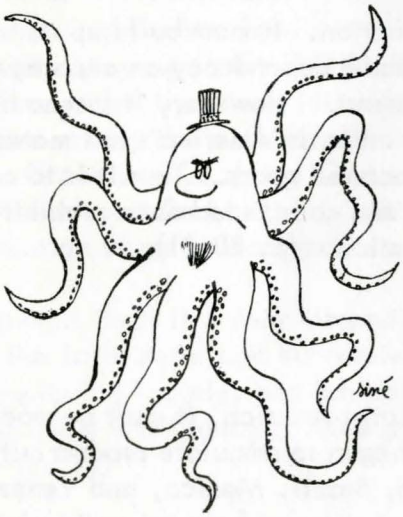
A New Look at U.S. INVESTMENTS in LATIN AMERICA



EDIE BLACK

Edie Black is a member of the staff of NACLA, the North American Congress on Latin America. She recently graduated from Union Theological Seminary.

published by
New England Free Press
791 Tremont St.
Boston, Mass. 02118

10¢

A NEW LOOK INTO UNITED STATES INVESTMENTS IN LATIN AMERICA

-- Edie Black

This article will attempt to readjust the traditional radical critique of U S investment in Latin America to take account of new trends in the patterns of that investment. It will show how the old form of "colonial" dependence of Latin American export economies on the U S market is being supplemented by a new form of dependency in which Latin American economies function not only as suppliers of raw materials to U S industry, but also as consumers of manufactured goods, produced by affiliates of American companies in Latin America.

The traditional radical critique focuses its criticism primarily on the failure of U S investment to develop an internal market in Latin America. Foreign investment, it points out, has hitherto stimulated 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, has actually inhibited development in Latin America, because it has oriented 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 Gerassi's important work, The Great Fear in Latin America:[1]

> . . . 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. (p. 30-31)

INVESTMENTS AND PRODUCTIVITY

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 in Latin America, especially in four of its 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. The table below which illustrates this shift in emphasis in U S investment in Latin America is taken from this report.[2]

---

1 Gerassi, John, The Great Fear in Latin America, New York, 1965.

2 Hearings, Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee, Eighty-eighth Congress, January 14-16, 1964.

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)

THE GROWTH OF INVESTMENT IN MANUFACTURING

It is furthermore revealed in the hearings in the testimony of Francis E. Grimes, Vice President, Area Executive, Latin America, of the Chase Manhattan Bank, that the share of the manufacturing sector of the total book value of U S investments in Latin America rose from only 8% in 1940 to 22% in 1962 (p. 379). In individual Latin American countries the proportion of the manufacturing sector is even larger. For instance according to the U S Department of Commerce, 54% of U S capital in Brazil is in manufacturing.[3] Thus we see that there is a significant trend in U S investment toward manufacturing which undoubtably is setting the pace for the future. As the testimony of John D. J. Moore, Vice President of W. R. Grace and Co., and Chairman of the U S Inter-American Council points out, 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:

> Well, this in itself is a very interesting fact because it testifies to the diversification of the Latin American economies, the growth of manufacturing plants, presumably replacing imports, and basically is a healthy thing for their economy because it means there is evidence of more purchasing power and broader distribution of goods. (p. 11)[4]

Mr. Moore's testimony also exposes the motivation behind the shift in emphasis on investment in manufacturing assets -- the need of the U S industrial process for absorbtion of its output. For he presents a table showing sales figures of U S manufacturing affiliates "which demonstrates the capacity of Latin American markets to absorb the rapidly growing output of American manufacturing plants." (p. 11) He furthermore 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

3 Frank, Andre, "Imperialism: The Case of Brazil," Monthly Review, September, 1964.
4 Hearings, etc., p. 11

in the same period.[5]

Thus we see that U S investment in Latin America no longer serves merely as a mechanism for securing access to raw materials. Rather it serves as a mechanism for securing access to markets. Latin America functions in relation to the U S not only as a supplier of raw materials and foodstuffs but, increasingly also as a consumer of finished products.

It may not be immediately obvious how U S investment in Latin America functions as an instrument of market expansion for U S industry. For one may ask how the absorbtion of the output of U S affiliates abroad constitutes, in fact, the absorbtion of the output of domestic U S industry. Yet, insofar as the affiliate in Latin America constitutes an extension of the parent company's assets, rather than an independent entity, it may be understood to fulfill this function. For, instead of expanding its assets domestically and exporting the increased output, the parent company places an affiliated plant in the country which is an existing or potential importer of its product. The affiliate thus serves as a mechanism for ensuring better control of the company's share of the local market.[6]

IDEOLOGICAL CHANGES

Corresponding with 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. Whereas the old style investor supported and reenforced 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 apologists for U S investments in Latin America, 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. For they are designed to overcome the major obstacles to market growth in Latin America: one product export economies dependent on foreign markets, the latifundiast organization of production, and tariff barriers often instituted not so much for the protection of local industry as for the collection of revenue.

The contemporary debate on reform in Latin America centers largely around the issue of agrarian reform. For the latifundiast organization of production in the agricultural sector of the economy constitutes the greatest obstacle to market expansion, just as the plantation organization of production in the antebellum South constituted the greatest obstacle to the expansion of Northern markets. So also, like the Southern plantation, the latifundia took form in the 18th and 19th centuries in response to the needs of the world market. Originally it constituted an essential mechanism of industrial expansion in the Western nations, supplying their industrial processes with basic raw materials. Now, however, 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. For 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

5 Ibid., p. 11

6 Mikesell, Raymond, Promoting United States Investment Abroad, National Planning Association, Planning Pamphlet No. 101, Washington, D.C., October, 1957, p. 30.

