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ECONOMIC COMMISSION FOR LATIN AMERICA

PROSPECTS FOR TRADE EXPANSION

1. Introduction.

Although this report recapitulates certain data and concepts contained in the Economic Survey, it was felt that this was necessary in order to define the problem more sharply and to aid the Commission in its consideration of steps that might be taken to expand trade. The first section presents a brief description of the present situation; this is followed by an analysis of future trade possibilities with Europe, with North America, and within the region; lastly, there is a discussion of the problem of trade and payment mechanisms.

The Commission may wish to set up a permanent Committee on Trade to explore the possibilities of trade expansion. There would seem to be three areas of work for such a committee:

a) It could make studies, in collaboration with the governments, of the export potentialities and of probable import requirements of the Latin American countries during the next few years. The problem of estimating with any degree of accuracy the import requirements presents many difficulties and hazards, but a detailed analysis of current trends plus the needs for specific development projects now under way or planned for the near future would be useful in any effort to expand trade.

b) By coordinating its efforts with other organs of the United Nations, including the Committee on the Development of Trade

/of the Economic

of the Economic Commission for Europe, the committee may be able to lay the groundwork for trade negotiations between Europe and the Latin American countries. Major adjustments will probably have to be made in the trade relations between the two continents; it is highly improbable that the Latin American countries acting independently will be able to achieve a level of trade commensurate with their export potentialities to Europe.

c) The opportunities for increasing and stabilizing trade within the Western Hemisphere might also be explored by the committee. With respect to intra-Latin American trade, a detailed study of the factors affecting trade, including restrictive measures now in force and methods of settling balances, could be helpful in suggesting measures to liberalize trade.

2. The Present Situation.

Stated in its simplest terms the dislocations of world trade arising out of the war present Latin America with two fundamental problems. One is how to restore its traditional trade patterns with Europe and make itself less dependent upon dollar resources; the other is concerned with the effect of trade maladjustments on the internal economics of the region and how trade may be expanded to serve the needs of industrial 1/ and agricultural development. Despite the favourable trade conditions, in terms of prices and volume (with certain notable exceptions), which have existed for the past three years, Latin America cannot look forward with any assurance to stability in its external

1/ The term "industry" or "industrial development" is used in this paper to include transport and communications, power, mining and construction, as well as manufacturing.

/trade.

trade. This gives rise to fundamental questions regarding Latin America's future trade. Will Europe earn sufficient dollars to pay for Latin American export surpluses when the European recovery programme is terminated and, if not, will Latin America be able to balance her trade with the United States as well as vis-a-vis Europe? Will prices of foodstuffs and raw materials fall in relation to prices of manufactured products in the years immediately ahead? Will Latin America be able to expand production and exports in order to support its growing population and industrial development programmes? Lastly, what effect will these development projects in relation to trade have upon utilization of resources and manpower, upon tariffs and trade agreements, exchange controls and currency devaluation?

Before the war approximately 50 per cent of Latin America's trade was with Europe and a little less than 50 per cent with the Western Hemisphere. Exports to Europe averaged from 50 per cent to 55 per cent of Latin America's total exports; imports from Europe were from 45 per cent to 50 per cent of the total. The Argentine, whose exports made up roughly 30 per cent of the total for Latin America, delivered about 75 per cent of its exports to Europe; Bolivia was even more dependent upon European trade, with 90 per cent of her exports going to that area; Uruguay and Chile sent 60 per cent; Brazil and Peru over 50 per cent. The imports of these countries from Europe were more or less proportionate to their exports. Latin America's exports to the United States during the prewar years constituted from 25 per cent to 30 per cent of its total exports, while about one-third of its total imports derived from the United States. The trade of Cuba, Dominican Republic, Mexico and Central America was predominantly with the United States.

In 1947 Latin America received over 60 per cent of its imports from the United States and less than 20 per cent from Europe. On the other hand, 40 per cent of its exports went to Europe and another 40 per cent to the United States, the balance being taken care of largely by intra-Latin American trade. Although the situation varies greatly from country to country as shown in Chapter VII of the Economic Survey, the volume of exports for the region was approximately 15 per cent higher than in 1937 — the increased volume went entirely to the United States, exports to Europe being of about the same volume as or perhaps lower than before the war.

Latin America's net deficit with the United States in 1947 was 1,900 million U.S. dollars (including shipping, interest, dividends, etc.), while its net surplus with Europe was close to 1,300 million U.S. dollars. The magnitude of the problem may be seen more clearly when it is realized that Europe had a trade deficit of 5,400 million U.S. dollars with the United States in 1947. Europe financed its deficit with Latin America by dollar loans and aid from the United States, credits and loans from Latin America, and disinvestments. Latin America, in turn, met its deficit with the United States largely through reduced gold and dollar reserves, dollars earned from Europe through conversion of sterling and other currencies, and loans and investments: gold and dollar reserves were reduced by almost 900 million U.S. dollars; investments, long-term loans, transfers, etc., accounted for 450 million dollars, earnings from Europe and the rest of the world for another 600 million U.S. dollars; and the balance was covered by short-term commercial loans and bank credits. 1/ It was quite clear that neither Europe nor

1/ See Chapter VIII, Preliminary Draft of Economic Survey of Latin America, Economic Commission for Latin America.

/Latin

Latin America could continue to meet such large deficits with the United States out of reserves and loans.

