UNITED STATES' POLICY TOWARDS THE EXPORT OF PRIVATE CAPITAL TO LATIN AMERICA: THE ALLIANCE YEARS, 1961-1968

SATYA RANJAN PATTNAYAK

Thesis Submitted for the partial fulfilment
of the Degree of the
MASTER OF PHILOSOPHY
of the Jawaharlal Nehru University
School of International Studies
Centre for American & West European Studies

NEW DELHI

1979

UNITED STATES' POLICY TOWARDS THE EXPORT OF PRIVATE CAPITAL TO LATIN AMERICA: THE ALLIANCE YEARS, 1961-1968

C O N T E N T S

PREFACE

PREFACE

Traditionally the countries of Latin America have provided attractive avenues for the United States private capital investments. Needless to say, the enormous natural endowments of Latin America, together with the outlets of these countries provided for the US export trade no doubt made these countries the bedrock of the US investment opportunities. While in the initial period the American private capital faced critical competition from that of its European counterparts, during the post Second World War period American private capital established its stranglehold especially in terms of controlling the core sectors of mining and manufacturing.

On the surface, while it appears that in its effort to take control of the critical sectors of the Latin American economies, the American private capital had operated on the basis of free market capitalism, no doubt in its endeavour to control the Latin American economies, the US private capital has had its blessings and support from its Government. Specially since the Second World War the US official policy toward Latin America had taken great care to not only encourage but also support the primacy of the United States private capital in Latin America. Bilateral agreement at government levels between the United States and several Latin American countries provided for opportunities and guarantees to the US private capital. No doubt a strong lobby of the US private capital had time and again brought pressure on the US Government to secure guarantee for their investments. Whenever there were threats, such as expropriation or nationalisation of US private investments in any Latin American country, the US Government had invariably came to their rescue and to salvage them by bringing political pressure.

In the wake of the Cuban Revolution in the early 1960s which posed a serious threat to the US hegemony over Latin America, the US administration under the Presidentship of John F. Kennedy announced a loud-sounding economic assistance programme for Latin American countries designated as the "Alliance for Progress". The Kennedy Administration, in the Charter that it signed along with many Latin American countr-ies at Punta Del Este in 1961, made a firm commitment to help the Latin American countries in the "Social Development" process. Several factors contributed to the announcement of the Alliance Programme providing for massive economic assis-tance to the Latin American countries. While doing so the US administration, however, accorded an important role to the US private capital. In effect the US administration almost made conditional that generous assistance under the Alliance programme would not be forthcoming unless and until the Latin American economies assured both scope and guarantees for the US private capital investments.

It is against this background an attempt is made in the present dissertation to study the "Alliance for Progress" programme in depth and delineating the US policy toward the export of American private capital and its investments in the Latin American countries. What role did the private capital originating from the United States have in the Alliance programme and what scope did the Alliance provide for American private capital are the two basic questions that the dissertation envisages to examine. Subsidiary questions that will receive attention in the dissertation are the responses of the Latin American countries to the role of private capital assigned in the Alliance programme and what contribution the American private capital offered to the Latin American countries. Examination of these aspects is to some extent necessary. For, not only a study along these lines would help dispel the generally held notion that the "Alliance for Progress" programme is a definite departure from the traditional US economic policy toward Latin America and also help appraise the extent to which the Alliance contributed to the overall economic development of Latin America. More important is to understand whether the Alliance did or not assign a special and distinctive role to US private capital and thereby reinforce the critical control that the US private capital exercised over the Latin American economies.

The chapterization scheme of the dissertation will be in the following sequence.

The First Chapter will briefly assess the potential of the Latin American economies in terms of the US private capital and examine the extent to which it controlled the core sectors of the Latin American countries.

The Second Chapter while tracing the rationale behind the official US economic policy would highlight the various measures implemented ever since the Second World War to promote private American capital overseas.

The Third Chapter would analyse the circumstances leading to the formulation of the "Alliance for Progress" during the Kennedy Administration and attempt to describe the important instruments of the Alliance programme. While doing so the policies relating to the promotion of private capital into the Alliance programme will be underlined.

The Fourth Chapter largely will reflect the responses of major Latin American countries to the Alliance programme as it was implemented and will critically assess the extent to which Latin America benefited from the Alliance.

The Fifth and the concluding Chapter will attempt to identify and ascertain the rationale behind the United States economic policy toward Latin America during the Alliance years and assess the extent to which the Alliance policy provided the scope for promoting the export of the US private capital.

The Study was based essentially on secondary source materials. Available US official documents including the Congressional debates and hearings on the Alliance were also examined. The present dissertation is envisaged as a preliminary effort, which on the basis of further research, will eventually be elaborated into a research monograph.

And finally, it would be gross injustice on my part, if I were not to acknowledge the unaccountable assistance and guidance offered to me by Dr. R. Narayanan. Without his help this dissertation might never have materialised. His

tremendous endurance at some of the most gruelling times I have imposed on him, along with his criticisms of both the form and content of this dissertation from time to time, have led, only to the refinement of the present study. Any other limitations or shortcomings of this dissertation will be purely mine.

