940. Exports in that year to the 20 republics of Latin a constituted about 18 per cent of our total exports compared with 16 t in 1938. Imports from Latin America in 1940 were about 24 per cent total compared with 23 per cent in 1938. This situation was, of course, parallel expansion of our trade with other areas in 1941.

As might be expected in these incredible times, the trade position developed in 1940 has already changed. Our recent export balance to America began to decline in the latter months of 1940; by February s year, an import balance had appeared. For the first quarter of this import balance totaled about 45 million dollars. The rather sud- ppearance of this import balance is due primarily to the rapid ration of our Latin American purchases of materials essential to defense. they continue, the first quarter rates would give an annual import of close to a billion dollars, and an export total in the vicinity of quarters of a billion. This is not to be taken as a forecast for 1941. ncertainties are great, and the increased imports from Latin America ortly be reflected in increased exports from this country. Barring ic inroads on the ship tonnage available for trade with Latin America, eems likely that our total trade with that area in 1941 may exceed that 940, that an excess of imports over exports may be expected, and that trade with Latin America will represent, particularly on the import side, rger fraction of our total foreign commerce.

We do not know accurately the total foreign trade position of the n American countries during 1940 and the first half of 1941, but it is ar that the impact of the war is beginning to make itself felt with onomic deterioration in a considerable number of countries. Trade kably well in 1940 when imports totaled 1.3 billion dollars com-5 billion in 1938. Exports were estimated to have been about 10 the level of recent pre-war years. Signs in 1941 are less favor-

V

ng as our defense effort, paralleled by conflict between Great the Axis continues, the course of our trade with Latin America is . It will be determined primarily by the availability of shipping re of our defense requirements. The shortage of shipping will re-otal volume of trade between the United States and Latin America below the level which would obtain were the normal amounts of e available. The cargoes carried by the available ships will be hted in favor of strategic and critical materials required by our ogram. Imports of such items as wool, hides, copper, tin, vanadium, uxite, quebracho extract, iodine, and quartz crystals, will be much h if the demand reflected only consumer buying power and choice with-ed States. If the defense program continues for some years, there e increasing imports of items such as rubber, manganese and manila rily obtained from other areas. The production of such products as be stimulated not only by unusual demands in this country and by the ty of the usual sources of supply, but also by special financial for the expansion of their production in Latin America. This does at imports of items not directly connected with defense demands will ports of such items as Chilean nitrates, to make up the deficiency ural fertilizers caused by the diversion of synthetic nitrogen to and staple food items such as coffee, sugar and bananas will be thermore, it is to be expected that a considerable volume of charac-ports from Latin America will continue. This for two reasons: e will frequently be some shipping space available after the more s have received priority, and second, it is necessary that as much possible be given to the normal economic structure of Latin America o receive the fullest economic and political collaboration from that her the total volume of imports can be maintained at current levels rgely on the shipping situation, and this cannot be foreseen with any As for exports to Latin America, we shall doubtless continue to e variety of fabricated goods, modified by defense priorities such or machine tools and aircraft, and reductions in domestic output such ntemplated for automobiles and tires. On balance, any increased the United States and other areas, such as Japan, cannot be expected cto for losses in the European market and the economies of many of American countries will function below normal levels and under con-strain.

short, it will be shipping and the exigencies of economic warfare dominate the situation rather than the supply-demand conjunctures, s of economic groups and the considerations of economic welfare which economic complex in times of peace. Economists continue to quote Smith, but chiefly to remind us that "defense is of much more im-han opulence."

VI

his rough sketch of our economic relations with Latin America
mmediate future, I turn with even more apprehension to a
these relations in a somewhat more distant period, which we
signate the post-war period.

aling with this period, it is customary to start out with alternative
uch as a British victory, an Axis victory, or some sort of a
d to discuss possibilities under each assumption. This procedure
or bringing out some of the broad issues, but it cannot be pushed
use each major possibility requires a large number of crucial sub-
with respect to such things as political alignments, programs
iciency, and policies of trade control that are beyond the focus
m.

as far as I am willing to go is to say that in any event the
an countries will regain some of their European markets during
r period, though it is unlikely that they will attain, save
r a brief emergency period, a volume of external trade with Europe
that of the pre-war period. In the event of a British victory,
on of that trade will depend primarily on the world trading policies
this country and by Great Britain. In the event of an Axis victory,
cements will be offered to bring some of the Latin American
ithin the trade orbit of Germany. The extent to which they might
would depend in large measure on the trade policies of the United
to what might develop out of some sort of a stalemate, your guess
as mine. Under all three assumptions, however, I am inclined to
our economic ties with Latin America will be closer than they are
tly because of the mutual economic gain involved, partly because
inuing necessity of regarding the Western Hemisphere as a strategic

hall try to bring out some of the considerations which must in any
ighed from the national viewpoint. In terms of economic welfare,
nsider the gains in real income that may accrue or be denied to the
various countries within the hemisphere. In terms of international
we must consider the extent to which various policies will induce
ican countries to turn toward the United States as a collaborator and
turn elsewhere. In terms of military strategy, we must consider
of trade policies on our ability to insure the strategic materials
essential to our defense. In terms of the interests of producers
untry, we must weigh adjustments arising out of trade policy against
al gains involved.

at policies can we pursue under the various possible circumstances?
opt a business-as-usual policy, under which no special efforts are
all forth the resources of Latin America or to knit that area into
onomic relation to us. We can concentrate, through loans and other-
the expansion of production in Latin America of products which are
for our defense economy and on products whose importation will not
blems of production adjustment within the United States. We can go
nd expand our general trade with Latin America and take measures to
any adjustments which such a policy may make necessary. Most persons
ecessity of going beyond a business-as-usual policy toward Latin America.
dissent from policies in the second category. It is on the third

...sent and difficulty arise.

