The New Strategy for U.S. Investment in Latin America

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TYPICALLY, radical critiques of U.S. "colonialism" south of the border focus on the failure of U.S. investment to develop internal markets. Foreign investment, it is argued, stimulates extractive production of raw materials, such as copper in Chile, tin in Bolivia, and oil in Venezuela, and foodstuffs, such as sugar in the Dominican Republic and Cuba, and bananas in Central America, for export only; moreover, this investment has not stimulated secondary production for internal consumption. The productive assets such as mines and plantations which it has created function as "foreign enclaves"—that is, as extensions of the economy of the capital-exporting nation rather than as sectors integrated with the local economy (which tends to remain on the subsistence level). U.S. investment, so the criticism goes, actually inhibits development in Latin America, because it orients production almost entirely toward the raw material needs of the U.S. industrial process, thus preventing diversified production for internal consumption. We find classic expressions of this traditional critique in parts of John Gerassi's important work, *The Great Fear in Latin America*:

> ... Latin America must diversify its own production. It must build up its own manufactured goods industry; it must cut down its income dependency on exports; and it must eliminate its commercial dependency on imports. However, it just so happens that some of our major industries are dependent on Latin America's raw materials for production and on its markets for selling manufactured goods. Thus, it is to our industries' advantage to keep our policy so oriented and constituted as to prohibit or stall Latin America's diversification and industrialization (pp. 30-31).

As correct as this analysis may still be for some parts of Latin America it must be modified radically for most parts. For since World War II, U.S. investment has begun to stimulate productivity, especially

in four of the largest countries, Argentina, Brazil, Mexico and Venezuela, for internal consumption as well as for export. This shift in investment patterns from extractive industries oriented toward foreign markets to manufacturing industries oriented toward local markets is illustrated in the data presented in the report of the 1964 hearings before the Subcommittee on Inter-American Economic relationships of the Joint Economic Committee of the U.S. Congress, entitled "Private Investment in Latin America." In these hearings, the results of a study undertaken by the Commerce Committee for the Alliance for Progress (COMAP) are presented to show the relative and absolute rise of the manufacturing sector of new investment in relation to the relative and absolute decline of the mining, smelting and petroleum sector.

Plant and equipment expenditures of direct foreign investments in Latin America, major industries, 1957-64

AREA AND INDUSTRY	1957	1958	1959	1960	1961	1962	1963	1964
Latin America, total	1,689	1,269	1,003	750	795	840	900	834
Mining and smelting	216	221	147	78	87	95	100	90
Petroleum	1,039	577	449	340	306	319	315	310
Manufacturing	174	202	193	207	250	281	330	288
Trade	20	31	31	35	45	46	48	58
Other industries	238	238	183	90	107	99	107	88

(figures are in millions of dollars)

Elsewhere in the 1964 hearings, Francis E. Grimes, a Vice-President and Latin-American "Area Executive" of Chase Manhattan Bank, testifies that the share of the total book value of U.S. investments in the manufacturing sector of Latin America rose from 8% in 1940 to 22% in 1962. (In several Latin American countries this proportion of the manufacturing sector is much larger. For instance, according to the U.S. Department of Commerce, 54% of U.S. capital in Brazil is in manufacturing.)[3] Further testimony by John D. J. Moore, Vice President of W. R. Grace and Co. and Chairman of the U.S. Inter-American Council, emphasizes that this shift in emphasis toward manufacturing has laid the basis in Latin America for the diversification of production and the creation of an internal market. Mr. Moore's remarks clarify a crucial motivation behind this shift in emphasis: The need of the U.S. industrial process for new absorbtion of its expanding output. A table showing sales figures of U.S. manufacturing affiliates is presented "which demonstrates the capacity of Latin American markets to absorb the rapidly growing output of American manufacturing plants." Significantly, Mr. Moore contrasts the rapid growth rate of the Latin American market for goods produced by U.S. affiliates with the slow growth rate of the U.S. market for goods produced domestically:

> In 1962 sales of U.S. manufacturing affiliates totaled $4.190 billion, an increase of more than 70% over the 1957 figure of $2.435 billion which compares very favorably with the increase of 17% shown by domestic sales of manufactured goods in the same period (*Hearings*, p. 11).

