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EFFECTS OF UNITED STATES DEFENCE PROGRAMME
ON TRADE WITH LATIN AMERICA

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SUMMARY

Events following the outbreak of hostilities in Korea have imposed new demands on the United States economic structure, altering the immediate outlook for economic development in all areas of the world to the extent that they are dependent on the United States for supplies of capital goods. Thus, at a time when the under-developed countries have greatly improved their terms of trade, developments in the United States and other industrialised countries may act to check the use of increased exchange earnings for the realisation and expansion of development programmes. This likely effect of the United States defence programme, however, may be of relatively short duration, with the major impact on availabilities for export occurring in the latter half of 1951 and throughout 1952. A substantial increase in United States industrial capacity thereafter should ease the supply situation for all categories of goods, assuming, of course, that requirements for the defence programme do not absorb more than an anticipated 15 to 20 per cent of output. There may however be a considerable back-log of demand, both foreign and domestic, in 1953 due to shortages in 1951 and 1952 which might still leave United States availabilities for export in short supply against total world demand.

United States exports to Latin America in particular may be expected to show significant changes in composition, with a decline in the proportion of development goods beginning in the third or fourth quarters of 1951. The probable volume of total United States exports to Latin America in the calendar year 1951, however, is not likely to fall below the level reached in 1950, or some 3 billion dollars at current prices, due to a prospective level of exports through the first half of 1951, equally the high rates achieved in the last half of 1950.

/During the second

During the second half of 1951, and throughout 1952, United States exports of producer durable goods to Latin America may fall by as much as 15 to 20 per cent, while the decline of consumer goods, including both durables and non-durables, may be more moderate with the volume of such exports comparing favourably to levels achieved during 1949 and 1950. The volume of imports from European countries in 1951 may approximate 1950 levels, thus partly alleviating the effect of possible shortages of United States capital exports toward the end of the year.

Despite fluctuations in individual commodity exports, the aggregate volume of Latin America's exports to the United States has been remarkably stable from year to year since the war. Changes in imports and the balance of payments position have reflected changes in the terms of trade, capital movements and trade with Europe which has fluctuated much more widely both in exports and imports. In view of present and prospective levels of United States demand, Latin American exports to the United States are likely to range from 3.5 billion to 4.0 billion dollars annually during the next year or two as compared with 2.9 billion dollars in 1950 and 2.3 billion dollars in 1949. The resulting substantial trade surplus of the area with the United States, of from 500 million to 1.0 billion dollars, suggests the manner in which inflationary forces in the United States economy will be transmitted to Latin America. The United States trade deficit with the area, in fact, will be only partly offset by other current account payments to the United States. Furthermore, in view of some increase in United States long-term capital investment during 1951 and 1952, combined with dollar transfers from third areas, accumulation of gold and dollar exchange by Latin America during 1951 may range from 400 to 900 million dollars. A net accretion of gold and dollar exchange of this possible magnitude is indicative of the vast world demand for primary goods, initiated by rearmament in the United States and elsewhere, and the burdens which are likely to be imposed on under-developed countries through the slowing of development programmes and the generation of inflationary pressures.

/United States investment

United States investment in Latin America over the next several years is expected to increase only moderately and will provide mainly an offset to the decline originally anticipated because of the near completion of petroleum investments. While United States investment will be confined almost wholly to an expansion of strategic materials production, it may be somewhat more broadly dispersed than the petroleum programme and could make some contribution to Latin America's long-run development, especially to the extent that it involves expansion of supporting facilities of transport and power. The limited scope and magnitude of United States investment over the next few years suggest, however, that it will not contribute substantially to a lessening of the impact of rearmament on the area.

While Latin America's terms of trade with the United States continued to improve through the first half of 1950, and indeed was the principal factor accounting for the trade surplus in the past year, the gains due to advantageous terms of trade are likely to be offset by the problems arising from possible shortages of goods and inflation. Furthermore, the terms of trade with the United States, which in 1950 reached a level 106 per cent over 1944, had already deteriorated slightly by the close of the year, with the prospect of some further downward movement in 1951 as inflationary forces in the United States economy become more pronounced.

Although the expected reduction of United States exports, both of producer and durable consumer goods, may be of relatively short duration, export allocation measures will be required to assure adequate consideration of Latin America's import requirements during the period of scarcity. United States policy with respect to the allocation of exports by areas has not yet been clarified, although it may be noted that Latin American countries as a group received equal treatment with the United States civilian population during World War II and that a departure from this policy during the present rearmament programme appears unlikely. It should be emphasised, though, that during the war Latin America's imports were not distributed as between the different categories of goods proportionately to its pre-war imports /from the United States.

from the United States. Although imports of industrial chemicals, steel products, textile machinery and metal-working machinery increased substantially in 1942-44 over 1936-38, those of agricultural machinery, electric power equipment, vehicles, and industrial machinery generally were very much less. Moreover, there has been a marked shift in the composition of its imports from consumer to capital goods and its import needs of this type of supplies are much greater than in the pre-war period. However, an extension of the principle of allocation to include special categories of capital goods will depend on the success of United States policy in reducing supplies to consumers and on the competing demands for allocations presented by various claimant areas.

/I. FACTORS AFFECTING

I. FACTORS AFFECTING UNITED STATES EXPORTS TO LATIN AMERICA

The impact of the United States defence effort on Latin American development programmes must be considered in terms of the current and anticipated diversion of United States resources to defence production. It is expected that defence production will begin to exert its main effect in the third and fourth quarters of 1951, when it will take up to 15 to 20 per cent of available output. To this expansion of Government purchases must be added the demand for goods arising from major private investment programmes aimed at a rapid expansion of productive capacity and output.

These expenditures will represent an increase over 1950 of some 20 billion dollars for defence alone and perhaps as much as 12 billion dollars for gross private investment. Money expenditures will be further increased by whatever additional amount consumers spend from their higher incomes. On the other hand, output during 1951 is expected to increase by about 20 billion dollars.^{1/} The potential inflationary effect on the United States economy, with its consequences for exports, is therefore apparent.

While the United States defence programme will absorb a much smaller proportion of the national output than at the height of World War II - when the proportion going to military production reached some 45 per cent of annual output - the current defence effort will impose increasing strains on supply and possible maladjustments of the economy during the next year or two. It is in this period that the United States defence programme may be expected to exert its maximum effect on Latin American development programmes.

^{1/} More than two thirds of the increase in output is expected to come from an increase in the work week and additions to the labour force, and the balance from increased productivity.

A. Demand and Supply Conditions in the United States

United States exports during 1951, particularly in the second half of the year, will be increasingly affected by the repercussions of the defence effort on the United States economy. Defence expenditures alone, currently running at a monthly rate of about 2 billion dollars, are expected to rise sharply to twice that rate by the fourth quarter of this year. On the basis of presently budgeted expenditures, moreover, total Government outlay should perhaps amount to an annual rate of 65 billion dollars by the fourth quarter of 1951 or somewhat more than 20 per cent of gross national product, compared with an annual rate of 48 billion dollars in the fourth quarter of 1950. This increase in outlay by the Government sector of some 17 billion dollars will represent the largest single addition to the demand for goods and services by the final quarter of the year. In addition, anticipated levels of private investment and of disposable personal income indicate an inflationary development which can reach serious proportions.

Private investment will place the greatest strain on available goods and services next to Government expenditures for defence. At the projected levels for 1951 of some 60 billion dollars, gross private investment may take as much as 20 per cent of the gross national product.^{1/}

During the fourth quarter of 1950 consumption expenditures had reached a rate of 196 billion dollars annually, with disposable personal income at 212 billion dollars. By the first quarter of 1951 consumer expenditure rose to an annual rate of 206 billion dollars while disposable personal income reached a level of 216 billion, indicating an accelerated rate of consumer outlay. The actual movement of consumer expenditures for the balance of the year will of

^{1/} On the basis of present investment plans, estimated expenditures for new plant and equipment are placed at about 24 billion dollars during 1951, or some 30 per cent over the 1950 total of 18.6 billion dollars. A substantial part of new investment in 1951 is intended to expand capacity in producers' durable goods in support of the defence effort; but a sizable amount represents additions to consumer durable capacity.

course be closely influenced by expectations of shortages and of rising disposable income. While recent restraints on consumer credit may become more effective and large accumulations of durable goods by consumers may slow demand during 1951, in the absence of increased taxes, rising disposable incomes during the year will place United States consumers in a position to undertake large added purchases of goods.

Measures are being taken by the United States Government to control prices and reduce civilian consumption. Increased taxes will likely be authorised but according to present estimates the amount of new taxes may not exceed 6 or 7 billion dollars in the current year 1951.^{1/} It is generally considered by experts that unless the inflationary forces arising out of rising incomes are suppressed by other measures, the combined weight of United States defence production and private investment to expand capacity appears likely to exert a sharp upward pressure on prices and to present the danger of a substantial rise in United States prices.

B. United States Production and Exports

The combined effects of defence production and expansion of industrial capacity - which are expected to increase by more than 30 billion dollars over 1950 - are likely to involve shortages of producers' durable goods for export during the final quarter of the year and during most of 1952. Trends in production and their effect on exports can perhaps be gauged somewhat more closely in relation to specific sectors of United States industry.

While the production of industrial machinery may rise by 15 per cent during 1951, the bulk of this increase is expected to occur in military items and equipment required for expansion of capacity. Similarly, electrical machinery will be channelled in increasing amounts to military needs and the expansion of United States electric power capacity, which will increase at an estimated 10 per cent annually over the next several years. Iron and steel output during

^{1/} Approximately 3 billion dollars may come from personal incomes, 2 billion from corporate income and 1 billion from excise taxes.

the year is not expected to rise appreciably since the industry has been operating at full capacity for some time and additions to capacity, now absorbing a moderate proportion of output, will not be available until the end of 1952 or during 1953. The production of transportation equipment may rise by about one fourth in 1951, with a substantial shift in total production toward aircraft, ships, trucks and railroad equipment. The production of non-durables in 1951 is expected to be maintained at 1950 or slightly higher levels.

While the main impact on civilian production and exports will come during the final quarter of 1951, it may be noted that the rate of production for defence programmes in that quarter is likely to be maintained throughout 1952 and 1953 and that additions to producer durable capacity now under way will not begin to ease the situation until late 1952 or the middle of 1953. If defence production, therefore, does not rise above the present estimated 15 to 20 per cent of output, current efforts to expand capacity at a rapid rate should begin to taper off during 1953, and increased industrial capacity and materials should then be available in sufficient amounts for domestic consumption and perhaps to satisfy demand for exports.

If present plans are realised, the United States defence effort will thus exert its main effect on the availability of development goods for export in the final quarter of 1951 and throughout 1952. Since United States production of consumer goods, both durable and non-durable, will remain at relatively high levels compared to the recent past, United States supplies of such goods for export may be available in amounts sufficient to meet consumption needs at levels of the past year or two. The composition of United States exports toward the end of 1951 and during 1952, in fact, is likely to show a substantial reduction in producers' durable goods and probably only a minor decline in the proportion of consumer goods.

Thus, the anticipated expansion of United States real output by some 7 per cent, or 20 billion dollars over 1950, should meet increased requirements in the second half of 1951 for direct military production; and a small margin may even be left over either for additions to

/capacity or the

capacity or the consumer sector. Private investment during 1951 is expected to rise 20 to 25 per cent over 1950. The expansion in private investment may therefore involve an over-all reduction in the availability of capital goods and goods for the consumer durable sector and exports, amounting roughly to about 20 per cent.^{1/} Assuming a fairly even distribution of this reduction as between the United States civilian sector and exports, United States exports of capital goods might thus decline by 20 per cent in the final quarter of 1951, with the lower level continuing throughout 1952. This reduction in aggregate exports of producers durable goods, however, would be unevenly distributed among different categories of goods. The decline in exports of machinery of all types, for example, might exceed the over-all 20 percentage reduction. Exports of iron and steel mill products might fall by 10 to 15 per cent, in view of the current programme to expand plant capacity in that industry. It should be emphasised, however, that these rough estimates of the possible decline in capital goods exports may be substantially greater if disposable income and consumption in the United States continue to rise unchecked during the year, diverting resources away both from the defence programme and exports.

It is noted below that, while the supply of United States capital goods to Latin America declined appreciably during World War II, the volume of imports into Latin America from the United States in the aggregate increased at about the same rate as the volume of goods available to the United States civilian economy.^{2/} This suggests that the productive capacity of the United States economy, even under the strains imposed at the height of World War II, increased sufficiently to maintain consumption, although admittedly at relatively low levels in Latin America relative to effective demand. Moreover, it should be noted that the decline in the volume of United States producers' goods

^{1/} The same over-all estimate of the likely impact of the defence programme on consumption in the fourth quarter of 1951 and during 1952 has been made by the United States Office of Defence Mobilisation.

^{2/} See Appendix A on the United States supply situation during World War II.

exports to Latin America during World War II was confined mainly to the broad commodity classifications of industrial, agricultural and electrical machinery, while iron and steel manufactures, chemicals and even certain types of industrial machinery increased substantially over pre-war levels.