It should be noted in passing that problems raised by the adoption ...cies within the third group are confined to a few countries, prin... Argentina, Paraguay and Uraguay, and to a few commodities including hides, wool and flaxseed. The countries primarily engaged in producing minerals and tropical foodstuffs do not present the same type of ... save in the case of sugar, which involves our relations with the ...an countries and Peru.

This problem of the adjustment of domestic production to various ... policies with Latin America is beyond the scope of this paper, which ...ted primarily to the national considerations involved.

The line of argument followed up to this point has been a relatively ... one; namely, that insofar as we make our defense effort a hemisphere ... and insofar as we continue to operate on a hemisphere basis in any ... period, there must necessarily be greater integration of the econ... of Latin America with that of the United States. And further, the g... degree of integration that is aimed at, the greater must be the ...al readjustments in the economies involved.

VII

The foregoing analysis is admittedly an over-simplification of our ... relations with Latin America and one which is expressed in the ... terminology of international trade. Actually, the problems involved ...mendously complex. For one thing, we are not dealing with a single ... unit, but with twenty-one independent republics, each with strong ... aspirations, extremely difficult internal economic problems, and ...shed policies of external trade, not only with the United States and ...tries of Europe and Asia but also with all the other republics of ... America. This means that we have to carry out our economic negoti... in Latin America country by country and with a sympathetic understanding ... economic and social problems with which each of these countries is

Even more important is the fact that many of the countries of Latin ... have racial compositions, social structures, and a cultural heredity ...ly different from those of the United States. All of these raise ... problems of mutual understanding which can be overcome only by long ...painstaking efforts on the part of all concerned.

VIII

I shall close with a few remarks on the role of the economist in ...American economic relations.

In the first place it is absolutely essential that we cease to ... in the dark concerning Latin America. It is not possible to solve our ... problems with these countries merely on the basis of general ... reasoning, frequently of an outmoded variety, without knowledge of ... economies with which we are purporting to deal. It is essential that we ... more students of economics who are willing to devote themselves to the ... of Latin American countries in the same detailed way they have selves to the economic problems of Europe. It will be necessary sons to go down to the countries of Latin America, learn the nderstand the modes of thought and general social structure,, and ailed economic studies in a manner comparable to the studies of ade, and agriculture that are being carried on in the United e present time. These admonitions apply with equal force to the economics and those influencing economic policies in the Latin ntries themselves.

al word may be said with respect to the type of economic analysis e undertaken. Altogether too much of the thinking with respect rica is carried on in terms of traditional international trade h usually degenerates into a futile argument of protectionisms ade more appropriate to the nineteenth century than to this one.

is not the problem. The real issue is how to utilize the natural nd productive power of the entire Western Hemisphere in a manner contribute to the greatest economic strength and welfare of all The methods of doing this cannot be completely established by asoning. The inadequacy of such reasoning with respect to the roblems within the United States should be apparent to anyone who ed himself with the problems of post-war adjustment, the Great and the present defense effort. Economics has never been an line, but in glancing backward, it seems clear to me the economist ty-five years ago was in a far happier position that the economist He operated from a more stable base and was more confident of his This stability and confidence had several aspects. First, he t on a high degree of stability among the various political units the world. Second, his theoretical equipment was not only relatively t seemed adequate to the tasks at hand. Third, the forces of ontrol were fairly well demarcated as between the government and enterprise. Fourth, the techniques of economic control and were relatively few and reasonably simple. Finally, the objectives c policy were also fairly well defined and there was considerable on those objectives.

this is changed. National boundaries are changing overnight, and of ultimate political and economic alignments is unknown. Our al equipment is being drastically overhauled and expanded. Even the ted Marshallian tools of long-run and short-run cost curves, surplus, the representative firm, and quasi-rent, though still very re not adequate to the task. We are trying, for example, to digest ics of oligopoly and economic fluctuations and to think in such savings and investments, expectations, and differentiated markets. bating the whole problem of the control of economic life, while riments in such control are springing up around us. The techniques of re changing. To take but one example, we cannot think of inter-trade in simple terms of tariffs, self-equilibrating international and automatic gold flow. We must plunge into the welter of controlled s, bilateral trading arrangements, quotas, and trade monopolies. we are struggling to redefine the objectives of economic policy yield concrete goals of price, incomes, resource allocation, and andards.

he problem of our economic relations with Latin America is simply one herein we strive to comprehend and to master.