Thus we see that Latin America functions in relation to the U.S. not only as a supplier of raw materials and foodstuffs but, increasingly, as a consumer of finished products.

REFORM IDEOLOGY: ALLIANCE FOR PROGRESS RHETORIC

CORRESPONDING to this structural shift in the patterns of U.S. investment in Latin America is an ideological shift in the attitudes of the U.S. investors. The best indicator of this ideological shift is the new attitude found among many of these investors toward institutional change in Latin America as spelled out in the Alliance for Progress. Whereas the old style investor supported and re-enforced the one-crop economy, the new style investor encourages reform of the economy to enable diversification of production. We may see this new attitude operative in the writings of two key investors and policy advisors, Adolf Berle and David Rockefeller. In Berle's book, *Latin America, Diplomacy and Reality* and in Rockefeller's article, "What Private Enterprise Means to Latin America" in *Foreign Affairs*, April 1966, we find them emphasizing three internal reforms considered essential to "economic development" in Latin America: 1) diversification of production in both the agricultural and industrial fields, 2) agrarian reform, and 3) extension of the Latin American common markets, the Latin American Free Trade Association and the Central American Common Market. The common characteristic of all three reforms is that they are essential to internal market expansion. They are designed to overcome the major obstacles to market growth in Latin America: one-product export econo-

mies dependent on foreign markets, the latifundiast organization of production, and tariff barriers.

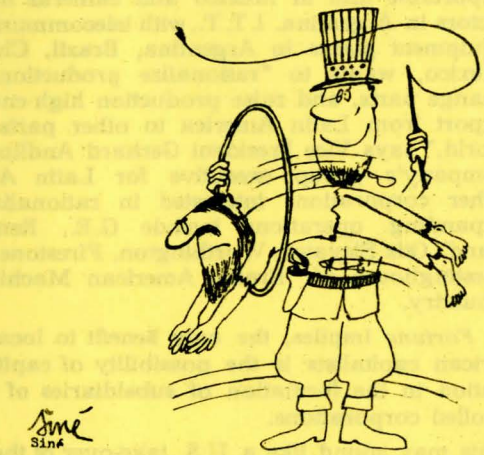
AGRARIAN REFORM

THE LATIFUNDIA organization of production constitutes one of the greatest obstacles to internal market expansion—just as did the Southern plantation in antebellum 19th century United States. Like the Southern plantation, the latifundia originally performed an essential function for industrial expansion in the Western nations—supplying their industrial processes with basic raw materials. But now that the industrial expansion of the Western nations is extending to the very territories on which they once depended for raw materials, the latifundia has become an outmoded institution. It inhibits the market expansion in Latin America which is necessary for the absorbtion of the ever-increasing output of the advanced capitalist nations.

The latifundia inhibits industrialization in two ways. First, insofar as its production is geared toward export, it does not produce the variety of foodstuffs necessary to maintain an urban population, thus necessitating the importation of food from abroad. Such importation causes a drain on foreign exchange which is badly needed to purchase machinery and raw materials for further industrialization. Secondly, the latifundia inasmuch as it fosters a subsistence economy among the masses of the agricultural population, inhibits the growth of their purchasing power.