With respect to the prospective United States supply position, however, comparisons with World War II do not provide an adequate criterion of the possible effect of the current defence programme on export availabilities either for Latin American development needs or for the area's consumption requirements. Requirements for United States defence production and private investment to expand capacity have been imposed on an economy already producing goods at the peak of its capacity. Furthermore, controls over production and prices of the type imposed on the United States economy during World War II appear likely to be less restrictive for the duration of the current defence programme. Under the limited controlled materials plan announced on April 12, 1951 (effective July 1), some 40 to 50 per cent of steel, copper and aluminium supply will be allocated to defence needs, including requirements for expansion of capacity in producers' durables and essential civilian needs, while the consumer durables sector will be permitted to compete for available supplies in excess of defence requirements. The more limited extent of controls, compared with restrictions imposed on the civilian sector during World War II, will permit consumers to exert considerable pressure on available supply and creates the possibility of an inflationary potential which was more carefully circumscribed during World War II.

It should be emphasised that the present stage of the defence programme must be compared with the early phase of the rearmament programme during World War II and that, on this basis, the possibilities of maladjustment and strain on the United States productive structure are far greater than in the early stages of World War II. The expansion of industrial capacity and output which is expected to occur by 1953, however, would allow a much higher level of exports than was /possible at the

possible at the peak of World War II, when 45 per cent of United States output was devoted to military production, compared to a peak of 20 per cent at the height of the present defence programme. The major problem is whether the intervening adjustments in the United States economy prior to 1953 can be achieved without substantial inflation and dislocation of production.

C. Prospective Levels of Supply for Latin America

Estimates of the possible availability of United States producers' durable goods for export to Latin America during the next year or two are necessarily subject to wide margins of error and must be regarded as orders of magnitude which appear reasonable in terms of the scope of the defence programme and its impact on available resources. The assumption made below that a decline in the availability of investment goods for export to Latin America will be limited in duration and that such goods will be available in increasing amounts beginning in 1953 depends of course on the avoidance of widespread inflation in the United States economy and the success of current efforts to expand industrial capacity at a rapid rate.

Latin American imports from the United States in 1950 were at about the same level as in 1949 both by value and volume, but below the high levels reached in 1947 and 1948. With the outbreak of hostilities in Korea, Latin American imports from the United States increased substantially, although it was only in the final quarter of 1950 that imports from the United States attained an annual rate exceeding 1949 and 1950 levels. At fourth quarter annual rates the volume of imports from the United States was exceeded only in 1947.

/Table 1.

Table 1. Latin American Imports from the United States, 1946-50^{a/}

(Millions of United States dollars)

	<u>Current Prices</u>	<u>Constant Prices</u> (1936-38)
1946	2,077	1,323
1947	3,830	2,059
1948	3,147	1,597
1949	2,705	1,462
1950	2,642	1,460
1st quarter (annual rate)	2,395	1,338
2nd quarter " "	2,510	1,434
3rd quarter " "	2,637	1,473
4th quarter " "	3,027	1,602

Source: United States Department of Commerce, Office of International Trade, April 1951.

^{a/} United States domestic merchandise, excluding re-exports.

Rising Latin American purchases of goods from the United States reflected increased dollar earnings in the second half of 1950 as well as anticipation of the fact that the defence programme would increasingly reduce the availability of goods for export.

Assuming that export shortages do not develop until the third or fourth quarter of the year, the composition of United States exports to Latin America in the final quarter of 1950 may persist through the first half of this year.

/Table 2.

Table 2. Leading United States Exports to Latin America, 1949-1950

(Millions of dollars)

	1949	1950 actual	1950 4th Qtrs. Annual Rate	Per Cent Change	
				1950 actual over 1949	1950 4th Qtr. rate over 1949
<u>Total Exports</u>	<u>2,700</u>	<u>2,642</u>	<u>3,020</u>	<u>(-) 2.0</u>	<u>(+) 12.0</u>
Machinery, total	698	645	762	(-) 8.0	(+) 9.0
Industrial	404	336	382	(-) 17.0	(-) 6.0
Electrical	184	168	198	(-) 9.0	(+) 8.0
Tractors	54	64	75	(+) 19.0	(+) 39.0
Agricultural	26	35	40	(+) 35.0	(+) 54.0
Autos, parts & accessories	265	330	420	(+) 25.0	(+) 58.0
Iron & steel-mill products	233	139	143	(-) 40.0	(-) 39.0
Chemicals & related products	226	269	317	(+) 19.0	(+) 40.0
Rice, flour & other veg. food prod.	199	232	305	(+) 16.0	(+) 53.0
Textile manufactures	187	205	230	(+) 10.0	(+) 23.0
Meats, milk and other edible animal products	105	101	108	(-) 4.0	(+) 3.0
Merchant vessels	103	80	5	(-) 22.0	(-) 95.0
Petroleum and products	98	93	86	(-) 5.0	(-) 12.0
Iron & steel advanced mfrs.	80	67	80	(-) 16.0	..
Other	505	482	564	(-) 6.0	(+) 12.0

Source: United States Department of Commerce, Office of International Trade, April 1951.

It may be noted that moderate increases occurred in most categories of United States exports to Latin America during the last quarter of 1950, although in view of a rise in United States prices, the volume of exports toward the end of the year in many cases did not rise from 1949 levels, which were low by comparison with other post-war years. The major percentage increases over 1949 exports in the fourth quarter of 1950 occurred in tractors, agricultural machinery, automobiles (including trucks, buses and passenger cars), textile manufactures and manufactured foodstuffs. Latin American imports of iron and steel mill products from the United States, however, declined some 39 per cent relative to 1949 even at fourth quarter 1950 annual rates, with nearly half the decline occurring in structural shapes and tubular products and fittings purchased by Venezuela, Chile and Brazil.^{1/}

^{1/} For the relative importance of capital goods, industrial chemicals and metals products in the imports of individual Latin American countries, see Chapter III, ECLA/ECE/FAO Report on trade between Latin America and Europe, (Document E/CN.12/225).

/Thus, increased

Thus, increased dollar earnings by Latin America in the second half of 1950 appear to have been partly offset by rising United States export prices; and increased imports from the United States were concentrated mainly on consumer goods, although imports of agricultural equipment and trucks increased considerably.

It is estimated that the level of United States exports to Latin America in 1951 will amount to some 3,0 billion dollars at current prices, assuming a somewhat higher level of United States exports in the first half of 1951 compared with the second half of 1950, and a 15 to 20 per cent decline in United States exports to the area in the second half of the year as the available supply of United States goods for export contracts, especially in most categories of producer durable goods.

The inflationary potential in the United States economy is likely to express itself, mainly in the final quarter of 1951 and throughout 1952, in rising prices for United States producers' durable goods, increasingly limited availability of such goods for export, and emphasis on investment goods for export to Latin America capable of effecting rapid increases in the output of minerals and other strategic primary goods. If this increase in Latin American capacity is undertaken in terms of a broad expansion of supporting facilities of transport and power, the United States defence programme can make some contribution to Latin America's economic development in spite of a general contraction in the supply of development goods available for export during the next year or two.

Latin America's source of supply will not of course be confined to the United States. Slightly more than one third of Latin America's imports of machinery, transport equipment, chemicals and metals came from Europe in 1950. Europe's exports to all areas in 1951 will probably be equal to or even be slightly higher than in 1950 unless the impact of rearmament programmes are felt more strongly in the second half of the year than is now anticipated. The effect of the current international economic situation on Latin America's trade with Europe is more fully discussed in the ECLA/ECE/FAO trade report (document E/CN.12/225).

/D. Current

D. Current United States Export Control Policy

United States export control policy will be an important factor governing the level and composition of United States exports to Latin American countries during the period of the defence programme. The development of these policies is discussed below.

United States quota limitations on the export of commodities in short supply for the most part were on a global basis by April 1951. Allocations to Latin America were thus concealed within the global quotas specifying the limits merely of total exports from the United States. The United States control programme had not yet proceeded to the point of establishing individual country or area quotas, except for a few commodities in tightest supply, such as sulphur. Failure of the programme to reach that point was in large part a reflection of the limited extent of commodity shortages in the United States by the second quarter of 1951.

A progressive tightening of United States export controls occurred between the middle of 1950 and the second quarter of 1951, although as suggested in the discussion above of the United States defence production programme, an additional and much greater tightening is to be expected later as the impact of defence orders begins to be felt more severely. There is no effective basis, however, for judging the extent of the restriction on exports to Latin America since the middle of 1950, inasmuch as most of the quotas had been established on a global rather than on a country or area basis; and adequate export statistics are available only through the end of 1950.^{1/} Indeed, as previously indicated, there was a substantial increase, during the third and fourth quarters of 1950, in the volume of United States exports to Latin America, as Latin American import restrictions were eased and heavy purchases were made in anticipation of future shortages.

As the rate of United States production for defence accelerates, and requirements for defence and supporting programmes are determined

^{1/} As of April 1951.

in relation to supply,^{1/} United States area allocations policies will undoubtedly be clarified. The administrative structure for the formulation and execution of such policies within the United States Government has been gradually emerging during the past several months. In January 1951 a Committee on Foreign Supplies and Requirements was appointed within the Office of Defence Mobilisation to advise on policies which should govern the allocation of materials to meet foreign requirements. The Committee is inter-departmental in representation, including agencies concerned with both the domestic and foreign aspects of the United States economy, and is under the chairmanship of the head of the Economic Cooperation Administration, which has been administering the United States programme of economic aid to Europe. The responsibility for administering export allocations and controls is lodged in the Department of Commerce, through its Office of International Trade. It is this Office which maintains direct contact with representatives of the Latin American Governments on matters related to claims for United States supplies under export control. Thus, Latin American requirements are reflected in the policy-determining Committee on Foreign Supplies and Requirements largely through representation of the Department of Commerce on that Committee. It is understood that an Executive proposal is in process of formulation for the broadening of the Economic Cooperation Administration from an agency concerned only with the European aid programme to one that would administer all foreign economic programmes of the United States Government.^{2/}

^{1/} One of the objectives of the recently announced Controlled Materials Plan, in fact, is the determination of supply requirements in relation to defence and supporting programmes.

^{2/} The creation of such an agency on an entirely new basis, rather than merely by adding functions to the Economic Cooperation Administration, was recommended to the President in March 1951 by the semi-official International Development Advisory Board. This agency would act as claimant for needed exports for all foreign countries.

/Although United States

Although United States policies on allocations to Latin America had not been clarified by April, 1951, certain commitments in this regard were undertaken by the United States at the Fourth Meeting of Consultation of Ministers of Foreign Affairs of the American Republics, held in Washington from 26 March to 7 April, 1951. Among the principles to be observed in applying allocations and priorities are that "essential needs for the functioning of civilian economic activities should be met"; that "priority be given to the utilisation of such products (i.e., those subject to allocation) for defence production in the common cause"; that there should be "ample opportunity for consultation concerning the effect of the establishment or substantial revision of allocations and priorities on international trade"; that, if prior consultation is not feasible, there should be later consultation, upon request, "for the purpose of endeavouring to make an adjustment by mutual agreement"; that "relative equality of sacrifice shall apply in the reduction or limitation of civilian needs, and an endeavour shall be made not to impair the living standards of the low-income population groups"; and that allocations shall be applied "in such a manner as not to impair productive activity and economic development unnecessarily." In this latter connection, the Conference declared "that the economic development of under-developed countries" is considered as an essential element in the total concept of "defence of the American Hemisphere", although "without disregarding the fact that the strengthening of their defences is the principal duty of the American States in the present emergency." The order of priority deemed suitable for economic development projects during the present emergency was resolved to be as follows: "Projects useful for defence purposes and projects designed to satisfy the basic requirements of the civilian economy; projects already begun, the interruption of which would entail serious losses of materials, money, and effort; and other projects for economic development."

In addition to these general principles governing the magnitude and manner of determining allocations, the United States subscribed to the principle that "effective administrative measures" should be

/adopted "to

adopted "to facilitate the fulfilment of such allocations for export." This commitment would involve some departure from procedure used in past periods of United States export control. Intervention by the United States Government with private producers and suppliers to ensure that exports flow up to the limit of allocations has in the past been limited to situations of an urgent nature, but has not been part of regular procedure. It is obviously of concern to Latin America, not only that allocations be fixed at adequate levels, but also that it be in a position to purchase up to the limit of those allocations. Furthermore, such a procedure would be of benefit to United States producers by enabling them, under official directive, to maintain their export contacts without alienating domestic claimants for short supplies.

Thus, agreement has been reached on the general principles governing United States allocations to Latin America during the present emergency period. In the last analysis, however, the manner in which these principles may influence the level of exports to Latin America will be dependent upon the demands imposed by the defence and supporting programmes on the United States productive structure.

/II. EFFECTS ON

II. EFFECTS ON UNITED STATES DEMAND FOR LATIN AMERICAN GOODS

Analysis of the factors affecting United States demand for Latin American products in the current period indicates that the value of Latin America's exports to the United States is likely to range from 3.5 billion to 4.0 billion dollars annually during the next year or two. United States demand for Latin America's goods will thus heighten the inflationary effect exerted by possible shortages of United States supplies for export. Inflationary forces in the United States economy will, therefore, be transmitted to the Latin American countries primarily through the resulting substantial trade surplus of the area with the United States.

These expected trends in Latin American exports to the United States in the immediate period ahead had already become apparent during the last half of 1950. United States imports from the Latin American Republics amounted to 2.9 billion dollars in 1950, compared with the previous peak of 2.4 billion dollars reached in 1948.^{1/} The 1950 level, moreover, was about one fourth higher than the 2.3 billion dollars of goods imported in 1949.