The situation in 1947 was explained in part by the fact that deliveries against orders placed immediately after the war, based upon accumulated demand, arrived in unprecedented volume. Nevertheless, the weakness of Latin America's trade position, as well as Europe's, was clearly exposed and led to further measures such as import quotas, multiple exchange rates, and currency devaluation in order to deal with the balance of payments problem. A number of countries did not feel the full impact of the dollar shortage until 1948. Latin American imports from the United States were reduced in 1948 by 20 per cent (800 million U.S. dollars), while exports increased by as much as 10 per cent. Latin America's deficit for 1948 would be somewhere in the magnitude of 1,000 - 1,200 million U.S. dollars. Decreased imports from the United States in 1948 were offset in part by imports from Europe which increased from 1,100 million to over 1,500 million U.S. dollars. Exports to Europe increased from 2,600 million dollars to 3,000 million of which 2,700 million dollars worth went to the OEEC 1/ countries. Thus Latin America had a surplus from trade with Europe of some 1,500 million dollars. The surplus was paid for largely by dollars, disinvestments, loans and short-term credits. Despite its large balance with Europe, Latin America was again forced, in 1948, to liquidate her deficit with the United States largely through reduction in dollar and gold holdings, and by investments and long-term loans from the United States. Short-term commercial loans and non-payment for goods received also played an important role in

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1/ Organization of European Economic Cooperation.

/holding imports

holding imports from the United States at a relatively high level in 1948, which are estimated to be about twice as much in volume as in 1937.

Exports to the United States may increase by another 10 per cent in 1949 up to a total of 2,600 million dollars — the increase would be principally in petroleum, wool, coffee, cacao, hides and skins, and in minerals (copper, tin, zinc, lead, chromite, manganese) being stockpiled by the United States. Thus by a further cut of 10 per cent in imports from the United States the gap in dollar payments might be closed provided net dollar earnings from Europe and the rest of the world can be maintained at 400 - 500 million dollars and dollar investments in Latin America continue at the current rate. This assumes that there will be no change in the price relationship between exports and imports and that the present level of business activity in the United States is maintained — an assumption which is already being put to the test by a downward adjustment of prices. Any further decline may adversely affect the terms of trade for the Latin American countries since judging from past experience prices of foodstuffs and raw materials may be expected to drop proportionately more than those of manufactured goods.

Due to the lack of data, it is not possible to estimate the effect of a further decrease of imports on development programmes in Latin America. The following table gives some indication of the proportionate amounts of equipment and machinery, semi-manufactured products and raw materials imported in 1937 and 1947 by selected countries.

/Table 1

Table 1

Imports of Capital and Consumer Goods in Four Latin American Countries Before and After the War

As percentage of the total value of imports

Countries	Machinery and equipment		Raw and semi-processed commodities		Other consumer goods	
	1937/39	1947	1937/39	1947	1937/39	1947
Argentine	13.0 1/	30.9 1/	37.0	35.0	50.0	34.1
Brazil	33.2	31.5	23.0	17.9	43.8	50.5
Chile	19.8	24.7	34.8	37.6	45.4	37.7
Mexico	34.0	25.7 2/	31.3 3/	36.8 2/	34.7	37.5 2/

Source: Official publications. The classification methods are not strictly comparable. Data on the Argentine, 1947 were calculated on the basis of 1946.

1/ Includes passenger automobiles.
2/ 1946.
3/ Includes fuels and lubricants.

Accumulated demand has perhaps been an important factor in the increased volume of imports of these classes of supplies, but the analysis presented in the Economic Survey gives us reason to believe that the yearly import requirements for maintenance of productive capacity and for needed expansion might well be at a level comparable to that for 1947. The decrease in 1948 was accounted for, to a considerable extent, by the sharp decline in the Argentine imports during the latter part of the year. It may be assumed that the Argentine will resume a high level of imports by 1950.

Without prejudging the methods or the most economical rate of industrial development, we inevitably come to the conclusion that a considerable number of the Latin American countries have reached a stage of development where they will require more imports from year to year if they are to support

/their growing

their growing population and carry forward the expansion of industry and agriculture that is now under way. It is not merely a question of holding the ground they have gained during the past fifteen years, since even a comparatively small decrease in meeting essential requirements of a dynamic development might undo something of what has already been accomplished. The volume of industrial production has increased since prewar by one-third to one-half, agricultural production by about one-fifth, and minerals by roughly one-third (including petroleum, the production of which has almost doubled). This increase is needed for the larger population (22 per cent in 1947 over 1937) and for satisfying demand previously taken care of by imports. It is often thought that domestic manufacture of consumer goods in a given amount per capita should enable a proportionate decrease in imports, and consequently exports. The history of industrial development points to a contrary conclusion. As the tempo of economic activity is stepped up the standard of living and demands also go up with the result that both exports and imports are increased. Canada over the years increased food and raw material production and exports as she became industrialized. This was made possible by the mechanization of her agriculture which released manpower for industry. It is notable that even with the phomenal expansion of industry which took place during the war, Canada was able to expand agricultural and raw material production. The same story can be told for Australia, New Zealand, and the Western European countries, which were largely agricultural economies at the turn of the century. And the same must also be true for the Latin American countries which are making an effort to diversify their economies and raise the standard of living of their people.

/The situation

The situation may be summed up as follows: industrial development, greatly stimulated during and after the war, intensified demand for capital goods, which in addition to the accumulated demand for consumer goods resulted in imports that out-ran the capacity to pay for them. 1/

The inability to pay for imports was due in part to the failure of exports to expand as rapidly as imports and in part to the inability of the European countries to cover their total deficit with convertible currency, which forced them to pay a considerable portion of their deficits in 1947 and 1948 by disinvestments and loans from certain Latin American countries (principally Brazil and the Argentine).

Latin America met its deficit by dollars earned from export surpluses to Europe and the rest of the world, dollar investments and long-term loans, transfers, short-term commercial credits and non-payment for goods received. The exceptionally large imports of capital goods and the inability to liquidate the deficits from current assets (including investments and long-term loans) put a heavy strain on monetary systems which probably gave further impetus to inflationary pressures. A number of countries dealt with the problem by attempting to adjust the level of imports to that of exports through exchange controls, quotas, and currency devaluation.