It is this critique which has led U.S. investors to adopt the rhetoric of their traditional critics, calling for the same two institutional reforms: diversification of production and agrarian reform. Yet it is necessary to focus closely on what is meant by agrarian reform, particularly in the eyes of the new brand of U.S. investors who are advocating a "social revolution" which represents "a dramatic and far reaching restructuring of an entire society." In his article "What Private Enterprise Means to Latin America," David Rockefeller emphasizes the urgent need for the "modernization, diversification, and expansion of agriculture" as a necessary base for industrialization. Yet, as is clear from his arguments, the agrarian reform which he advocates is not the transfer of control from the owner of production, the latifundiast, to the producer by land redistribution or by cooperativization. Rather he advocates the transformation of the class of landowners into a class of entrepreneurial farmers. Such a transformation would turn the labor intensive latifundia which now produces primarily for export into a capital intensive commercial farm producing primarily for local urban markets. As an example of such diversification of agricultural production Rockefeller cites the modernization of cattle production in Panama. Through the institution of a "scientific program of seeding, feeding, and breeding" financed by the Chase Manhattan Bank, Panama began to produce enough beef to replace her beef imports. Thus we see that, for Rockefeller, "social revolution" in Latin America entails those institutional changes which will remove obstacles to market expansion and increased productivity. It does not mean a fundamental change in the social control of the means of production.

Rockefeller's concept of agrarian reform reflects a basic assumption of capitalist economies: the identification of "development" with increasing productivity (through capital investment) and rapid market expansion. For an investor, operating on such an assumption, the decisive indicator of a "developing" nation's economic health is the rate of growth of its Gross National Product. The social questions—who owns the productive assets and who controls the market, or whose needs are fulfilled by increasing productivity and rapid market expansion—are peripheral. For him, a country is developing if its GNP rises at a significant rate, even though the productivity increase and the market expansion are generated in response to the needs of foreign interests and controlled by those interests.



COMMON MARKET PROGRAM

THE APOLOGISTS for the Alliance for Progress herald the Latin American Common Market proposed at Punta del Este last April as the major instrument of "development" in Latin America (see especially Lincoln Gordon's article in *Foreign Affairs,* July 1967). For these government spokesmen and social scientists, "development" is tantamount to the establishment of a diversified industrial base and increased productivity. Again, what they do not adequately discuss is who will exercise control over the industrial base.

Yet their business counterparts candidly admit what the ideologues ignore: a common market "reform" which places no substantial barriers to the inflow of foreign capital must inevitably lead to domination by large, foreign-based global corporations rather than to the growth of indigenous Latin American companies. The superior technology, marketing facilities, and capital resources of such corporations ensures their control over any market they are allowed to penetrate. (Note, for example, how U.S. corporations captured control of European *growth* industries such as aerospace and electronics after the establishment of the European Common Market.) An article in the June 1967 issue of *Fortune,* entitled "A Latin American Common Market Makes Common Sense for U.S. Businessmen Too," puts the situation bluntly:

> For U.S. private enterprise, the common market spells enticing new opportunity. Apart from the traditional mining (Anaconda, Creole Petroleum) and farming (United Fruit, W. R. Grace), U.S. investment until now has mostly gone into manufacturing for "import substitution"—producing for a national market under protective tariffs. But U.S.

businessmen are beginning to see in the Latin American common market the advantages that they seized upon in the European Common Market: the chance to move to the broader, more competitive, and potentially more profitable task of supplying a market big enough to be economic on its own terms....

In many a boardroom, the common market is becoming a serious element in planning for the future. Ford Motor of Brasil, which makes Galaxies, thinks it could mesh nicely with Ford of Argentina, which makes Falcons, thus deriving economies of scale by producing both cars for larger markets. Kodak, which now makes photographic paper in Brazil, would like to make exportable film in Mexico and cameras and projectors in Argentina. I.T.T., with telecommunication-equipment plants in Argentina, Brazil, Chile and Mexico, wants to "rationalize production, interchange parts, and raise production high enough to export from Latin America to other parts of the world," says Vice President Gerhard Andlinger, the company's group executive for Latin America. Other corporations interested in rationalizing or expanding operations include G.E., Remington Rand, Otis Elevator, Worthington, Firestone, Deere, Westinghouse Air Brake, American Machine and Foundry.