The immediate effect of the outbreak of hostilities in Korea was to raise the level of imports to an annual rate of 3.4 billion dollars in the third quarter of 1950, although, during the fourth quarter, the annual rate of imports declined somewhat to 3.0 billion dollars. The somewhat lower rate in the fourth quarter probably resulted from seasonal factors as well as a decline in speculative buying, as indicated below in the cases of coffee and sugar.

The substantially greater value of United States imports from Latin America in 1950 was largely the result of increased prices. (See Table 3). For the year as a whole, the volume of imports was only about one per cent greater than in 1948 while import prices averaged some 22 per cent higher than in 1948. During the second

^{1/} These data are recorded general imports, and are somewhat lower in each year than the value of imports adjusted for balance of payments purposes. See footnote c/ Table 4.

half of the year, there was a slightly better response in volume, which occurred entirely during the third quarter due to the increased demand in the United States, but again the major effect was a continued substantial increase in prices. Prices for imports from Latin America averaged 20 per cent higher in the second half of the year than in the first half, the major part of the increase having taken place in the third quarter.

Table 3. Latin American Exports to the United States, 1946-50^{a/}

(Millions of United States dollars)

	<u>Current Prices</u>	<u>Constant Prices (1936-38)</u>
1946	1,745	1,020
1947	2,141	935
1948	2,323	900
1949	2,293	899
1950	2,860	908
Annual Rates 1950		
1st quarter	2,703	942
2nd quarter	2,348	833
3rd quarter	3,363	992
4th quarter	3,027	872

Source: United States Department of Commerce, Office of International Trade, April 1951.

^{a/} Imports for consumption.

Prospective Level and Composition of Exports

In judging the potential level of United States demand for Latin American goods during the next year or two, it may be noted that, as in the past, earnings will be heavily concentrated in traditional foodstuffs and raw materials exported to the United States.

The value of Latin American exports to the United States of crude foodstuffs alone seems likely to be close to 2.0 billion dollars, of which coffee might account for 1.4 billion. The declining consumption of coffee between 1949 and 1950 associated with the steep price increase that began in the fall of 1949 might well be arrested and perhaps even /reversed somewhat,

reversed somewhat, with adjustment of consumers to the new price level and increases in personal incomes. A moderate increase may also be expected in the value of cacao exports. However, no increases are anticipated for sugar and bananas, largely because of the stability of consumption of these products.

Among the important raw materials traditionally exported by Latin America to the United States, price increases and some increases in volume are likely to result in substantially greater export values for petroleum, wool, henequen and quebracho. Because of special factors, discussed below, no appreciable gains are expected in the export of copper, sodium nitrate, cattle hides, flaxseed and linseed oil. Numerous raw materials of lesser importance in past periods will increase in value of export because of the strong demand for materials of strategic importance to rearmament.

It will be noted from Table 4 that exports of the 13 traditional foodstuffs and raw materials may be valued at close to 3.1 billion dollars in the next year or two. The remaining commodities together were valued at about 400 million dollars in 1950. The lower limit of the estimated range of 3.5 billion to 4.0 billion dollars would presuppose no increase over 1950 for this residual group. It appears likely, in fact, that the residual group will increase in value over 1950, bringing the estimate closer to the upper limit, since it contains numerous commodities of strategic importance, including tin, iron ore, manganese, abacá, castor oil and palm oil.

/Table 4.

Table 4. United States Imports from Latin American Republics 1949-1950 and Estimated 1951

(Value in millions of dollars)

	1949 ^{a/}	1950 ^{a/}	Estimated 1951
<u>Foodstuffs</u>			
Coffee	780.6	1,045.4	1,400.0
Sugar	322.0	330.5	325.0
Cacao beans	53.5	83.1	100.0
Bananas	51.4	54.4	55.0
<u>Total</u>	<u>1,207.5</u>	<u>1,513.4</u>	<u>1,880.0</u>
<u>Traditional Raw Materials</u>			
Copper	155.0	149.0	200.0
Lead	62.7	72.6	90.0
Petroleum	409.0	515.0	575.0
Sodium Nitrate	26.0	22.3	20.0
Henequen (Mexico)	7.2	15.4	25.0
Flaxseed and Linseed Oil
Wool	93.0	190.0	220.0
Cattle Hides	2.6	17.1	20.0
Quebracho Extract	10.6	14.9	25.0
<u>Total</u>	<u>766.1</u>	<u>996.3</u>	<u>1,175.0</u>
Total of Commodities Listed	1,973.6	2,509.7	3,055.0
Others ^{b/}	329.4	397.5	400-815
Total Imports ^{c/}	2,303.0	2,907.2	3,455-4,000

a/ Data for individual commodities cover imports for consumption. In the case of petroleum, the data include imports from the Netherlands West Indies as well as direct imports from the Latin American Republics.

b/ Residual figures.

c/ Recorded general imports. These totals are some 200 million dollars less in 1949 and 1950 than the figures adjusted for balance of payments purposes to include all merchandise transactions representing debits, regardless of actual physical movements of goods. For a discussion of these adjustments, see United States Department of Commerce, The Balance of International Payments of the United States, 1946-48.

/A... FOODSTUFFS

A. FOODSTUFFS^{1/}

Coffee

The dollar returns from Latin American exports to the United States of coffee, the leading commodity in the trade, contributed heavily to the record level of exports in 1950. The value of coffee exports to the United States exceeded 1.0 billion dollars, accounting for about 35 per cent of total exports. In the last half of the year coffee exports proceeded at a still higher rate, amounting to some 620 million dollars or close to 40 per cent of the total. In comparing the value of coffee exports to the United States for the full year 1950 with 1949, it may be noted that the substantial increase was the result entirely of price movements. The volume of imports in 1950 was about one fifth lower than in 1949 as import prices increased by about two thirds. Per capita consumption in the United States at 16 pounds, according to the latest available estimate of the United States Department of Agriculture^{2/} was about 14 per cent lower than in the preceding year. The average retail price of 79.4 cents per pound in 1950 was 43 per cent higher than the average price in 1949.

The major portion of the substantial increase in the price of coffee had occurred by June 1950. However, the price continued to advance during the second half of the year, although only moderately compared to the earlier increase. The extent of the additional advance was about 10 per cent, with a tendency for the price to level off during the last quarter of the year. No estimates are available of the reaction of per capita consumption to this additional price increase, but the volume of coffee imports during the last half of the year was about one fourth greater than during the first half. The increased volume of imports was especially notable during the third quarter, and may have represented a combination largely of seasonal movements and accumulation of inventories by roasters in anticipation of further price increases.

^{1/} For the long-term aspects of Latin American exports to the United States, see Economic Commission for Latin America report on United States Capacity to Absorb Latin American Products (Document E/CN.12/226).

^{2/} United States Department of Agriculture, Bureau of Agricultural Economics, The National Food Situation, January-March 1951, p. 4.

With increases in disposable personal incomes in the United States as a result of the programme of defence mobilisation, there may be a tendency for per capita consumption of coffee in 1951 and immediately succeeding years to revert to the higher level of 1949, if the supply situation permits. Assuming continuation of prices in effect at the end of 1950, returns to Latin America from coffee sales to the United States could under such circumstances rise to close to 1.4 billion dollars. If prices advance appreciably beyond the year-end level of 1950, the net effect on total dollar earnings might well be no different from that estimated above because of an offsetting tendency for consumption to remain at the lower 1950 level rather than to return to the level of 1949.

Sugar

Sugar, the second most important commodity among United States foodstuff imports from Latin America, shared in the initial stimulus provided by defence mobilisation in the United States, although to a much smaller degree than the total of imports. Furthermore, as a result of the governmental control exercised over the sugar market in the United States, and the relative stability of consumption habits, it appears likely that it will share even less in the increased value of imports over the next few years. The value of Latin America's exports of cane sugar to the United States, as usual almost entirely from Cuba, was about 12 per cent higher during the second half of 1950 than during the first half. This increase was to a large extent the result of an increase in the volume of imports, particularly during the third quarter of the year, when consumers were accumulating inventories in response to the outbreak of hostilities in Korea. This reaction of consumers was met by an increase in the permitted level of imports. Total consumption requirements for sugar in the United States were thus finally fixed at 8.7 million short tons in 1950, compared to 7.5 million tons in 1949. Prices were consequently kept relatively stable. Retail prices were only about 4 per cent higher at the end of 1950 than at the end of 1949. A total quota of 8.0 million tons was fixed for 1951, representing a more normal level /of consumption than

of consumption than during 1950, and a level of supply likely to result in stability of prices.^{1/} Thus, assuming no appreciable change in prices from the level at the end of 1950, the value of Latin American sugar exports to the United States in 1951 may be somewhat below the level of some 330 million dollars that was recorded for 1950, because of the reduction of total requirements and the elimination of abnormal purchases for inventories, which had in fact been eliminated by the last quarter of the year.

Cacao Beans

The value of United States imports of cacao beans from Latin America in 1950 at close to 85 million dollars was about 55 per cent greater than in the preceding year. The increase was entirely the result of increased prices, since the volume of imports was slightly below the 1949 level. Total United States imports of cacao beans from all areas, however, were slightly higher than in 1949, so that Latin America's share was a little lower.^{2/} United States per capita consumption in 1950 at 4.5 pounds was about ten per cent higher than in 1949, which had in turn been slightly higher than the average during 1946-48. Military purchases in 1950 are estimated at about 20 million pounds, compared to total imports of 659 million pounds. The military sector of total United States demand was expected to increase to about 100 million pounds in 1951. Bearing in mind that prices increased steadily to the end of 1950,^{3/} and assuming the maintenance in 1951 at least of the year-end price level of 1950, Latin America's returns from sales of cacao beans to the United States should be at least 100 million

1/ See United States Department of Agriculture, Bureau of Agricultural Economics, The National Food Situation, January-March 1951, pp.21-22.

2/ Latin America supplied 46 per cent of the total volume in 1950 compared to about 49 per cent in 1949 and an average of about 47 per cent during 1946-1949.

3/ Export prices for Brazilian Bahia were 40 per cent higher in December 1950 than the average for January-June 1950; the comparable increase in export prices for the Dominican Republic was 33 per cent; and 40 per cent in January 1951 compared to the first half of 1950 for New York wholesale prices of Acra type.

dollars in 1951. The estimate might, furthermore, be even higher depending upon the extent to which Latin America shares in increased military purchases by the United States and in any increased civilian consumption that might result from the higher level of income.

Bananas

Latin America's banana trade with the United States appears to have been virtually unaffected by the economic developments in the United States during 1950. The declared value of imports, 54.4 million dollars, was only about six per cent greater than in 1949. The total was about evenly divided between the first and the second halves of the year. Per capita consumption in the United States was moderately lower than in 1949, and there was no significant movement of prices.^{1/} Thus, the long-run stability of this trade was not appreciably disturbed during 1950.

B. MINERALS

Copper

The major increase in copper supply for expanding United States consumption during 1950 came mainly from United States domestic production, which increased from 758 thousand to 907 thousand short tons, or 20 per cent over 1949. Total United States copper imports rose only moderately from 567 thousand short tons in 1949 to 606 thousand tons in 1950. Further expansion of United States domestic copper production to meet defence needs should bring total United States output to about 950 thousand short tons by the close of 1951 and a possible peak of one million short tons or more by 1952-1953.

Since imports in 1950 were substantially below the levels needed to meet total consumption requirements for the defence effort, estimated at about 1,650 thousand short tons in 1951 (exclusive of recoverable copper and scrap) total United States imports may rise some 16 per cent by volume in 1951. Latin America's share of total United States copper imports represented about 70 per cent by volume in 1949 (401,000 short tons) and 62 per cent in 1950 (376,000 short tons). Both the 1949 and 1950

^{1/} Per capita consumption was about 17 pounds in 1950, compared to some 18-1/2 pounds in 1949. Average retail prices (dollars per 100 pounds) were 15.90 in October-December 1949, 15.70 in January-June 1950, and 15.50 in December 1950.

levels of United States imports from Latin America were substantially below the volume of some 650,000 short tons imported from the area during World War II. United States imports from Latin America are not expected to rise in 1951 due principally to the fact that Chilean mines are operating at full capacity and may not be able to increase production before the end of the year. If current plans and negotiations are successful, Chile's production would be substantially increased but this could not have an appreciable effect on exports until after 1951. Furthermore, higher European prices are attracting an increasing share of Latin America's exports of copper.

In view of this situation, the volume of copper imports by the United States from Latin America may be maintained at the 1950 level, or at about 370,000 tons. At 1950 year-end prices - or at slightly higher ones - it is therefore estimated that the total value of Latin America's exports of copper to the United States may be in the neighbourhood of 190 to 200 million dollars.

Lead

From 1946 to 1950, United States imports of lead from Latin America increased steadily. During 1950 the United States imported some 312,000 short tons from that area, or 38 per cent over 1949, while in value terms imports totalled nearly 73 million dollars as contrasted with 63 million dollars for the previous years' all-time peak.