It is obvious that the present situation cannot continue. The Western European countries have shown a strong disinclination to pay out dollars to Latin America, and have indicated their intention to balance their trade by more than doubling their exports to Latin America while increasing imports by only 20 per cent. 2/

1/ Inflation probably aggravated the discrepancy between imports and exports.
2/ OEEC Interim Report, Vol. I, December 30, 1948.

/The propensity

The propensity of United States to export more than it imports will probably continue; Latin America may therefore be faced with the problem of adjusting its imports to fit the pattern which Western Europe hopes to establish.

3. Future Trade with Europe.

The prime objective of the Marshall Plan is to restore the productive capacity of Western Europe to a point well above its prewar level. In order to do this and, even more important, to achieve stability of production, Western Europe must find export markets for the goods thus made available — particularly in the Western Hemisphere. The OEEC countries 1/ estimate that exports to all other countries will have to be at least one and a half times the prewar level and twice as much as in 1947 to pay for necessary imports and compensate for loss of invisible receipts. Industrial production of the OEEC countries, including Western Germany, had increased almost 75 per cent from the end of 1945 to December 1948, at which time it was slightly above that of 1938. 2/ The national plans taken together called for a further increase of 25 per cent in industrial output during the next four years. The OEEC Interim Report is somewhat skeptical that the production goals can be achieved.

Total exports to countries outside the OEEC countries are expected to increase by over 5,000 million U.S. dollars from 1947 to 1952-53, provided of course that programmed production is forthcoming. According to the OEEC Report, exports to South America would rise from 750 million U.S. dollars in 1947 to 2,000 million U.S. dollars in 1952-53. The OEEC Report does not give separate estimates for Mexico, Central America, and the

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1/ OEEC Interim Report, Vol. I, December 30, 1948.
2/ ECA Report, February 29, 1949; page 5.

Caribbean countries, but instead includes these with those for North America. The exports to these countries will probably not exceed 200 million U.S. dollars. Table 2 shows the categories and quantities of goods which the OEEC countries expect to export to South America in 1952-53. These figures may be slightly inflated since it is known that total anticipated exports, which are built up from the individual OEEC country estimates, contain inconsistencies and overlapping. That is, two or more countries hope to capture a larger share of a particular market than would be possible for all taken together.

The OEEC believes that the export goals of the OEEC countries are probably over-optimistic. Nevertheless, it is estimated that exports to South America during the last half of 1948 were running at an annual rate of 1,200 million U.S. dollars per year, which was about 20 per cent over the programme. If the European countries can maintain the present rate of increase for production there is no reason to doubt that sufficient supplies will be available to reach the goal set for 1952-53.

Another important factor to be considered would be the ability of the importing countries to absorb European exports. Textile materials and products, for example, constitute 12.5 per cent of the total to be exported to Latin America in 1952-53. Whether there will be a market for as much as 250 million U.S. dollars worth of textiles and clothing is highly questionable. Textile manufacturing has almost doubled since 1937, 1/ and it is quite certain that expansion of textile manufacturing facilities will continue at a rapid pace.

1/ Cotton consumption in 1946-47 was 85 per cent higher than the 1934-38 average. See World Fibre Survey, Food and Agriculture Organization, August 1947, page 74.

/Europe

Europe has been, to a large extent, out of the Latin American market during the past ten years; many of the products formerly supplied by her are now manufactured locally, especially light consumer goods. There is a considerable range of producers' goods which will be manufactured in increasing quantities in the Argentine, Brazil, Chile, and Mexico, and perhaps Colombia. Among others, these include: farm implements, industrial chemicals (caustic soda, sulphuric acid, alcohol, benzol, tar, and tar derivatives), steel products (sheet, bars, plates, tubes, pipes, rods, wire, cables, tin plate, castings, etc.); paper and rayon pulp, newsprint, tires, etc.

In addition, Great Britain, France, Belgium, Germany, Italy and the Netherlands have lost an appreciable part of their prewar market to the United States, which it may be most difficult to regain quickly because of business ties which have grown up between exporters and importers. In this class are such supplies as structural steel, transport equipment, heavy industrial chemicals, wood pulp and paper, dye-stuffs, pharmaceuticals, electrical power equipment, harbour installations, and motors of all kinds. On the other hand, a large new market is being created by development projects which are under way or planned. Projects of this type will necessitate imports of electric plant equipment, oil drilling and refining equipment, machinery and equipment for coal mining, chemical factories, irrigation, general construction (including land clearing), transportation, etc. Plans for more complete mechanization of agriculture are being seriously considered in many of the Latin American countries and if successfully carried out, would open up opportunities for suppliers of all types of farm machinery and equipment, as well as for fisheries, storage and terminal facilities, etc. Europe's ability to recapture and

/expand

expand these markets will depend on whether she can compete with North American suppliers. It must be remembered that something more than price and quality are involved. European manufacturers will have to adapt their production to meet Latin American needs and specifications; they will have to be prepared to send technicians to assist in planning and installing their equipment and in certain instances to supervise and train operators during the initial stages of production; lastly, ways must be found of financing procurement of capital goods. Latin American countries hope to attract investments and to secure long-term loans at a higher rate than heretofore. Insofar as these are private dollar investments, the equipment and materials will no doubt be purchased from the United States and, to a limited degree, from Canada. Dollar loans, particularly those from the International Bank for Reconstruction and Development, might be used for procurement from Europe provided competitive conditions are favourable.

That this factor has been taken into consideration may be seen from the following quotations from the OEEC Interim Report:

> "The power of Western Europe to increase exports to South America will therefore depend largely on its ability to compete with the United States. To achieve the planned exports of 2 billion dollars in 1952-53 would mean an increase of over 1 billion dollars above the present level. Assuming some fall in the total South American market and some recovery in imports from Japan, Eastern Germany, and other countries, this would mean a reduction of at least one half in the United States market in South America in 1947. In view of the commercial ties that have developed between North and South America, and of the United States' ability to grant generous credits, this seems improbable. South American imports from the United States have, however, fallen off considerably in the first half of 1948, largely as a result of dollar shortage. This may give increased opportunities to Western European exporters."