As *Fortune* implies, the only benefit to local Latin American capitalists is the possibility of capital participation in the formation of subsidiaries of foreign controlled corporations.

This may sound like a U.S. take-over of the whole Latin American economy, and plenty of Latin American businessmen believe that's just what's afoot. But the fear is not necessarily valid. As things stand now, most foreign-owned enterprises in Latin America reinvest a lot of their profits, thus tending more and more to be part of the landscape. Yet, if they are really going to take up residence and avoid the take-over charge, U.S. subsidiaries will have to admit Latin Americans more readily to an ownership role. Telling them to buy stock in the parent company on Wall Street is so far not the answer, since getting the dollars, and getting them out, is balked by currency restrictions and tax law.

A quick sentence in the Punta del Este declaration hints at a long-range solution: a common market stock market, which would let an Argentine buy stock in a Venezuelan brewery, or a Colombian buy stock of Brazil's Willys-Overland.

Such participation by local capitalists in so-called joint ventures with foreign corporations bears only the illusion of local control. No matter how large a percentage of the stock is in the hands of local investors, the foreign interests maintain effective dominance through management contracts. A full documentation of the use of this device to maintain "day-to-day control" despite "the window dressing of a 50-50 or even minority split" may be found in a *Business International* monograph entitled "Management Contracts Abroad" (1963).

LATIN AMERICA's largely new role as a market for the output of U.S. industry has not, of course, overshadowed her traditional role as a supplier of raw materials. In fact, it is necessary to re-emphasize that traditional role in light of one crucial development since World War II: the development of a large U.S. military establishment as an essential market for American industrial output. The growth of production for military needs has to a considerable extent coincided with a growth in dependency on foreign sources of raw materials, especially on foreign sources of metallic ores. A pamphlet published by the Defense Department in 1953, "Raw Material Imports: Area of Growing Dependency," graphically shows this interconnection. The document points out that the U.S. is the world's largest consumer of raw materials. With 7% of the world's population the U.S. consumes 2/3 of the free world's petroleum production, 60% of its rubber production, 50% of its manganese, iron ore, zinc, copper and lead production. That production for military needs accounts for a significant portion of import dependency on raw materials is stated flatly by the pamphlet (whose estimates would appear modest today):

> Military production is an avaricious consumer of raw materials. About 15% of all materials consumed by American industry goes to defense industry. But this figure does not represent a 15% across the board consumption. Defense consumption of alloying metals is inordinately large—more than 90% in the case of nickel and cobalt—and it is such metals for which we are most dependent on foreign sources.

The pamphlet cites known reserves of the vital metals in the underdeveloped world, particularly in Africa and Latin America, and goes on to relate defense supply needs with foreign investment. Grave concern is expressed over the failure of U.S. private capital to flow into the underdeveloped areas of the world to develop mineral resources in quantities proportionate to the mineral requirements of U.S. industry: "If rapidly expanding mineral requirements are to be met from abroad investment well in excess of previous levels will be necessary."

THE CASE FOR DEVELOPMENT

THE diversification advocates, agricultural reformers and common market ideologues argue that the priorities of such investment can and must feed "development." However, the central distinction between an "underdeveloped" and a "developed" economy lies in the distinction between growth stimulated by external impulses and autonomous growth stimulated by internal needs. It is this distinction—not the distinction between production for export and production for internal consumption—which should form the core of a radical critique of U.S. capital in Latin America. Regardless of whether U.S. capital creates extractive or manufacturing industries, it does not contribute to Latin American development. Quite the contrary, insofar as it stimulates production primarily in accord with U.S. needs for raw materials and consumer markets, U.S. investment actually tends to "structure underdevelopment" (as Andre Gunter Frank puts it) into Latin American economies. It creates a dependency in which critical sectors are so closely integrated with the U.S. economy that they function as extensions of U.S. industries rather than as integral sectors of Latin American industry.