It should be noted, however, that Latin America provided only 55 per cent of total United States lead imports by volume in 1950 compared with 57 per cent during 1949. Despite the absolute growth in volume and value, therefore, the relative importance of Latin American lead sales to the United States declined slightly during 1950,^{1/} primarily

1/ A substantial increase has occurred since the outbreak of hostilities in Korea, however. The annual rates of United States lead imports from Latin America based on June-December 1950 data would total nearly 85 million dollars as compared with approximately 50 million during the first half of the year. This increase in total value of course has been considerably affected by the rise in price from the January-June 1950 average of 11.39 dollars per 100 pounds (average of daily pig lead prices, New York) to 17.00 dollars by December, 1950.

because of continued competition from other exporting areas such as Canada. In addition, some Latin American lead exports have been diverted to other overseas buyers, especially European, due to the high premium prices presently being offered.

Due to the heavy civilian and military requirements for lead, total United States imports of this commodity from all areas should rise above the 1950 level of some 136 million dollars, and Latin America's share of the total will undoubtedly remain within the post-war limits of 50-60 per cent. As a result, the area should expect to average not less than 80 million dollars annually during 1951-52, and depending upon its competitive supply position might well approach closer to 100 million dollars, even assuming no further increase over December 1950 prices.

Petroleum

United States imports of Latin American (including Netherlands West Indies) petroleum and products during 1950 reached an all-time high of 515 million dollars, more than 100 million dollars above the previous peak achieved in 1949. In value terms, Latin America provided 88 per cent of total United States oil imports contrasted with 86 per cent the year before.

The substantial increases in volume and value were shared by both crude and refined petroleum,^{1/} although United States purchases of Latin American refined oils increased relatively more. While the value of United States imports of crude from Latin America rose only 8 per cent above 1949, refined imports from the area were 65 per cent above 1949.

During 1951 and probably 1952 as well, the volume and value of both crude and refined petroleum imports from Latin America should rise past present levels, with refined products continuing to show the larger proportional increase. Petroleum exports seem likely to amount to some 550-650 million dollars annually during the next two years, assuming that prices remain at or near the December 1950 levels.

Footnote

^{1/} The price of crude oil in United States markets remained stable throughout 1950, whereas the price of residual (Oklahoma, No. 6 fuel) rose from 1.19 dollars per gallon in January to 1.63 dollars in June and 1.70 dollars by December.

Sodium Nitrate

During 1950 United States imports of Chilean nitrate fell below their 1949 levels, both in volume and value. The 550,000 long tons imported during 1950 represented a 10 per cent decline from 1949 levels, and the value of imports at 22.3 million dollars was some 14 per cent below the preceding year.

Since 1937, Chilean sales of natural nitrates to the United States have remained fairly stable, averaging between 500,000-700,000 long tons annually. During 1951 and 1952, the volume of nitrate imports will probably remain roughly within the same limits, although prices could decline slightly from present levels due to increasing competition from synthetic substitutes. As a result, Chile may be expected to export nitrates in the amount of 15-25 million dollars per year to the United States through 1952.

C. OTHER RAW MATERIALS

Henequen Fibre

United States imports of henequen fibre from Mexico recovered in 1950 from the declining levels characteristic of the immediately preceding years. Imports amounted to 68,500 long tons, valued at 15.4 million dollars, compared to the 1949 level of 30,700 tons, valued at 7.2 million dollars. The volume of imports had been 90,900 long tons during the war-time year 1944, and had averaged 49,950 tons during the post-war years 1946-1949.

The increased volume of henequen imports in 1950 was about evenly divided between the first and second halves of the year, indicating perhaps that the downward adjustment of henequen prices during the latter part of 1949 had the effect of improving the competitive position of this commodity. Prices remained at a relatively low level throughout the first half of the year, but increased thereafter to the end of the year by about one fourth to one third.^{1/} The

^{1/} The unit value of imports from Mexico in December 1950 was 265.63 dollars per long ton, or some 26 per cent higher than the average of 211.31 dollars during the first six months of the year. Similarly, the wholesale price for grade "A" henequen, fob. New Orleans, was 11.2 cents per pound in January and June 1950, and 15.0 cents per pound in November 1950.

improvement in prices occurred apparently as a result of the generally increased demand for hard fibres in connection with United States defence mobilisation. Certain of the hard fibres, including manila or abacá fibre and sisal, are being stockpiled by the United States Government, and research is being carried on for the development of domestic substitutes.

In view of the increased demand for hard fibres, the competitive difficulties of henequen that had been especially noticeable in 1949 may diminish during the next several years. Prices at the end of 1950 were again close to the peak level of 1948 and the annual rate of imports was some 70,000 long tons during the second half of the year. Thus, the value of imports may approach 25 million dollars annually, assuming a return to 1948 prices and a volume of shipments approximating 80,000 long tons.^{1/}

Flaxseed and Linseed Oil

United States imports of flaxseed and linseed oil were virtually eliminated during most of the post-war period through import controls. Imports of these two products continued to be negligible in 1950, with none originating in Latin America.^{2/} Although United States production of flaxseed was expected to decline somewhat in 1951 because of the increased emphasis on production of wheat, it was believed that it would be adequate for domestic requirements, and there seems little likelihood of any change in United States import control policy in the next few years.

Wool

Total United States imports of apparel wool amounted to 379 million pounds in 1950. In view of continuing United States demand for wool at high levels, total imports in 1951 should rise to 400 million pounds or more, depending on supply conditions. Latin America's share of the United States total in 1951 should reach a level of around 30 per cent

^{1/} While this volume would be some 10,000 tons lower than the amount imported in 1944, it appears reasonable in view of the greater amounts now retained in Mexico for internal consumption.

^{2/} Imports of flaxseed amounted to 1,700 bushels, valued at 7,800 dollars; and of linseed oil to 63,900 pounds, valued at 13,200 dollars.

by volume or some 120 million pounds. At current prices (of at least a dollar per pound^{1/}), which may be expected to continue or to advance in view of short world supplies, Latin America's dollar earnings from apparel wool should thus total at least 120 million dollars during 1951.

United States carpet wool imports at 338 million pounds in 1950 were close to the peak level of 1948 with some 65 per cent coming from Latin American countries (mainly Argentina). A somewhat lower level of carpet wool imports is likely in 1951 since Argentine wool stocks accumulated during World War II are now largely depleted. United States imports in 1951 are likely to amount to some 200 million pounds with Latin America's share amounting to about 130 million pounds. In terms of current unit values for United States imports of carpet wool, Latin America's dollar earnings should amount to some 100 to 125 million dollars in 1951.

Total Latin American earnings from wool exports to the United States market, including apparel and carpet wools, should therefore come to at least 220 million dollars during the year. This compares with earnings of 190 million dollars in 1950 and 96 million dollars in 1949, with most of the increase in dollar returns resulting from steep price increases.

Cattle Hides

Latin American sales of cattle hides to the United States were at a relatively high level in 1950, totalling 83.4 million pounds valued at 17.1 million dollars and representing increases of 580 per cent and 660 per cent over the respective volume and value reached in 1949.^{2/} During 1950, Latin America provided 75 per cent of total United States cattle hide imports by volume as compared with 50 per cent in 1949. However, United States cattle hide imports traditionally fluctuate very widely, and therefore the 1949 all-time low unduly distorts the following year's gain.

^{1/} Estimated unit values rather than United States spot prices are used to obtain dollar earnings by Latin American exporters. The spot price, depending on the quality and wool count currently ranges from 1.70 to 2.35 dollars per pound.

^{2/} The Chicago wholesale price for heavy native hides increased by almost 75 per cent from the February level of 21 cents per pound to 36 cents by December 1950.

During the immediate future United States imports of cattle hides should remain near the 1950 level due to additional military needs and expanding national incomes. Consequently, average returns during 1951-52 from United States imports of Latin American cattle hides will probably range between 15-25 million dollars annually at year-end 1950 prices.

Quebracho Extract

United States imports of quebracho extract, originating almost entirely in Latin America as in the past, amounted to 202.1 million pounds in 1950, valued at 14.9 million dollars. This volume was about the same as the war-time level of 200.6 million pounds imported in 1944, but was somewhat lower than immediate post-war levels.

A sharp decline in exports to some 115 million pounds valued at 11 million dollars, occurred in 1949 from the peak level of 19.4 million dollars (204.1 million pounds) in 1948. Although the volume of exports during 1950 recovered substantially from the 1949 recession level, prices have steadily deteriorated. By the end of 1950 the average prices of United States imports of quebracho extract had increased somewhat, but were still well below the 1948 level.^{1/}

The importance of quebracho extract to United States industry is indicated by its prominence among products listed for stockpiling by the United States Government. Although stockpiling purchases have been small in absolute terms, quebracho extract has been one of the leading items in stockpile purchases from Latin America from 1946 through the end of 1950. Furthermore, experimentation has been carried on by the United States Department of Agriculture since 1949 for the development of substitute domestic vegetable tanning materials, particularly in view of the curtailment of domestic sources of supply resulting from the chestnut blight.

In view of these circumstances, the prospects for substantially increased returns from exports of quebracho extract to the United States are highly favourable. The annual volume of United States

^{1/} The unit value of imports in December 1950 was almost 5 per cent higher than in January-June 1950, but was about 20 per cent lower than in 1948.

imports during the next few years, based on the rate of such imports during the last half of 1950 and assuming a favourable supply situation, might reach an estimated 250 million pounds. If it is further assumed that prices improve by about 20 per cent over the year-end 1950 level, which would involve a return to the peak level of 1948, imports would be valued at close to 25 million dollars.

D. "OTHER" COMMODITIES

The 13 commodities covered under the preceding heading of traditional foodstuffs and raw materials have in the past accounted for 75-85 per cent of total United States imports from Latin America by value. The residual items included under "others" in Table 4 above cover a wide range of primary products of strategic importance.

With a few important exceptions, the residual import items have tended to respond noticeably and directly to the stimulus of military demand. Thus the total value of all such commodities provided some 10 per cent of Latin America's dollar earnings in the United States pre-war, between 25-30 per cent during the peak periods of war-time demand, and around 12-14 per cent after World War II. As a result, it seems likely that the upward trend in total of the residual group will continue throughout 1951, probably at a rate considerably in excess of the preceding few years. In support of this assumption, three mineral ores not previously included among traditional imports are briefly discussed below.

United States imports of iron, tin and manganese ores from the other American Republics were valued at 6 million dollars in 1938, 50 million in 1944, 43 million in 1947, and 53 million dollars during 1949. In 1950 the total declined slightly below 45 million dollars due to special factors, but is expected to increase during 1951 to some 75-90 million dollars.

The decline in total values during 1950 was largely due to the delay in reaching agreement on a United States-Bolivian tin contract, with the result that tin imports at 27 million dollars were 11 million dollars below 1949. During 1951, United States purchases of tin from
/Bolivia might increase

Bolivia might increase from the 1950 level of 15 thousand long tons to a volume nearer the 19 thousand tons imported during 1949. At year-end 1950 prices, Latin American exports of this metal could aggregate some 50 to 60 million dollars during the present year.

Manganese sales to the United States in 1950 totalled 254 million content pounds, nearly 50 per cent below the 1944 levels, and will undoubtedly increase during the next few years. Due to the higher prices likely to prevail in 1951 compared to 1950, imports of manganese ore should therefore average some 8 to 12 million dollars in contrast with some 6.3 million dollars in 1950.

Exports from Brazil and Chile, and the increases expected from Venezuela might result in a volume of iron ore shipments to the United States totalling 4-5 million long tons in 1951, compared to 3.5 million in 1950 and 3.2 million in 1949. At 1950 year-end unit values, the value of iron ore imports from the various republics might reach a total of 15 to 20 million dollars compared with 12 million dollars in 1950 and 10 million in 1949. A further substantial rise in imports may be anticipated during 1952-53 as a result of increased Venezuelan production, and the possible easing of present transportation restrictions.

In addition to the three mineral ores already discussed, the majority of all "other" imports should experience a considerable price increase during 1951 as compared with average 1946-50 levels, and in addition a considerable number of the "other" primary goods are included under the classification of strategic and critical materials. As a result, the lower limit of 400 million dollars suggested on page 23, showing no increase over 1950, is likely to be unduly conservative, and the total group seems likely to approach more closely the upper estimate of about 800 million dollars.

E. THE UNITED STATES STOCKPILE PROGRAMME

The amount of materials considered essential by the United States Government for a minimum strategic stockpile was increased during 1950 by close to 4.0 billion dollars. Thus, the objectives (at December

/31, 1950 prices)

31, 1950 prices) were 5.1 billion dollars at the end of 1949 and 8.9 billion at the end of 1950. These objectives had not varied appreciably during the post-war years up to the end of 1949. Some 2.7 billion dollars^{1/} of the total of nearly 9.0 billion was actually in the Government inventory at the end of 1950, having been purchased both domestically and abroad, and, to some extent, transferred from war-time Government surplus stocks. In addition, almost 1.1 billion dollars of goods had been ordered. By the end of 1950, therefore, some 43 per cent of the present objective was on hand or under contract.

Details regarding the United States stockpile programme are contained in appendix B, Tables 19-21. Table 19 indicates the changes in United States stockpile objectives and inventories since 1946. The recently increased rate of stockpiling activities is indicated in Table 20. During the period July-December 1950, contracts for 430 million dollars were placed, and, in the first half of January 1951 above, 385 million dollars in additional commitments were made. These rates compare with 401 million dollars in the period January-June 1950, and much lower previous rates. Table 21 consists of a current list of strategic and critical materials for United States stockpiling, with some indication of the Latin American supplying countries.