A detailed analysis should be made country by country to determine precisely the machinery and equipment and durable consumer goods required by Latin America year by year, and the

/capacity

capacity of the European suppliers to satisfy these demands (including technical know-how) under suitable financial and trade arrangements. This may entail more time than the short period remaining before the European Recovery Programme ends, but it will be to the interests of both Latin America and Europe to initiate such studies as soon as possible.

Assuming that Latin America's import level from Western Europe more than doubles, i.e. roughly from 1,000 million U.S. dollars to 2,200-2,500 million U.S. dollars (of which South America's share would be 2,000 million dollars or over) during the next four years, what are the prospects of increased exports to Europe — especially of certain foodstuffs and raw materials which are now derived from the United States? The general categories and amounts of imports programmed by the OEEC countries at the end of the European Recovery Programme are shown in the following table taken from the Interim Report:

Table 3

Imports from the Outside World by the O.E.E.C. Countries in the Programmes for 1952-53

(Excluding imports by the Dependent Overseas Territories)

(Billion dollars - 1948-49 prices)

Food and Feeding stuffs	4.9
Timber	0.8
Solid Fuel	0.3
Petroleum	0.9
Textiles (mainly raw materials)	2.8
Fertilizers	0.1
Copper	0.2
Other ores and metals	0.7
Other raw materials	1.3
Equipment	0.5
Other manufactures	0.3
Total	12.8

Although the total is only slightly higher than in 1947 and 1948, there would be a very marked shift in sources of supplies

/away from

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Table 2

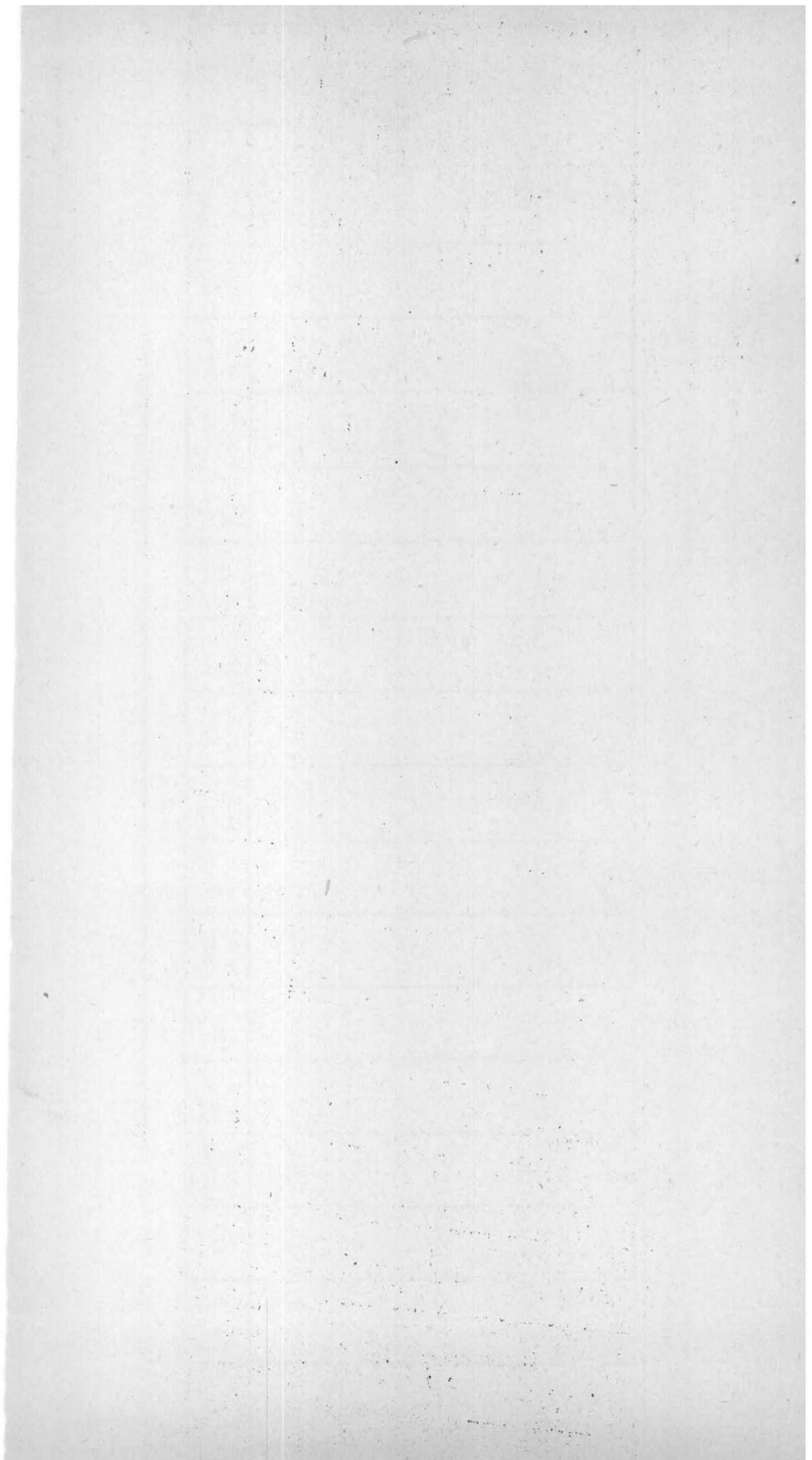
1952-53 Exports and Re-exports to South America from OEEC Countries (FOB)

(Million Dollars)