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 insofar as it fosters a subsistence economy among the masses of the agricultural population, inhibits the growth of their purchasing power.

Thus far we have seen how U S investors have begun to adopt the rhetoric of their traditional critics, calling for the same two institutional reforms, diversification of production and agrarian reform, for which their critics called hitherto.

THE RHETORIC OF AGRARIAN REFORM

Yet it is necessary to focus closely on what is meant by agrarian reform in particular, 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 manager of production, the latifundiest, 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 he 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.[7] Thus we see that, for Rockefeller, "social revolution" in Latin America means 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 economics: the identification of "development" with increasing productivity 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 -- whose needs, that is, are fulfilled by increasing productivity and rapid market expansion -- are peripheral. Thus, 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. For instance, the "nationalized" Brazilian automotive industry, created in four years, is often used as an example of rapid development. Yet investigation shows that all but one of the companies manufacturing motor vehicles in Brazil are affiliates of U S, German, Italian, French and Japanese firms. The companies established assets in Brazil either because existing or potential markets were threatened by Brazilian import substitution laws. The change to brand names such as "Ford Motor do Brasil" and "Willys Overland do Brasil" hardly constitutes nationalization. For, insofar as the "Brazilian" automotive industry is foreign controlled, it functions more as an extension of Western industrial economies than as an integral sector of the Brazilian economy.

7 Rockefeller, David, Foreign Affairs, Vol. 44, No. 3, April, 1966, p. 406.

INVESTMENT AND ECONOMIC DEPENDENCY

The central distinction between "underdeveloped" and "developed" thus lies in the distinction between production in response to and in fulfillment of internal needs, that is, in the distinction between growth stimulated by external impulses and autonomous self-generating growth. It is this distinction -- not the distinction between production for export and production for internal consumption -- which forms the core of the radical critique of U S capital in Latin America. For, regardless of whether U S capital creates extractive or manufacturing industries, it does not contribute to Latin American development. Rather, insofar as it stimulates production primarily in accordance with U S needs for raw materials and consumer markets, U S investment actually tends to "structure underdevelopment" into Latin American economies.[8] For it creates a dependency in which critical sectors of Latin American economies 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.

U S NEEDS FOR RAW MATERIALS

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. This document first 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, 60% of its rubber production, 50% of its manganese, iron ore, zinc, copper and lead production.[9] The document further reveals that, because of its huge appetite for raw materials, the U S industrial process in 1950 consumed 9% more raw materials than it produced. How much production for military needs accounts for this import dependency on raw materials is indicated by the next figure the pamphlet gives us:

> Military production is an avaracious 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.[10]

Thus we see that the increased dependency of U S industry on foreign sources of raw materials is due, in part, to an extensive defense production.

CONTROL OVER SOURCES OF RAW MATERIALS

The key concern of the pamphlet is not the location of sources of supply for the U S industrial process. Known reserves of the vital metals exist in vast quantities in the underdeveloped world, particularly in

---

8 Frank, op. cit., p. 297.

9 Defense Production Administration, Office of Public Information, Washington, D.C., February 5, 1953, Part I, p. 1.

10 Ibid, Part I, p. 3.

Africa and Latin America, according to the pamphlet. Rather, its key interest is securing access to these materials through foreign investment. For it expresses concern 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."[11]

One of the "27 strategic imports . . . without which our industrial economy would collapse"[12] is manganese, an alloy essential as a hardening agent in steel-making. According to the pamphlet, the U S is dependent on imports for 90% of its consumption of this mineral. The report, financed in part by the Ford Foundation, Resources in America's Future, which assesses the raw material requirements of U S industry in relation to domestic and foreign supplies of those materials, also expresses concern over the "strategic weakness" of the U S in manganese. For American accumulated reserves are but a "drop in the bucket" compared to projected industrial needs of 73 million tons during the rest of the century. As the report states, the scarcity of U S reserves has led to "a degree of reliance that is a source of potential commercial as well as strategic trouble."[13]

The interconnection between U S import dependency on raw materials and production for military needs is reflected in military involvement in the development of manganese deposits in the state of Minas Gerais, Brazil, by one of the two affiliates of U S steel companies which control the production of manganese in that state. This company, Industria Comercio Minerios (ICOMI), was formed through an agreement between a local Brazilian group and Bethlehem Steel Corporation in which 51% of the capital is held by the former and 49% by the latter. Initial equity capital was also secured through a 67.5 million dollar loan from the Export-Import Bank. Crucial to the arrangement, however, was a market guarantee secured from the U S government Defense Materials Procurement Agency (DPMA) which committed itself to buy, at ICOMI's option, up to 5,500,000 tons of ore. This quantity was sufficient to assure repayment of the loan from the Eximbank should market prices of the ore fall.[14]

---

11 Ibid, Part I, p. 4.

12 Ibid, Part II, p. 1.

13 Landsberg, Fischman, and Fisher, Resources in America's Future, Resources for the Future, Inc. Johns Hopkins Press, 1963, pp. 436-438.

14 Torres and Nogueira, Joint International Business Adventures in Brazil, Country Study No. 2 (not published, but may be found in the Columbia Business School Library), Columbia University, New York, 1959, p. 81.