The influence of the United States stockpile programme has been taken into account and is implicit in the estimate above of post-1950 Latin American exports to the United States. From the aggregate point of view, direct purchases for stockpile are not likely to represent a major portion of Latin America's average annual earnings from the United States on trade account. From 1946 through 1950, it appears that the Latin American Republics provided possibly some 10 per cent of the total stockpile inventory by value, or an annual average of about 50 million dollars. Assuming that Latin America's future share of United States stockpile purchases were to continue to average not less than 10 per cent of total purchases and that present

^{1/} The 2.7 billion dollars represents the value at December 31, 1950 prices. In terms of prices existing at the time contracts were placed, the cost of the inventory was probably closer to 1.5 billion dollars to 2.0 billion dollars.

stockpile objectives can be achieved within the next three to six years,^{1/} 100 million to 200 million dollars would represent the limits of Latin American earnings from exports intended for the United States stockpile. This would still be minor in relation to total United States imports from Latin America over the next several years.

Although not very sizable in relation to the aggregate of United States imports from Latin America, stockpile purchases have been of somewhat greater importance with respect to certain commodities. Since 1946 almost all stockpile items originating in Latin America have consisted of the following, with the first few being the most important: copper, quebracho, quartz crystals, tin, lead, zinc, abacá fibre, manganese, tungsten, castor oil, antimony, mica, beryl, asbestos, cadmium, sisal fibre and tantalite. With respect to major Latin American exports listed among the above items, however, stockpile purchases have represented only a minor part of total exports.

Perhaps more significant than the direct effect of purchases for immediate stockpile are certain programmes in support of stockpile objectives. These programmes can be beneficial through the introduction of United States capital equipment as well as by the technical and financial assistance offered in expanding facilities.

The Reconstruction Finance Corporation, Department of Agriculture and the Munitions Board, for example, have cooperated to expand production of existing Government-owned abacá plantations, and have assembled survey teams to map new sites up to 50,000 acres in Ecuador, Nicaragua and Costa Rica under the terms of the Abacá Production Act of 1950.^{2/} Rubber for stockpile purposes is currently receiving considerable attention from the Department of Agriculture. Nursery costs for guayule are now well below World War II levels and improved strains show considerable increases of yield per plant.

^{1/} See United States Munitions Board, Stockpile Report to the Congress, July 1950, p. 7.

^{2/} By the end of 1950, the Reconstruction Finance Corporation had developed an estimated 25,000 acres of abacá, representing an investment of nearly 50 million dollars by the United States Government.

Technicians of the Department of Agriculture are also conducting research and extension work aimed at expanding the production of various other strategic materials. This includes the training of technicians from 14 Latin American Republics. Some items covered under this programme include castor and tung oil, emetine, jute substitutes, henequen, pyrethrum, quinidine and pepper. United States Government cooperative stations for the supervision and development of oil crops have been established in Guatemala, Nicaragua and Peru.

Joint United States-Latin American programmes are also under way to expand supplies of several strategic minerals. Experiments have been carried out by the United States Bureau of Mines on the concentration and recovery of tin from low-grade Bolivian ore. The Bureau of Mines is also actively interested in the economic development of other Latin American minerals, especially manganese, copper, lead, iron, antimony, industrial diamonds, quartz crystals and tungsten.

It should be noted, however, that the expansion of strategic materials production domestically for stockpiling and related programmes is also being encouraged in the United States, with reactivation of high cost plants closed after World War II and the granting of subsidies for the development of substitute products. From the longer run point of view, therefore, Latin American output of many raw materials faces competition from United States domestic products developed under the United States stockpile programme.

III. PRICE MOVEMENTS AND TERMS OF TRADE

During 1950 United States prices, both wholesale and retail, reached record levels exceeding the previous peaks recorded in 1947 and 1948. By February 1951, the average United States wholesale price index for all commodities was 21 per cent over January 1950, with more than four fifths of the increase occurring after June 1950. The price increase was concentrated mainly in primary commodity markets, and seems to have been due more to anticipation by United States consumers and business of the impending defence effort than to actual shortages of goods. Active inventory accumulation by United States producers in fact appears to have accounted for a major share of the sharp upward movement of prices throughout the latter half of 1950. ^{1/}

^{1/} From January through June 1950, United States business concerns were accumulating stocks at an annual rate of about 4 billion United States dollars. During the last half of the year, however, the annual rate of inventory accumulation was closer to 17 billion United States dollars.

a/

Table 5 Changes in United States Wholesale Prices^{a/} of Selected Commodities

Commodity	% Price Increase to February, 1951 from		
	March 1950	June 1950	December 1950
Wool-Carpet type	175	107	29
Wool-Apparel type	123	97	36
Tin	142	135	26
Zinc	76	18	0
Petroleum and Products	10	5	1
Hides and skins	68	59	16
Copper	32	9	0
Coffee	17	15	3
Cocoa	64	22	10
Sugar, raw	7	3	- 6
Oils and Fats	72	94	20
Agricultural: Machinery and Equipment	10	9	2
Farm Machinery	9	9	1
Steel Mill Products	8	8	2
Semi-finished steel	6	6	0
Finished steel	9	9	2
Passenger cars	1	1	0
Trucks	8	7	2
Structural steel	7	7	0
Other building materials	15	13	2
Chemicals	21	19	2
Household furnishings	23	21	4

Sources: Wholesale Price Index by Sub-groups of Commodities, United States Bureau of Labour Statistics; Journal of Commerce; American Metals Market; Working Review of Boston Wool Markets.

a/ Average United States wholesale prices for months listed.

Although practically all commodity prices rose during 1950, Table 5 indicates that increases were especially marked in the case of raw materials and crude foodstuffs. The prices of United States manufactured goods rose much less. These relative price movements during 1950 resulted in the sharpest deterioration in United States terms of trade since 1947.^{1/}

1/ This conclusion is based on the fact that more 65-75 per cent of United States exports consist of semi and finished manufactures, and about 45-55 per cent of United States imports are composed of crude materials and foodstuffs.

Table 6 Unit Value Indexes of United States Imports, Exports and Terms of Trade: All Areas (1923-25 = 100)

Year	Import Unit Values	Export Unit Values	United States Terms of Trade with All Areas
	(a)	(b)	(a) (b)
1937	60	70	86
1940	59	68	86
1941	63	73	86
1942	73	89	82
1943	79	98	81
1944	85	112	76
1945	87	112	78
1946	97	106	92
1947	119	126	94
1948	132	134	99
1949	125	124	101
1950	136	121	112

Source: Statistical Abstract of the United States, and Monthly Summary of Foreign Commerce, United States Department of Commerce, selected issues.

Because of the relatively depressed level of primary goods prices during the thirties, United States terms of trade with all areas in 1937 had improved some 14 per cent compared with the 1923-25 level, and became even more favourable to the United States during the war, improving by a further 10 per cent by the close of World War II. Thus, the unit value of total United States imports rose by 41 per cent between 1937 and 1944, whereas United States export unit values increased by 60 per cent, reflecting the shortage of United States export goods and their correspondingly higher prices.

By 1950, United States terms of trade had deteriorated compared with 1944, primarily because of the substantially increased import prices of crude materials and crude foodstuffs, while export prices of finished manufactures were at about the same level.^{1/} Thus, by 1950 United States

	<u>United States Unit Value Indexes (1923-25 = 100) of</u>		
	<u>Crude Materials</u>	<u>Crude Foodstuffs</u>	<u>Finished Manufactures</u>
	<u>Imports</u>	<u>Imports</u>	<u>Exports</u>
1937	56	67	69
1944	77	100	121
1950	106	268	120

Source: Statistical Abstract of the United States, selected issues.

^{1/}terms of trade

terms of trade had fallen from 76 in 1944 to 112, as the unit value of total imports and total exports rose by 60 per cent and 8 per cent respectively.

Changes in over-all United States terms of trade conceal the situation with respect to different areas. By comparing Table 7 with Table 6, it may be noted that from 1937 to 1944, Latin America's terms of trade with the United States deteriorated by 20 per cent as compared with a deterioration of 12 per cent for all countries. Conversely, from 1944 through 1950, Latin America's terms of trade with the United States improved by 106 per cent compared with only 49 per cent for all areas trading with the United States.

Table 7. United States Terms of Trade with Latin America
1923-25 = 100)

Year	U.S. Imports from L.A. Unit Value Index a/ A	U.S. Exports to L.A. Unit Value Index b/ B	U.S. Terms of Trade with L.A. c/ A B
1937	61	69	88
1941	62	75	83
1943	61	103	79
1944	86	121	71
1946	96	105	91
1947	128	123	104
1948	144	130	111
1949	143	122	117
1950	176	120	147

a/ Derived from data prepared for ECIA by the United States Department of Commerce, Office of International Trade, converted to 1923-25 = 100.

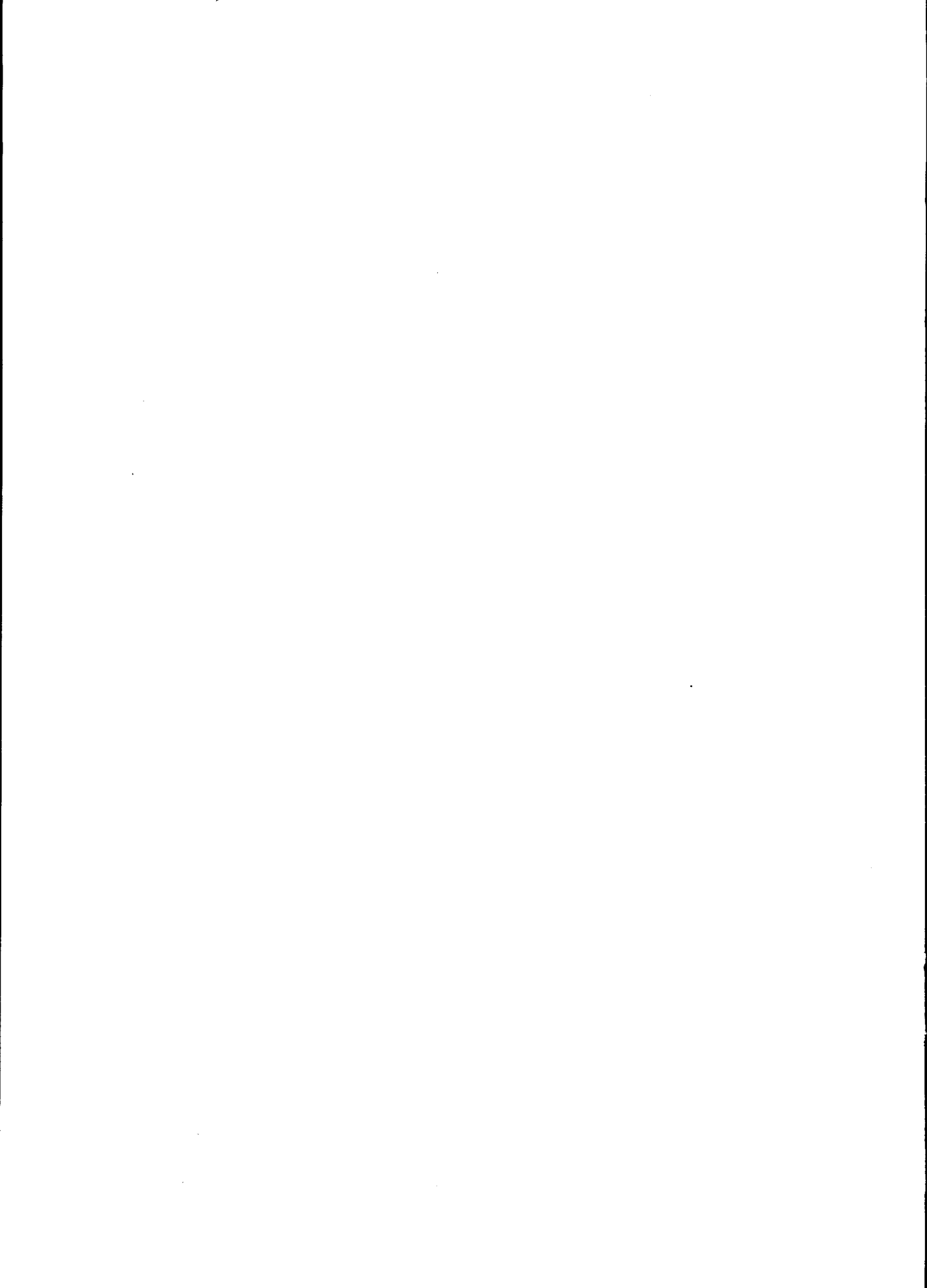
b/ Unit value indexes of United States finished manufactures exports to all areas, Statistical Abstract, and Monthly Summary of Foreign Commerce, selected issues.

c/ Terms of trade with Latin America, based on the above unit values of United States exports of finished manufactures to all areas, are believed to correspond very closely to actual terms of trade with the area. For example, there is virtually no difference between the results so derived for the years 1948-50 and terms of trade with Latin America for those years calculated by the United States Department of Commerce. See United States Trade with Latin America 1951, Foreign Commerce Weekly, 7 May 1951.