	Austria	Benelux	Denmark	France	Greece	Iceland	Ireland	Italy	Norway	Portugal	Sweden	Turkey	French Zone	Bizone	U. K.	Total
I. Agricultural products		20.1	17.6	10.0	2.8			12.0	7.2	8.5	0.3	1.5	0.6	0.6	12.0	93.0
II. Mineral solid fuels		2.8													3.7	39.8
III. Oil and petroleum products								5.0						2.4	- b/	7.4
IV. Ores and metals	6.8	54.8		40.0				3.0	1.2		25.1			8.6	77.0	216.5
V. Machinery	5.6	59.0	10.0	60.0				85.0	0.2		44.7		2.5	180.1	210.0	657.1
VI. Textile materials and products (including clothing)	4.5	31.4		30.0			1.0	57.0		1.4	1.3		1.3	9.7	113.0	250.6
VII. Other goods	15.7	98.8	5.0	50.0		0.6		78.6	15.2	9.0	23.6		63.7a/ 19.0	143.7	181.0 5.0c/	63.7a/ 640.2 5.0c/
Total	32.6	266.9	32.6	190.0	2.8	0.6	1.0	240.6	23.8	18.9	158.7	1.5	23.4	347.9	635.0	1,976.3

Source.- Economic Commission for Europe.

a/ Refers to Sweden's "Products of forest industry".
b/ U.K. exports of oil and petroleum products included in "invisible items" in balance of payments.
c/ This figure represents U.K. re-exports, which are given separately.



away from the dollar area. South America's share will rise 22 per cent, from 1,700 million U.S. dollars to 2,100 million U.S. dollars. These estimates do not include oil imports from Venezuela, processed in Aruba — these are shown as imports from the Netherlands Overseas Territories. Imports from Cuba and Central America (as well as Mexico, Dominican Republic and Haiti) are not shown, but will probably be reduced as part of the effort to shift from dollar area sources.

Table 4 gives contemplated imports from South America by commodity breakdown and by importing countries. It is impossible to know whether there will be any substantial changes other than the increases in bread grains and fibres since the United Kingdom's share, which is over 25 per cent, is not distributed by commodity groups. 1/ However, it may be assumed that the United Kingdom plans to import a considerable portion of her requirements of meat and dairy products and fats and oils from the Argentine and Uruguay, provided an agreement on prices can be reached. It should be noted that the United Kingdom programme of imports (592 million U.S. dollars) is slightly less than her imports from South America in 1948.

Additional markets for cotton, wool, meat, fats and oils are likely to be available if the producing countries can increase their production for export. The OEEC is, in fact, pessimistic about the ability of the non-participating sterling area to meet their "quotas". It expresses the opinion that "supplies of wool from the sterling area may fall short of the programme figures by more than 300 million U.S. dollars, supplies of non-ferrous

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1/ The data on the United Kingdom import programme are detailed by commodity groups for the Western Hemisphere.

/ores

ores and metals by perhaps 100 million U.S. dollars, and supplies of raw cotton by 50 million U.S. dollars."

The OEEC countries have programmed 760 million U.S. dollars of bread grain imports from the United States for the period July 1948 to June 1949. The planned imports of 173 million dollars from Latin America in 1952-53 represents a shift from the United States of 115 million dollars for the countries other than the United Kingdom. They expect to shift an additional 350 million dollars of bread grains to Eastern Europe, a source which is much in doubt. The Interim Report points out that "the shortfall of Eastern European grain supplies below the 1952-53 programmes might reach 350 million dollars, all of which could be replaced only from North America; the programmes from other sources already exhaust likely availabilities". 1/ The Argentine already has large reserves of grain and could probably step up her production if a long-term agreement could be concluded on prices. However, there is very little hope that the dollar shortage for Western Europe will be ended by 1952, and therefore its ability to import even the amounts programmed for 1952-53 will be roughly equal to their capacity to export and South America's willingness to absorb a like amount of their products.

Reference was made above to the need for analyzing Latin America's import requirements. Although the problem of determining

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1/ The pessimism of the OEEC is not shared in other quarters. At the recent meeting of International Wheat Conference, the U.S.S.R. indicated that she was prepared to export 100 million bushels of wheat; the U.N. Economic Commission for Europe estimates that it is probable that Eastern Europe may be able to supply coarse grains to meet import requirements programmed by the OEEC countries to come from Eastern Europe.

/Europe's import

TABLE [illegible]

Imports of OEEC Countries from South America by Commodities (a).

Millions of US dollars at 1948 prices F. O. B.

	1952 - 1953														Imports 1948–49
	Austria	Benelux	Denmark	France	Greece	Ireland	[illegible]	Norway	Portugal	Sweden	Turkey	French Zone	Bizone	Total	Total
1. Bread grains	—	50.5	—	—	—	4.9	49.4	5.0	—	—	—	—	63.3	173.1	58
2. Coarse grains	—	89.4	15.0	—	—	28.6	14.9	5.1	—	2.8	—	—	54.5	210.3	271
3. Fats and oils (incl. butter)	—	12.5	5.0	10.0	0.2	2.5	44.0	4.5	—	22.8	0.1	—	20.8	122.4	253
4. Meat and dairy products (excl. butter)	9.0	4.0	—	—	3.3	—	18.9	1.5	—	3.9	—	—	15.0	55.6	170
5. Tobacco (unmanufactured)	0.1	4.0	2.0	—	—	—	—	—	0.1	0.5	—	1.6	10.3	18.6	20
6. All other products for human and animal consumption	7.5	78.0	22.2	20.0	7.4	5.5	29.1	16.4	—	50.5	6.0	1.68	17.1	261.4	514
7. Crude oil	—	—	—	—	—	—	—	—	9.4	12.5	—	—	—	21.9	14
8. Petroleum products	—	—	—	—	—	—	—	—	—	6.0	—	—	—	6.0	6
9. Steelmaking materials	0.5	1.0	—	—	—	0.1	—	—	—	—	—	—	2.7	4.3	4
10. Copper rolled	1.0	—	—	30.0	—	—	21.4	—	—	8.0	—	2.2	9.6	72.2	66
11. Other ores & non-ferrous metals	—	15.0	—	5.0	—	—	—	2.4	0.5	3.0	—	1.6	5.4	32.9	89
12. All other machinery and equipment	—	—	0.5	—	—	—	—	—	—	—	—	—	—	0.5	—
13. Raw cotton	1.5	29.4	2.8	20.0	0.8	0.4	56.6	3.2	2.1	10.5	—	5.3	35.0	167.6	158
14. Raw wool	5.0	20.4	—	20.0	1.0	—	50.4	—	—	10.2	—	1.6	8.0	116.6	77
15. Other textile raw materials & manufactured products	—	2.5	—	4.0	—	—	0.7	1.0	—	0.7	—	—	5.0	13.9	35
16. Timber	.005	4.0	0.6	1.0	—	0.3	0.3	—	1.0	0.1	—	—	8.0	15.4	11
17. Fertilisers	—	2.1	2.5	10.0	—	0.4	5.0	—	0.8	1.4	—	—	—	22.2	22
18. All other items	5.5	25.2	2.0	45.0	2.1	3.0	35.3	4.3	1.6	25.0	0.1	10.1	69.8	229.0	222
Totals :	30.15	338.0	52.6	165.0	14.8	45.7	326.0	43.4	15.5	157.9	6.2	24.08	324.5	1543.9	
													+ U. K.	592.0 (b)	
														2135.9	1992