During 1951 Latin America's terms of trade with the United States may be expected to decline somewhat from recently high levels. As seen in Table 8, Latin America's terms of trade with the United States between the third and fourth quarters of 1950 showed their first deterioration (of some 3 per cent) since the end of World War II, while all areas improved /their terms of

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their terms of trade with the United States slightly in the same period.

Table 8. United States Terms of Trade; 1950 by quarters
(1923-25 = 100)

1950; Quarters	With All Areas			With Latin America		
	Unit Values		Terms of Trade	Unit Values		Terms of Trade
	Imports	Exports		Imports	Exports	
First	125	119	105	160	120	133
Second	128	117	109	158	117	135
Third	139	120	116	190	119	160
Fourth	151	128	118	194	125	155

Source: See Tables 6 and 7.

The downward shift in Latin America's terms of trade in the fourth quarter of 1950 is likely to continue throughout 1951. Since a considerable part of the impetus towards higher prices for crude materials, after June 1950, resulted from heavy buying by United States industry for inventory in anticipation of shortages, crude materials prices will probably not advance at previous rates and in several cases may even decline moderately. This could be true for such commodities as tin, wool, silk and hides whose price advances since June 1950 have been within the range of 60 per cent to 135 per cent. Furthermore, the establishment of international allocations machinery, together with United States Governmental measures to halt stockpiling of commodities whose prices have risen most sharply, may also be expected to moderate the rise of crude materials prices.

While United States prices of manufactures have thus far not risen appreciably, a more substantial upward movement is likely to occur during 1951. The delayed effect of the rise in raw materials prices and wage rates during the latter half of 1950 may be expected to result in advancing prices for United States manufactures during 1951, a tendency which will be intensified by the inflationary factors in the United States economy during the year.

IV. DEVELOPMENTS IN UNITED STATES INVESTMENT IN LATIN AMERICA

While United States investment in Latin America during the next few years is expected to increase only moderately over the levels of recent years and to be confined largely to expanded production of strategic materials, it may make some contribution to economic development. There may be important secondary developmental effects, such as the construction of supporting power and transport facilities, than can be beneficial to other sectors of Latin American economies. However, it is not anticipated that United States long-term investment in the near future will result in any substantial change in the over-all rate of development.

Recent Levels of United States Capital Outflow

United States long-term capital outflow to Latin America declined appreciably in 1950 from the rate of such investment in the years 1947-49. The level of Government investment was about the same as in the immediately preceding years, so that the reduction was accounted for by a decline in private investment, due mainly to the near completion in 1949 of the post-war programme of petroleum expansion. The magnitude of United States public and private investment in Latin America during 1950 relative to earlier post-war years is indicated in Table 9.

Table 9. Total United States Long-Term Capital Movements to Latin America (Net) in Millions of Dollars a/

(Net Movement of Private Long-Term Capital from Latin America to United States in 1948, indicated by (-))

	1943	1947	1948	1949	1950	1948-50 Total
Private Long-Term (net)	- 76	387	274	456	179	1,220
Government Long-Term "	56	56	33	39	34	223
	- 20	443	312	495	213	1,443

Source: United States Department of Commerce, Survey of Current Business, June, 1950 and March, 1951.

a/ Exclusive of reinvested earnings of subsidiaries.

/Net long-term

Net long-term United States capital movements to Latin America for the period 1946-50 totalled almost 1.5 billion dollars, of which the predominant share has originated from the private rather than the governmental sector. Furthermore, in contrast with Latin America's experience during the inter-war period, the majority of private United States capital has gone to direct equity, rather than portfolio investment outlets.

Governmental Investment

Net movements of United States long-term Governmental^{1/} capital since 1946 have been almost entirely the result of Export-Import Bank loans, with Brazil, Chile and Mexico receiving a large portion of the total through 1950. During 1951, a considerably increased net outflow of Export-Import Bank funds (gross disbursements less repayments of interest and principal) to Latin America is anticipated, probably totalling between 160-180 million dollars, as compared with a previous five year annual average of approximately 45 million dollars. The expanded net total will result from the substantial loan commitments authorised by the Bank since 1948, for which funds are now being spent, and will be the residual of some 225 million dollars gross disbursements less about 55 million dollars of repayments.

The considerable increase forecast for 1951, compared with previous post-war years, will be heavily influenced by the 1950 authorisation of 125 million dollars for the repayment of Argentina's commercial arrears. This advance is expected to be disbursed much more rapidly than the more typical development-type loans which are spread over the life of the project, and some 110 million dollars is expected to be disbursed during 1951. It is further assumed that Mexico and Brazil will draw down considerable gross sums this year from existing authorisations, perhaps to the extent of 60 million dollars and 50 million dollars respectively.

During the next few years, the Export-Import Bank will probably finance increasing production abroad of strategic and critical materials

^{1/} The discussion of public long-term capital outflows excludes International Bank loans, which do not appear in the capital account section of the United States balance of payments with Latin America. During 1951, however, it is expected that the International Bank for Reconstruction and Development disbursements, mainly to Brazil, Chile, Colombia, Mexico and Uruguay may total as much as 70-85 million dollars, or more than double the annual average of about 30 million dollars during the two years 1949-50.

/that will be in

that will be in short domestic supply during the present emergency situation. In anticipation of meeting the demand for such materials, the President has requested that the United States Congress increase the present lending authority of the Export-Import Bank by one billion dollars. It may be expected, therefore, that Latin America's net receipts of Export-Import Bank disbursements during the emergency period at least will continue to exceed average annual loan totals since World War II by a considerable amount.

Private Direct Investment

The total value of private United States direct investments in Latin America has increased from 3.0 billion dollars on December 31, 1945 to an estimated 5.1 billion dollars by year-end 1950, an annual average increase of approximately 420 million dollars during the five post-war years. The 2.1 billion dollars increase since World War II has resulted

Table 10 United States Direct Investments in Latin America:

<u>Total Value</u> ^{a/}						
(\$ billion; end of year data)						
<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950 (partly est.)</u>	<u>1951 (est.)</u>
3.0	3.1	3.7	4.2	4.8	5.1	5.4 - 5.5

Source: United States Department of Commerce, Survey of Current Business, January 1951.

a/ Including ships sold to United States-owned or controlled operators registered under Latin American flags, mainly Panamanian, and totalling (million dollars) 15.1; 117.5; 38.2; and 81.0 during the respective years 1946-49.

from reinvestment of earnings as well as from new capital movements. In fact, the greater part of the total has probably come from reinvested earnings rather than new capital, although the contribution from each of these sources of financing is concealed in available statistics. For balance of payments purposes, branch earnings reinvested in Latin America are recorded as United States capital outflows whereas reinvested earnings of subsidiaries are not. The shares provided by capital movements and by reinvested subsidiary earnings are indicated in Table 11.

/Table 11.

Table 11. Factors Affecting Total Values of United States Direct Investments in Latin America, 1946-50.

(millions of dollars)

Total Value December 31, 1945	Changes During Period			Total Value December 31, 1950
	Capital <u>a/</u> Movements	Reinvested Subsidiary Earnings	Other Factors	
2,999	1,429 <u>b/</u>	697 <u>b/</u>	- 12	5,113

a/ Reinvested earnings of United States branch companies in Latin America comprise the greater proportion of this total. Net new private long-term funds originating in the United States provide the smaller residual amount.

b/ Estimates for 1950 include approximately 130 million dollars capital movement and 150 million dollars reinvested earnings.

Table 12 gives the most recently available breakdown of United States direct investments in Latin America by industrial sub-groups, showing clearly the significant influence of new petroleum investments in recent years.

Table 12. Value of United States Direct Investments in Latin America
By Industrial Sectors
(millions of dollars: end of year data)

End of Year	Mfg.	Distrib'n	Agric.	Mining & Smelting	Petroleum	Public Util's	Misc.	Total
1945	433	145	420	412	645	898	46	2,999
1946	488	165	445	398	768	821	61	3,146
1947	595	209	480	425	1,059	846	102	3,716
1948	678	265	522	439	1,337	854	120	4,205
1949	785	294	520	487	1,735	876	138	4,783

Future United States direct investments in the Latin American Republics will be based on factors presently influencing the foreign investment decisions of perhaps a dozen United States parent companies engaged principally in extractive industries. It seems likely that two major changes will occur in 1951 in comparison with earlier post-war years. First, the substantial annual increases in total value of petroleum investments since World War II will probably not continue in the next

/year or so

year or so since major expenditures for plant expansion, tankers, and new refining capacity have resulted in the near completion of existing petroleum investment programmes. Second, expanding United States demand for strategic and critical materials is likely to accelerate new investments in mining and smelting and probably several other industries as well. It is probable, therefore, that the decline in new petroleum investments will be almost compensated by an increase in several of the other industrial sub-groups. As a result, the average annual increase in total value between 1949 and 1951 is estimated at 300-400 million dollars, or somewhat below the average annual rate between 1946-49. On the basis of these estimates, the total value of United States private direct investments in Latin America by December 1951 might reach a total of 5.4 to 5.5 billion dollars.

Prospective Level of Total United States Investment

In summary, therefore, United States Governmental and private sources together seem likely to yield a net total of around 470-570 million dollars of additional long-term investments in Latin America during the present year with Government sources, mainly the Export-Import Bank, providing perhaps 170 million dollars of the total. Private long-term capital movements for balance of payments purposes will probably be about 200 million dollars, chiefly in the form of reinvested branch earnings from existing United States direct investments. The residual amounts of 100-200 million dollars will include reinvested earnings of subsidiaries - which contribute equally to new developmental investments but are not recorded as capital movements - plus a range of possible errors and omissions.

Transfer of Income and New United States Investments

United States income receipts on Latin American investments during the post-war period reached their highest level in 1950 and, in view of a number of factors, may be expected to rise further during 1951. Thus, it is estimated that net income receipts in 1951 will amount to roughly 700 million dollars, or the annual rate attained in the second half of 1950. This estimate appears reasonable on the basis of the following

/assumptions:

assumptions: Total United States direct investment in the Latin American Republics during 1951 will probably yield an average rate of return between 10-15 per cent (net of foreign taxes;) profitable investments in petroleum and mining and smelting should serve to keep the average yield nearer the upper limit; and the increased availability of dollars arising out of a considerable surplus in Latin America's trade account with the United States could permit additional transfers of income on foreign investments due to easing of exchange control regulations.

Table 13. United States Income on Investments: Receipts from (+) and Payments to (-) Latin America

(millions of dollars)

Year	Private		Tot	Government		Tot	Total		Tot
	Credit	Debit		Credit	Debit		Credit	Debit	
1946	+ 329	- 9	+ 329	+ 5	- 1	+ 4	+ 334	- 10	+ 324
1947	+ 468	- 10	+ 458	+ 9	- 1	+ 8	+ 477	- 11	+ 466
1948	+ 544	- 11	+ 533	+ 12	- 1	+ 11	+ 556	- 12	+ 544
1949	+ 389	- 9	+ 380	+ 12	- 3	+ 10	+ 401	- 11	+ 390
1950	+ 590	- 12	+ 578	+ 13	- 3	+ 10	+ 603	- 14	+ 589
1951 (estimate)									+ 700

Net United States receipts of income from investments in Latin America (interest, dividends and branch profits) have significantly exceeded United States long-term capital outflow to the area since World War II except for the year 1949, when there was a recession in United States business activity and when exchange controls were relatively stringent in many Latin American countries. This pattern is likely to continue on the assumption that income receipts will reach the estimated high level of 700 million dollars.

Conclusions

In summary it appears likely that United States investment activity in Latin America will be affected in the following ways by the defense mobilization programme:

1. United States long-term Government capital, primarily from the Export-Import Bank, will probably expand considerably in 1951 compared with other post-war years. Thereafter, during the present emergency period,

/larger net disbursements

larger net disbursements than in earlier post-war years should continue, especially if the Bank's lending authority is raised and if its activities become increasingly diverted to projects involving strategic and critical materials.

2. During the next few years, as in the past, private United States long-term capital outflows will probably exceed Government outflow and will be almost entirely concerned with direct investment activities. The previously substantial annual increases in petroleum may decline somewhat whereas growing United States requirements of strategic materials should cause an acceleration of previous rates of investment in such industries as mining and smelting.

3. The total of long-term United States Government and private investment funds, including reinvested earnings, will still probably be 100-200 million below net United States income receipts from the other American Republics in 1951. The excess of payments to the United States on these accounts will be financed mainly out of Latin America's export surplus with the United States.

V. LATIN AMERICA'S DOLLAR BALANCE OF PAYMENTS^{1/}

It is obvious that the international economic position of Latin America has been radically affected by the defence mobilisation programmes of the United States. The effects on the availability of goods for import, on the level of exports, and on the movement and servicing of foreign investments have been discussed separately. The net effects of these transactions may now be considered.

The effect of United States defence mobilisation on Latin America's balance of payments had become apparent during the last half of 1950. Thus, Latin America was able to increase its reserves of gold and dollars moderately by the close of 1950 despite the easing of import restrictions. Indeed, the problems facing Latin America in the immediate future derive from the fact that gold and dollar exchange will continue to accumulate rather than from shortages of exchange characteristic of recent years.

Latin America's dollar balance of international payments in 1950 is contrasted below with the years 1947-1949 as a possible basis for judging the prospective payments position of the area.

A. Experience in 1950

Latin America achieved a surplus in its trade with the United States during 1950 for the first time in the post-war period. The surplus had developed even before the United States rearmament programme was undertaken in the middle of the year, although it increased substantially during the latter half of 1950.

A trend toward a trade surplus became evident after the peak trade deficit of 1.5 billion dollars in 1947. The deficit had declined to some 500 million dollars in 1948 and to 200 million in 1949; and, during the last six months of 1949, Latin America's trade with the United States was virtually in balance. During the first six months of 1950, Latin America developed a trade surplus with the United States that exceeded 100 million dollars; it amounted to 250 million dollars, or an annual rate of 500 million dollars, in the second half of the year.

^{1/} See Table 14 for summarised accounts of transactions discussed in this chapter.

The progressive elimination of Latin America's trade deficit with the United States between 1947 and 1949 was the result largely of a contraction in imports from the United States. Exports to the United States, which were well sustained, did not expand to the same extent as imports contracted. The decline in imports from the United States during this period was due to a number of factors, including satisfaction of the backlog of war-time deferred demand, the imposition of direct controls to limit dollar imports, the devaluation of certain Latin American currencies, and the greater availability of European goods. The trade surplus during the first half of 1950 resulted from an increase in the value of exports to the United States, accompanied by a continued limited level of dollar imports.

It was not until the second half of 1950 that the downtrend in Latin America's imports from the United States was reversed. The rate of imports from the United States increased during the second half of the year as import controls were relaxed following substantial increases in exchange earnings and in anticipation of future supply limitations in the United States. The increased level of dollar imports was, however, more than offset by increased returns from exports, with the resulting trade surplus noted above.

The improvement in Latin America's merchandise trade position with the United States since 1947 has been paralleled by a reduction in its total deficits on current account. However, Latin America still incurred a deficit on current account with the United States in 1950, although at a substantially lower level than in other post-war years. As United States demand for raw materials increased during 1950 and a Latin American merchandise export surplus developed, United States earnings on investments in Latin America and the remittance of earnings also increased. The latter was the major factor accounting for a continued Latin American deficit on current account with the United States in 1950.^{1/}

^{1/} During the last six months of 1950, the net remittance of earnings on United States investments in Latin America reached a peak of 343 million dollars, or close to 700 million dollars on an annual basis. This includes all earnings, whether transferred or not, of enterprises organized as branches. The reinvested earnings of branches are considered as a long-term capital outflow from the United States under United States balance of payments procedure. As for subsidiaries, only income actually transferred is included by the United States in its balance of payments account as a receipt of income on foreign investment.

Although Latin America continued to incur a deficit on current account with the United States in 1950, the amount of the deficit was reduced to the point where Latin America's combined current and long-term capital transactions with the United States were virtually in balance. The Latin American deficit resulting from recorded current and long-term capital transactions with the United States declined from 1.6 billion dollars in 1947 to 830 million dollars in 1948, and amounted to 120 million dollars in 1949, and about 55 million in 1950. The deficit in the second half of 1950 was at the slightly lower annual rate of 50 million dollars. In addition to meeting this small deficit on current and long-term capital transactions with the United States, the Latin American Republics were able to purchase gold and increase their net short-term assets in the United States in 1950 to the extent of some 330 million dollars. (See Chart A). This was made possible by dollar credits earned by Latin America in third areas, and by transactions with the United States incorrectly reported or not reported at all. In this connection, it may be noted that the 1950 Latin American gold purchases and increases in short-term assets in the United States, as well as apparent dollar credits from transactions with third areas, occurred for the most part during the last half of the year.

Latin America's dollar earnings from surpluses on trade and other transactions with Western Europe contributed heavily to the settlement of its deficits with the United States during the early post-war period.^{1/} These reached a peak in 1948 as a result largely of transactions between countries in the northern part of the Latin American area on the one hand, and Germany, the Netherlands, and the United Kingdom on the other.^{2/} However, by 1949, Latin America's deficit with the United States was substantially reduced, as noted above, mainly as a result of enforced restriction of dollar imports. During the same year, net dollar credits

^{1/} See Europe's Trade with Latin America, Economic Bulletin for Europe, Third Quarter 1950, pp 18-49. United Nations Economic Commission for Europe, Geneva, January 1951

^{2/} Dollars received by Latin America under European Recovery Programme "offshore purchases" alone amounted to 142 million dollars in 1948.

earned by Latin America directly in Europe may have been eliminated as previous Latin American balance of payments surpluses with Europe disappeared, largely because of European restrictions on imports from the area. Furthermore, a growing share of Latin American trade with Europe was carried on under bilateral agreements.^{1/} The apparent net dollar credits earned by Latin America from third areas in 1949 thus may represent the settlement of its surplus with European dependencies in the western Hemisphere, chiefly the Netherlands West Indies, in the final analysis involving dollar transfers from Europe.

The nature of the improvement in the respective payments positions of the two areas changed during the first half of 1950. As previously noted, Latin America earned a trade surplus with the United States during that period for the first time since the end of the war, not as a result of any further contraction of imports but rather because of an expansion of exports; and apparent dollar transfers from Europe to Latin America declined markedly, largely because of an increase in the level of European exports to the area. The upper limit of dollar credits received by Latin America from third areas declined from a possible 780 million dollars in 1948 to perhaps 555 million in 1949 and to an annual rate of 150 million dollars in the first half of 1950.^{2/}

The continued improvement in the balancing of Europe's accounts with Latin America, particularly as it had been developing during the first half of 1950, appears to have been arrested with the outbreak of hostilities in Korea. The apparent upper limit of Latin American dollar credits earned in third areas increased from 75 million dollars during the first six months of 1950 to some 310 million dollars during the last six months of the year. It may be noted that recorded Latin American dollar transactions exclusive of this credit were virtually in balance, and that this credit approximated the accumulation of gold and short-term dollar assets by Latin America during the last half of

^{1/} Although EAP "offshore purchases" in Latin America amounted to 325 million dollars in 1949, the elimination of Latin America's total balance of payments surplus with Europe in that year may have involved offsetting dollar payments by Latin America to Europe.

^{2/} These data are not actual credits received since they consist of a residual item including both credits and debits resulting from third area transactions and "errors and omissions".

1950. Apparently the major cause of the increase in Latin America's surplus position with third areas was increased world demand and sharply rising prices for primary products.

In summary, the major developments in the over-all Latin American dollar balance of payments position during the last half of 1950 appear to be the following: the trade surplus with the United States that had set in during the first half of the year increased, largely as a result of an expansion in the value of exports; the freer dollar position permitted some relaxation of the limits on dollar imports; the deficit on current account with the United States was not reduced in comparison with the first half of the year, largely because of increased servicing of foreign investment; a moderate revival of the depressed rate of long-term capital imports occurred; the net result of all direct transactions with the United States on current and long-term capital account was a small deficit almost exactly equal to that during the first half of the year. Finally, the rate of accumulation of gold and short-term dollar assets increased markedly, apparently as a result of dollar credits earned by Latin America in third areas consequent on the improvement in its terms of trade.

B. Future Prospects

It appears likely that Latin America will be in a position during 1951 to add to its gold and short-term dollar holdings to the extent of some 400 to 900 million dollars, assuming no change in the current level of rearmament activity in the Western world. The increase in gold and dollar holdings that occurred in 1950 amounted to some 330 million dollars, and was effected largely during the last half of the year. With these holdings amounting to some 3.5 billion dollars at the end of 1950, the estimated accretion would involve an increase of some 10 per cent to 20 per cent. This would be considerably less than increases during the Second World War. From the end of 1941 to the end of 1942 Latin America's gold and dollar holdings increased by about one third, and by an average of close to 45 per cent annually to the end of 1944.

The estimated range from 400 to 900 million dollars corresponds to a prospective level of Latin American exports to the United States of 3.5 billion to 4.0 billion dollars. The trade surplus with the United States in 1951, therefore, might range from 500 million to 1.0 billion dollars, assuming a level of Latin American imports from the United States of some 3.0 billion dollars at current prices.

/The estimated trade

The estimated trade surplus with the United States of 500 million to 1 billion dollars will be reduced to a balance on total current account ranging from a deficit of perhaps 250 million dollars to a surplus of the same magnitude. This is based on the assumption that the level of Latin America's net payments to the United States for service of foreign investments and other services will continue at the rate that obtained during the last half of 1950.

Assuming, further, a net Latin American credit of some 370 million dollars on United States long-term capital account, which would be double the amount in 1950,^{1/} the final Latin American surplus on both current and long-term capital transactions with the United States would range from some 120 million to 620 million dollars. Some moderate additions may also be expected from unilateral transfers, which amounted to an average of about 40 million dollars, with little annual variation, between 1948 and 1950.

The apparent increase in dollar earnings by Latin America from transactions with third areas, noted during the second half of 1950, may be expected to continue, although it is difficult on the basis of available data to estimate the level of such credits quantitatively. In any case, it appears likely that there will be some addition from this source to the net dollar credits that Latin America will earn from direct transactions with the United States. In this connection, it may be noted that the European Recovery Programme countries, including the United Kingdom, increased their gold and dollar reserves during 1950 by 2,250 million dollars, or by 28 per cent above the amount of their reserves at the end of 1949, with the increase spread fairly evenly over the year.^{2/} An assumed level of 300 million dollars of dollar credits earned in third areas would probably be somewhat greater than the level reached in 1950, making allowance for the margin of error

^{1/} See Chapter IV for a discussion of the components.

^{2/} The International Movement of Gold and Dollars in 1950, Federal Reserve Bulletin, March 1951, pp. 253-267. Board of Governors of The Federal Reserve System, Washington.

involved in the recorded credits in that year.^{1/} An increase of these proportions appears reasonable on the basis of rising Latin American dollar exports to Europe, assuming there is no commensurate increase over 1950 in the value of European exports to Latin America because of the short-run effect of rearmament on the availability of goods for export.

Thus, the 300 million dollars net that Latin America might earn from transactions with third areas, would contribute heavily to the estimated total increase in dollar holdings, ranging from some 400 million to 900 million dollars. The extent to which the upper limit is approached will depend primarily on Latin America's trade balance with the United States.^{2/}

^{1/} The residual item for such credits plus "errors and omissions" amounted to 332 million dollars in 1950. It is assumed that "errors and omissions" constituted more than 32 million dollars of this total.

^{2/} Because of the strategic role of Latin American exports as a determinant of its final dollar balance of payments position, the relative prospects for individual Republics, necessarily concealed in this aggregate discussion, can be judged from Chapter II on the estimated post-1950 level of exports to the United States.

Table 14. International Transactions of Latin America with the United States 1947-1950, and 1951 Estimate

($\$$ Million: (+) indicates credit to Latin America
(-) indicates debit of Latin America)

	1947	1948	1949	1950	Estimate 1951	June- Dec. 1949	Jan.- June 1950	June- Dec. 1950
<u>MERCHANDISE & SERVICES</u>								
Merch. exports	+2306	+2644	+2503	+3084	+3500 to +4000	+1217	+1352	+1732
Merch. imports	-3859	-3162	-2705	-2716	-3000	-1234	-1235	-1481
Trade Balance	-1553	-518	-202	+368	+500 to +1000	-17	+117	+251
Private Income on Investments (net)	-458	-533	-380	-578		-204	-239	-339
Government Income on Investments (net)	-8	-11	-10	-11		-5	-7	-4
Net Investment Income	-466	-544	-390	-589	-700	-209	-246	-343
Other Services, net	-63	-111	-65	-50	-50	-33	+8	-58
<u>Current Account</u>								
Surplus (+)								
Deficit (-)	-2082	-1173	-657	-271	-250 to +250	-259	-121	-150
<u>UNILATERAL TRANSFERS & LONG-TERM CAPITAL</u>								
Unilateral Trans- fers (net)	+81	+41	+47	+36		+24	+18	+18
Net U.S. long-term capital: pri.	+387	+274	+456	+179		+185	+70	+109
Net U.S. long-term capital: Gov.	+56	+38	+39	+34		+20	+22	+12
Net Latin American long-term cap.	+4	-10	-4	-32		+5	-18	-14
Net long-term capital	+447	+302	+491	+181	+370	+210	+74	+107
<u>Transfers+long- term capital</u>								
surplus (+)								
deficit (-)	+528	+343	+538	+217		+234	+92	+125
Balance on Goods, Services, Transfers + long- term capital	-1554	-830	-119	-54	+120 to +620	-25	-29	-25
<u>U.S. Gold Stock:</u>								
Sales to (+)								
Purchases from (-)	+809	+179	-131	-162		-158	-35	-127
(Net) short-term assets in U.S. increase (-)					-420 to -920			

APPENDIX A

The Supply Situation During World War II

The level and composition of United States exports to Latin America during World War II are discussed briefly below. The experience during World War II is instructive to the extent that the current defence programme will impose somewhat comparable limitations on the supply of goods available for export. However, as noted previously, the defence programme may exert a substantially different impact on United States supply availabilities compared with the effect of mobilization during World War II, mainly in terms of the much sharper initial disruption of supply in the present period and the possibility that supply conditions may ease appreciably, compared with World War II, once adjustments are made to the defence programme.