Source.—Furnished by the Economic Commission for Europe based on data secured from the OEEC.
(a) Excludes petroleum from Venezuela, processed at Aruba.
(b) United Kingdom does not give a commodity breakdown for South American imports.

Europe's import requirements, which could be supplied by Latin America, is not so pressing in view of studies already made by the OEEC countries, it is nevertheless important to know with greater exactitude the commodities and quantities involved and the possibilities of financing them. The Latin American countries must be in a position to plan and coordinate their own production programmes. They have a particular interest in stabilizing their trade relations at a high level. There is another factor that bears upon the problem -- Latin America's capacity to produce foodstuffs and raw materials for export. Their own populations are growing rapidly and their standard of living slowly rising, which means of course more foodstuffs and raw materials for domestic consumption. Production potentialities are limited by lack of mechanization, power, transport facilities, and manpower. Assuming continued full employment, any appreciative increase in manpower utilization for export production might put a brake on industrial development, which would probably be considered undesirable by the governments concerned. As pointed out earlier, increased production of foodstuffs and raw materials should go hand in hand with industrialization due to mechanization of agriculture and the use of modern techniques, but the rate of development is still comparatively low and may not allow for any substantial increase in exports in so short a period.

4. Future Trade with United States.

One of the most significant changes in the trade of the United States has been the proportionately larger share of both its imports and exports with Latin America. In 1937, 22 per cent of the total imports of the United States came from Latin America; in 1948 Latin America's share had risen to 33 per cent. 20 per cent of United States exports went to Latin America in 1937;

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25 per cent in 1948. Exports to the United States increased from 575 million dollars to 2,400 million dollars. 1/

The prospects for further increases are perhaps limited to coffee, cacao, metals (copper, tin, lead, zinc, manganese, chromite, iron ore), wool, hides, henequen and bananas. The United States imported 1,258,000 metric tons of coffee in 1948 as against 1,133,000 metric tons in 1947. The value for 1948 imports was 698 million dollars in comparison to 601 million dollars for 1947. 1/ Consumption of coffee in the United States may increase proportionately for 1949 and 1950 to satisfy the demand of the larger population and the higher living standard of the lower income groups. Sugar consumption may also be expected to increase during the next few years, but the market for Latin American sugar will probably be restricted by the capacity of the Philippines, Hawaii, and Puerto Rico to fill their quotas. Cane sugar imports into the United States decreased from 3,778,000 metric tons in 1947 to 2,901,000 metric tons in 1948. The corresponding value figures were 410 million dollars and 313 million dollars. 1/ Domestic supplies of wool and hides are not increasing as rapidly as demand, which should provide a bigger market for Latin American suppliers. The United States stock piling programme for strategic metals is scheduled to continue until 1953; however, increased exports from Latin America may be limited by productive capacity. Iron ore may also be imported in substantially greater quantities. The United States has almost doubled its imports of petroleum, from 250 million dollars worth in 1947 to 418 million dollars in 1948. The possibilities of additional quantities in 1949 and later years will be governed by the productive capacity of United

1/ Foreign Commerce Weekly, U.S. Department of Commerce. Vol. XXXIV, No. 10, March 7, 1949.

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States suppliers, who are investing large amounts of capital in plant expansion. Taking into consideration all these factors, there is a strong possibility that exports to the United States will rise to an amount from 2,700 million dollars to 3,000 million dollars by 1950 or 1951. This, of course, assumes stable prices and economic conditions in the United States.

In the previous section it was assumed that there would have to be a marked shift of imports from the United States to Europe. This could result in a levelling off of imports from the United States at about 2,500 million dollars, or roughly 35 per cent below 1947 and 20 per cent below 1948. There will almost certainly be resistance to such a tendency, which is evidenced by efforts to secure dollar loans and to attract private investments by various plans now being put forth to finance imports for development projects.