Early in the war, the United States announced that its policy would be designed to provide Latin American economies with goods on the same basis as the civilian sector of its own economy, after allowing for the needs of its military forces and of its Lend-Lease operations. Furthermore, limited amounts of equipment were made available to Latin America in order to increase the production of minerals and other strategic raw materials. The extent to which the principle of "equality of sacrifice" was applied can be roughly determined by considering the level of exports to Latin America during the War and the level of output for the civilian sector of the United States economy, both in relation to their prewar levels.

The volume of United States exports to all areas during the War reached a peak in 1943 about three times greater than the 1936-38 average, but most of these goods were shipped under the Lend-Lease programme for direct military or related use. Exports to Latin America were also greater than prewar, but only to a relatively limited extent.

/(See Table 15).

(See Table 15). The amount of war equipment sent to Latin America was, of course, negligible compared to virtually all other areas.

The volume of United States exports to Latin America averaged about 13 per cent higher in 1942-1944 than in 1936-1938. The increase during 1942, the first year of direct United States participation in the War, was only 8 per cent compared to 1936-38; but it grew steadily greater in each succeeding year, reaching 11 per cent in 1943, 22 per cent in 1944, and 47 per cent in 1945.^{1/} Thus, United States exports to Latin America during the War averaged slightly more in the aggregate than in the period immediately before the outbreak of hostilities in Europe. The level of these wartime exports, however, was substantially below the level of effective demand for imports in Latin America, considering the severe curtailment of supplies from Europe and monetary expansion in Latin America.

Table 15. United States Exports and Civilian Output During World War II,
by Volume
(1936-38 = 100)

	U.S. Exports		U.S. Output of Civilian
	All Areas <u>a/</u>	Latin American Republics <u>b/</u>	Goods <u>c/</u>
1942	207	108	105
1943	302	111	101
1944	292	122	109
1945	198	147	117

a/ Derived from data on United States export quantity indexes, United States Statistical Abstract, Selected Issues.

b/ Current United States exports values deflated by unit values of total United States exports of finished manufactures.

c/ See Table 17 for supporting data.

1/ In 1941 when Latin America was purchasing heavily in the United States because of its inability to do so in Europe, United States exports to the area were as much as two-thirds greater in volume than prewar. Thus, to some extent, Latin America may have accumulated inventories in 1941 capable of lessening the initial effect of shortages upon entry of the United States into the war.

United States national output in 1942-1944 averaged 69 per cent greater in real terms than in 1936-38, but 38 per cent of the output in the war period was devoted to direct military purposes. (See Table 17). The residual of output, after deducting direct war expenditures, averaged only about 5 per cent greater than prewar. The average increase in exports to Latin America of some 13 per cent, noted above, therefore, compares favourably with the availability of goods and services during the War to the civilian sector of the United States economy.

Although Latin America thus appears to have received goods from the United States during the War on a basis of equality with the civilian sector of the United States economy, the limited availability of such goods relative to Latin America's total effective demand resulted in a general shortage of imported supplies, particularly of goods required for economic development. (See Tables 16 and 18). The principal categories of producers' goods varied considerably in their availabilities. Chemicals and metals and manufactures compared quite favourably with their prewar volumes as well as with the aggregate of exports to Latin America. Machinery and vehicles were in shortest supply. Thus, supplies of raw materials and semi-manufactures for the operation of existing plant facilities in Latin America were in considerably greater supply than equipment for expansion of facilities.

Table 16. United States Exports to Latin America of Selected Groups of Durable Goods During World War II a/ by volume

(1936-38 = 100)

	<u>Metals and Manufactures</u>	<u>Machinery and Vehicles</u>
1942	122	73
1943	115	96
1944	149	84
1945	177	116

a/ See Table 15, footnote b/ for derivation. Twenty Republics only in 1936-38; colonial possessions included in 1942-45.

United States exports of industrial chemicals and chemical specialties actually doubled in volume during the war compared to prewar. (See Table 18). These exports facilitated the operation of manufacturing industries, such as the production of textiles and leather tanning, and aided agricultural production by providing insecticides and related preparations.

/Metals and

Metals and manufactures, consisting largely of iron and steel semi-manufactures and steel mill products, increased by about one-third compared with prewar. There was a more pronounced increase in the semi-manufactures than in the steel mill products, as an effort was made to utilize Latin American rolling mill capacity to the fullest extent in order to lessen dependence upon the United States for finished products. The increase in steel mill products, consisting of goods more immediately usable for construction and expansion of plant, approximated closely the moderate increase in aggregate United States exports to the area. Much of this increase may have been related to projects involving the production or transportation of strategic goods for the war effort.

Exports of machinery and vehicles were about 15 per cent lower in 1942-1944 than in 1936-1938. This reduction reflects the elimination of exports of passenger automobiles and the curtailment of exports of motortrucks and busses, but declines in various machinery categories also contributed to it. The greatest decline, amounting to about 60 per cent, affected agricultural machinery and implements; electrical machinery and apparatus, including household equipment to a considerable extent, declined by some 30 per cent; and the general category of industrial machinery decreased by about 10 per cent. The most important items in this latter category are mining, well and pumping machinery; construction and conveying machinery; metal-working machinery; and textile machinery. Exports of mining, well, and pumping machinery, despite the emphasis on expanded production of minerals in Latin America, declined by about 45 per cent. Construction and conveying machinery decreased by some 10 per cent. Metal-working machinery, however, increased about two and one-half times, reflecting the assistance given to the substantial expansion of the Latin American steel industry during the War. Textile machinery exports also increased to the extent of some 60 per cent.

In general, therefore, exports of United States development goods to Latin America during World War II did not show a uniform decline, and certain categories of equipment actually rose substantially. The greatest decline occurred in agricultural and electrical machinery, thus limiting increases in agricultural production and the expansion of

/certain basic

certain basic facilities. On the other hand, the expansion of some manufacturing industries (mainly metal-working) was apparently made possible by substantially larger imports of equipment from the United States. Exports of consumption goods appear to have been maintained at relatively favourable levels, considering the magnitude of the war effort.

Table 17. United States Gross National Product Available for Civilian Purposes During World War II, Compared to Total Gross National Product 1936-1938
(billions of dollars, 1939 prices)

	1. Total Gross National Product <u>a/</u>	2. Percentage of Output for other than directly military uses <u>b/</u>	3. Amount of Output excluding direct military expenditures
1936	83.9	100	83.9
1937	87.9	100	87.9
1938	84.0	100	84.0
1942	129.7	59	89.5
1943	145.7	59	85.0
1944	156.9	59	92.6
1945	153.4	65	99.7

a/ United States Council of Economic Advisors, Annual Economic Review, January 1951, p. 179.

b/ Derived from data in United States Department of Commerce, Survey of Current Business, July 1950, p. 21. The percentages derived are based on the residual after deduction of government purchases for war.

Table 18. United States Exports of Selected Producers' Goods to 20 Latin American Republics During World War II, Compared to 1936-1938

(millions of dollars at 1936 prices a/)

	1936	1937	1938	1936- 1938 Average	1942	1943	1944	1942- 1944 Average	Percent change 1936-38 to 1942-44	Percent change 1936-38 to 1942-44
Iron and steel semi-manufactures	14.4	25.0	15.5	18.3	24.8	22.8	32.4	26.7	/ 46	/ 77
Steel mill manufactures b/	16.0	28.7	23.4	22.7	19.6	26.3	34.2	26.7	/ 18	/ 51
Electrical machinery and apparatus	27.6	36.2	30.5	31.4	23.2	21.9	21.5	22.2	- 29	- 32
Industrial machinery	40.8	57.3	51.6	49.9	35.3	43.9	53.9	44.4	- 111	/ 8
Agricultural machinery and implements	10.2	19.6	21.3	17.0	4.8	6.7	8.6	6.7	- 61	- 49
Chemical specialties c/	3.7	5.1	4.7	4.5	8.8	9.6	9.5	9.3	/ 107	/ 111
Industrial chemicals	5.2	6.1	6.1	5.8	15.0	12.9	10.6	12.8	/ 121	/ 83

Source: Data supplied to ECLA by Office of International Trade, United States Department of Commerce.

- a/ Current values deflated by unit values of total United States exports of finished manufactures.
- b/ Includes structural shapes and other structural iron and steel; rails and other railway track material; tubular products and fittings; wire and manufactures, including nails, bolts, screws and related items; and railway car wheels and axles.
- c/ Includes insecticides and related preparations; textile and tanning compounds; synthetic gums and resins; polishes; flavouring extracts; and char and carbon.

APPENDIX B

The United States Stockpile Programme

Table 19. Changes in United States Stockpile Objectives and Inventories
(millions of dollars at December 31, 1950 prices)

Date	<u>Total Objectives</u>	<u>Stock on Hand</u>
December 31, 1946	4,785	237
1947	4,785	696
1948	4,950	1,161
1949	5,102	1,977
1950	6,870	2,719

Table 20. United States Stockpile Activities, Average Monthly Obligations and Expenditures by 6 months Periods
(current dollars, millions)

Period	<u>Commitments</u> (Monthly Averages)	<u>Expenditures</u>
1946 July-Dec.	5.8	
1947 Jan.-June	5.3	1.5
July-Dec.	19.5	3.9
1948 Jan.-June	21.1	9.1
July-Dec.	67.0	15.4
1949 Jan.-June	9.0	35.1
July-Dec.	46.5	40.5
1950 Jan.-June	66.9	38.5
July-Dec.	71.7	42.7

/Table 21 :

Table 21. Current List^{a/} of Strategic and Critical Materials for United States Stockpiling

Pursuant to Section 2(a) of Public Law 520, 79th Congress, the following two groups of materials have been determined to be strategic and critical under provisions of the Act.

Materials in Group I will be acquired through purchases and by transfer of Government-owned surpluses:

<u>Material</u>	<u>Some Latin American Suppliers</u>
1. Aluminum	
2. Antimony	Mexico, Bolivia
3. Asbestos, Amosite)	
4. Asbestos, Chrysotile) --	Bolivia
5. Asbestos, Crocidolite)	
6. Bauxite, Metal Grade	
7. Bauxite, Refractory Grade	
8. Beryl	Brazil
9. Bismuth	
10. Bristle, Hog	
11. Cadmium	Mexico
12. Castor Oil	Brazil
13. Celestite	
14. Chromite, Chemical Grade)	
15. Chromite, Metallurgical Grade) --	Cuba
16. Chromite, Refractory Grade)	
17. Cobalt	
18. Coconut Oil	
19. Columbite	Brazil
20. Copper	Chile, Mexico, Peru
21. Cordage Fibers, Manila)	
22. Cordage Fibers, Sisal) --	Central America, Mexico, Haiti
23. Corundum	
24. Cotton, Extra Long Staple	Peru, Paraguay
25. Diamonds, Industrial	
26. Feathers and Down, Waterfowl	
27. Fluorspar, Acid Grade)	
28. Fluorspar, Metallurgical Grade) --	Mexico
29. Guayule Seeds and Seedlings	
30. Graphite, Amorphous Lump)	
31. Graphite, Crucible Grade)	Mexico
32. Graphite, Lubricant and Packing Grade)	
33. Hyoscine	
34. Jewel Bearings, Instrument Jewels, except Vee Jewels	
35. Jewel Bearings, Sapphire and Ruby Vee Jewels	

a/ Including additions to and subtractions from the original list; and transfers between groups up to January 23, 1951.

Table 21. (Continuation)

<u>Material</u>	<u>Some Latin American Suppliers</u>
36. Jewel Bearings, Watch and Time-Keeping Device Jewels	
37. Kyanite	
38. Lead	Mexico, Peru
39. Magnesium	
40. Manganese Ore, Battery Grade) Brazil, Cuba, Mexico
41. Manganese Ore, Chemical Grade	
42. Manganese Ore, Metallurgical Grade)	
43. Mercury	Mexico
44. Mica, Muscovite Block) Brazil
45. Mica Muscovite Film	
46. Mica, Muscovite Splittings	
47. Mica, Phlogopite Splittings) Chile
48. Molybdenum	
49. Nickel	Cuba
50. Opium	
51. Palm Oil	
52. Platinum Group Metals, Iridium) Colombia
53. Platinum Group Metals, Platinum)	
54. Pyrethrum	
55. Quartz Crystals	Brazil
56. Quebracho	Argentina, Paraguay
57. Quinidine	
58. Quinine	
59. Rare Earths	
60. Rubber, Crude Natural	Brazil
61. Sapphire and Ruby	
62. Shellac	
63. Silk, Waste and Bolls	Mexico
64. Sperm Oil	
65. Talc, Steatite, Block	
66. Tantalite	Brazil
67. Tin	Bolivia
68. Tungsten	Bolivia, Brazil
69. Vanadium	Peru
70. Wool	Argentina, Uruguay, Peru
71. Zinc	Mexico, Peru

Materials in Group II will be acquired through transfer of Government-owned surpluses:

Agar	Pepper
Bauxite, Abrasive Grade	Platinum Group Metals, Cesium
Cryolite, Natural	Platinum Group Metals, Palladium
Diamond Dies	Platinum Group Metals, Rhodium
Emetine	Rutile Group Metals, Ruthenium
Graphite, Crystalline Fines	Selenium
Iodine	Talc, Steatite, Ground
Mica, Muscovite Block, Stained and Lower	Zirconium Ores, Baddeleyite
Mica, Phlogopite Block	Zirconium Ores, Zircon
Optical Glass	