Prospects for industrial development are conditioned by a number of factors such as cost of production, technological knowledge and experience, adequacy of markets, financial resources, availability of raw materials and manpower, which are analyzed in some detail in the Economic Survey. Special attention should be called to the section on "Financing" of Chapter I, which discusses the limitations and difficulties of financing expansion of manufacturing from local as well as foreign sources. Nevertheless, several proposals have been made to create more favourable conditions and to strengthen the mechanism for private investment. The idea of an Inter-American Bank has been revived and may have considerable support in some parts of Latin America. Another suggestion has recently been advanced to establish a "corporation" which would guarantee the withdrawal of profits in dollars if so desired by foreign investors in specified newly

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established industries. Still another plan proposes to go even further in guaranteeing protection of United States investments abroad. In 1944, the Permanent Council of the American Association of Commerce and Production recommended the adoption by governments of a code for the protection and regulation of foreign investments. Several governments have taken measures, in recent years, to encourage foreign investments by relaxing restrictive and discriminatory laws which tend to keep out foreign capital. Although these proposals represent hopes rather than any concrete endeavour, they do illustrate the concern and efforts of government officials and private interests to stimulate development in the so-called under-developed countries. 1/

There is, however, a large field to which private capital is not likely to be attracted, either because the prospect of profit is limited or the projects are of such a magnitude that private financing is not feasible. Improvement and expansion of transport facilities, communications, power plants and transmission lines, irrigation, soil conservation, public construction (including hospitals, low-cost housing, etc.), marketing and storage facilities, are indispensable pre-requisites to agricultural and industrial development. Projects of this kind must generally be financed by governments. They call for large capital outlays in the form of imported machinery, equipment, and materials which can be financed only to a very limited degree by the foreign exchange resources of governments. Any real assistance in this direction will have to come from government loans and

1/ See speeches delivered by U.S. businessmen at a meeting of the Inter-American Council of Commerce and Production held at Chicago, September 1948. Also recent statements made at meetings of U.S. National Association of Foreign Commerce and the International Chamber of Commerce, and various statements made by North American industrialists as reported in the press.

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international agencies. The two principal sources of funds have been the United States Export-Import Bank and the International Bank for Reconstruction and Development. No doubt Latin America will continue to get loans from these sources for specific projects, but whether they will be adequate to promote general development plans of the kind indicated above is highly questionable.

In any event, the prospects for imports from the United States at the 1948 level or higher will be governed largely by the rate of dollar loans and investments, which in turn will be determined to a considerable extent by international planning and cooperation.

5. Future Trade within the Region.

The war brought about a marked development in the trade of Latin American countries with each other (see Chapter VII of the Economic Survey). However, intra-regional trade suffers from restrictive policies which are designed to achieve the highest possible degree of economic self-sufficiency. The drive for autarchy reflects the intensification of nationalism and the psychology of fear that was deeply rooted in the great depression of the thirties. Reduced demand depressed basic commodity prices to a level which caused wide-spread unemployment and bankruptcy; this, in turn, stopped the flow of credit and investment capital, and reduced essential imports to a minimum. The fear of again being almost completely cut-off economically from the outside world has no doubt strongly influenced many of the Latin American countries toward policies which foster economic nationalism. The war gave an added impulse to this tendency insofar as it became necessary to encourage the local

/manufacture

manufacture of goods not available from the normal suppliers. These supply difficulties together with higher prices encouraged both national and foreign investors to start new industries, without taking into consideration local efficiency and comparative costs. In general, they have been able to continue successful operations only because of high tariffs; not only does this increase prices for the consumer but it also tends to create and perpetuate monopolies within the country. Industries operating under such conditions have very little incentive to increase efficiency, lower costs of production and improve quality.

Protectionist policies are also being applied to foodstuffs and raw materials against other Latin American countries which because of tradition and a favourable combination of geographic conditions, capital and labour, are not only able to produce these commodities at lower costs but are also partially dependent on their Latin American markets for maintaining their exports at a level commensurate with their import requirements. Then too, tariffs, import quotas, etc., enacted for the purpose of protecting new industries (particularly food-processing, textiles, clothing, and other light consumer goods), often generate retaliatory measures which widen trade barriers and the range of products to be encouraged by local production. High prices, sometimes imposed through internal controls by the exporting countries, also play an important role in influencing importing countries to stimulate local production of commodities that were heretofore imported from neighbouring countries. The result has been that several countries are now attempting to produce their own requirements for such basic commodities as sugar, wheat, corn, cattle, cotton, vegetable oils, beans, etc., utilizing land, capital and labour which could be more profitably used for producing commodities for

/which they

which they are better adapted. Although in a few cases such diversification has created new possibilities of efficient and low-cost production (rice in Chile, Dominican Republic and Ecuador, sugar in Bolivia, oil seeds in El Salvador), it is evident that the great majority of war developed crops are artificially nourished and are now running into difficulties because of declining world market prices and high production costs. The case of wheat is particularly relevant in several countries, especially those in which support prices have been established. Without high tariffs many of the sub-marginal producers would be forced to abandon the less efficient production and resume imports.

This is not to say that diversification of national economy is not in itself desirable, nor to deny that new industries and certain agricultural crops should be protected from outside competition during the early stages of their development. The problem is to encourage industries and agricultural activities which have a reasonably sound basis for progressive growth and efficient operation. Many complex factors must be taken into consideration, but the most important question to be asked is whether the essential elements are present. These involve first the availability of raw materials, capital, and technical "know-how", and secondly a sufficiently broad market to enable low-cost unit production. As a rule, industries employing a small amount of capital per worker (light consumer industries) can flourish in a relatively narrow market provided they can develop quickly and efficiently the necessary labour skills; on the other hand, industries employing large amounts of capital per worker require a broad market in order to reduce their costs and sales profit per unit of output. When such an industry is

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established without a sufficiently broad market, or at least a reasonable assurance of such a market, it can continue to operate only with the aid of high protection and will in the long run almost certainly lower the standard of living, inasmuch as it will contribute to a rise in the general price level.

Although the situation will vary greatly from country to country, depending upon local conditions, the fact is that many industries have been established, aided by government policies, where the market is so limited that the manufacturers could not possibly hope to lower costs through quantity production and lower sales profits per unit. A number of examples of this could be cited, but perhaps as good a one as any other for pointing up the problem is the case of one country where there are five manufacturers of electric refrigerators, whose total production is currently not over 500 units per year. Their opportunity to get started came when licenses for importation of refrigerators were first denied, in 1947, because of the growing dollar shortage. It is estimated that the local market may take from 1,500 to 2,000 refrigerators (commercial and domestic) yearly, and that within another two years the local manufacturers will be able to meet the total demand. The condensing units with coils are imported. The retail price per unit is almost three times that in the United States and Canada for similar sizes.

On the other hand, there are situations in which raw materials, capital, and manpower (technicians and skilled labour) are available and could be brought together for the efficient production of a particular product provided the market could be broadened beyond the confines of the country. Manufacture of wood pulp and newsprint, farm implements, light steel products, copper wire and electrical supplies, textiles, canned fish, etc.,

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offer such potentialities. However, such a "natural" diversification and specialization might involve cooperative planning and trade agreements between groups of countries over a long period of time.

A broad and flexible programme could thus contribute to economic diversification of the region as a whole by enabling each country to increase the range of its specialities and exchange these for those of other countries. In other words, there are large areas in Latin America in which the component parts could complement each other.

6. Trade and Payment Mechanisms.

In analyzing Latin America's trade situation, we have made the following basic assumptions: firstly, that imports from Europe will have to be increased to a level more or less equal to that of exports to Europe because of the shortage of dollars; secondly, that a high rate of foreign investment and long-term loans must be attained to finance imports of capital goods for development which would entail imports of equipment, materials and technical assistance for transportation, storage facilities, public construction, power, irrigation, soil conservation, mechanization of agriculture, etc. — thus by providing the enabling social capital and raising the standard of living of the people engaged in agriculture and the service "industries" this would lay a firmer foundation for development of new industries dependent on a growing internal market, as well as for existing export industries; lastly, it was assumed that local markets in most of the Latin American countries are too narrow for industries requiring a relatively large amount of capital per worker, and that only through the cooperative efforts of groups of countries could industries requiring a broader

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market economically compete with suppliers from outside the region. Underlying all these assumptions is the conviction that expansion of trade will be a key factor in the further development of Latin American countries.

Quite aside from matters of policy there are certain technical difficulties which stand in the way of trade expansion, especially with Europe. The greatest obstacle from the standpoint of Latin America has been the breakdown of the multilateral system of world trade. 1/ The system regulated the flow of trade, investments, commercial credit, and service payments in a roundabout way that enabled Latin American countries to sell to any country requiring their products and to buy in the most advantageous market. Because of the loss of invisibles, her lack of financial reserves and short supply position, the United Kingdom is no longer in a position to act as "broker" for Latin America vis-a-vis Europe. This, together with the necessity of the European countries to balance accounts with Latin America, tends to draw the Latin American countries into Europe's pattern of bilateral agreements. This may become an even more compelling force when Economic Recovery Programme dollars are no longer available, unless Europe's financial reserves are greatly strengthened in the meantime. However, it is difficult for the Latin American countries to adapt their trade to a system of bilateral agreements because of the concentration of exports in a few commodities. It is practically impossible for them to adjust their import requirements so that their imports offset the needs of each European country for the basic commodities of Latin America.

1/ For a full discussion of the effects of the depression, intensification of nationalism, and the war on multilateral trade, see "The Network of World Trade", League of Nations, Geneva, 1942.

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A number of agreements have been concluded since the end of the war, particularly between the Argentine and European countries, for the object of reviving trade. The Argentine has entered into agreements with Poland, Finland, Czechoslovakia, Hungary, Rumania, Switzerland, Denmark, the Netherlands, Spain, and Sweden; Brazil has made trade and payment agreements with the United Kingdom, Hungary, and the Netherlands; Colombia with Sweden; Chile with the United Kingdom; El Salvador with France; Uruguay with the Netherlands. 1/ These agreements give a list of commodities to be exchanged and provide for credit or overdrafts up to a certain limit in order to obviate payment in dollars. It is no doubt too early to know what results may be expected from these agreements. With respect to the Argentine agreements with the Eastern European countries, ECE states that "It is, however, observed that, judging from experience so far gained, none of these agreements has proved very effective". Perhaps more may be expected from the Argentine agreements with Sweden, Switzerland, Denmark and the Netherlands.

Regardless of how effective the above agreements may turn out to be, the likelihood of achieving a relatively high level of trade (that is, in terms of present expectations of the OEEC countries) is very remote if each Latin American country must be in approximate balance with each European country. The possibilities are much greater if each Latin American country is required only to equalize exports and imports with the European countries taken collectively; thus the Argentine might offset a surplus with the United Kingdom and the Netherlands by deficits with Sweden, Germany and Italy, for example. The opportunities

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1/ The above list of agreements is probably incomplete; this information has been furnished by the United Nations Economic Commission for Europe.

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are further enhanced if Latin America taken collectively could be included in a multilateral compensatory system which embraced all of the Latin American and European countries, and in which individual Latin American countries would be willing to lose dollars to Europe while other Latin American countries earned dollars from Europe.

In the last analysis, prospects for trade expansion between Europe and Latin America will be conditioned by three factors:

a) The ability of the European countries to increase production to the point where they can export sufficient supplies of the kinds required by Latin America to offset their imports from Latin America. This also involves lowering costs of production in order to meet North American competition.

b) The extent to which European countries, especially the United Kingdom, can build up financial reserves so that commercial credit and loans may be employed to balance accounts. There is not much optimism that this can be done without dollar backing.

c) The willingness of both Latin American and European countries to negotiate multilateral trade agreements, under which each country would still control its imports but would nevertheless agree to adjust its imports and exports in order to facilitate triangular settlements. This would mean, in effect, the simultaneous negotiation of trade agreements which would fit together into a pattern. Under such an arrangement, Brazil might agree to develop a deficit with the United Kingdom which would be offset in part by a surplus to the Argentine, who in turn could have a surplus with the United Kingdom, etc. This may be a very difficult step to take but, in the circumstances, anything less than a determined effort along these lines may result in a substantial decrease of Latin American exports to Europe.