Satya Ranjan Pattnayak

SATYA RANJAN PATTNAYAK

Chapter I

POTENTIAL OF LATIN AMERICAN ECONOMIES IN TERMS OF US PRIVATE CAPITAL

Chapter I

POTENTIAL OF LATIN AMERICAN ECONOMIES IN TERMS OF US PRIVATE CAPITAL

Ever since the discovery of South America closely followed by a series of efforts made by Iberian countries such as Spain and Portugal to colonise the Latin American continent, the economic development in this part of the world was largely determined by forces located in Europe. The thrust of Spanish and Portuguese colonization was essentially to exploit the natural resources abundantly available in the virgin lands. It is primarily because of the nature of the Latin American colonization, it is often argued that there exists a dependency relationship between the countries of this region with the economically advanced countries of Western Europe and the United States. Admittedly, foreign investment had a free play in Latin America ever since the colonial period.

The present chapter attempts to assess the extent to which private capital particularly of that of the United States is involved in Latin America. In addition, factors which add to the potential of Latin America in terms of US private capital is also analyzed. Finally, attempt is made to show the extent to which US private capital controls the core sectors of Latin American economy. Such a background study, it is intended, would enable an understanding of the US economic policy toward the export of private capital to Latin America. In the process, it is possible to assess the economic stakes of US private capital invested in Latin

America and understand as to why the US economic policy toward Latin America had assumed so much of importance, historically speaking, both in terms of US economic policy makers and US private investors.

Natural Resources and Economic Dynamism: A Brief History

Since the early sixteenth century the primary resource sector has been providing the life blood of economic growth and development to the people of Latin America. Throughout the last four centuries, the bulk of the population had been engaged in the primary sector, earning its living by farming, mining, forestry and fishing. Until the nineteenth century, 90 per cent of the working population in Latin America was engaged in primary producing sector.

The primary sector has been very important with regard to Latin America's links with the rest of the world. Raw materials were the only exports in a substantial way until well into the twentieth century. The export sector was the chief source of dynamism and growth in every Latin American country until the Great Depression of the 1930s.

The primary sector in Latin America generally consisted of raw materials and agricultural products like copper, oil, gold, tin, iron ore, coffee, sugar, cocoa, etc. In the course of last four and a half centuries, a variety of products have at different point of time dominated the region's trade.

The changes in the location and nature of economic activity had taken place in Latin America over a period of time as one product was displaced by another without, however, affecting the position of the natural resource sector as the principal source of employment, income and trade.

A resource sector, specially based on natural resources has had a thorough usefulness. It, however, depended upon the demand for the specific products which may be produced from it over a period of time. Secondly, the value of a natural resource in a given region is always appraised only relative to the existing state of technology.

When the mercantile capital penetrated into Latin America, the motive was precisely to extract precious metals for export to Europe. The hunt for precious metals over a period of time ended in farming when no such riches were continued to be found in Latin America. Throughout Spanish America, the search for precious metals was the principal motive for exploration and settlement. The distribution of population reflected the success of that search in different areas. The primary centres constituted virtually only market for the output of other sectors and merely responsible for the diversification and development of the economy. Gradually, the exploration for precious raw materials turned unto the mining sector and the extraction of required raw material required food production and cattle breeding and ranching in the surrounding areas. Thus, the economic base underwent further expansion.

The hunt for raw materials expanded as the Industrial

Revolution rocked the European nations. A world wide search for cheap source of raw materials and markets resulted in the penetration of British capital into Latin America.[1] The British capital was soon followed by French, German and Dutch capital.

Latin America, at the end of the colonial period remained fundamentally an export economy or rather a group of export economies, each oriented to Spain or Portugal and exchanging under restrictive condition a small number of resource products for a relatively wide range of consumption and luxury goods.

As the mercantilist system was swept away with the end of the colonial domination, the economic power of the newly independent Latin American countries passed firmly into the hands of the primary producers, land owners, and also the mine-owning class who accounted for nearly all the region's exports. The last class specially benefited from free trade by acquiring wider markets for its output of raw materials and also by being able to satisfy its consumption requirements and needs for capital goods through imports.[2]

The trade of Latin America grew slowly and remained small until England developed manufacturing industries and

---

1 J. Fred Rippy, British Investments in Latin America, 1822-1949 (Minnesota: University of Minnesota Press, 1959), pp. 22-25.

2 See Joseph Grunwald and Philip Musgrove, Natural Resources in Latin American Development (Baltimore: J. H. Press, 1970), pp. 4-6.

began to specialize in producing manufactures for exports. With the Industrial Revolution gathering further momentum, Britain along with other European nations began looking for food stuffs and industrial raw materials elsewhere. The accompanying rise in income in Europe due to Industrial Revolution resulted in expanding markets for Latin American raw materials and agricultural products.

The exploration of Latin American raw material bases started in a big way after the Industrial Revolution in Europe. As the demand for raw materials increased and technology developed, the location shifted. The costs gradually got reduced and supply increased over a period of time with more capital investment in it. This actually meant a fall in price for Latin American raw materials. Even if the trade was rising quite steadily after 1830s, the benefit was never proportionate.

To incorporate Latin American natural resource sector into the world economy, the Europeans started investing and most of the investment was in transport and other infrastructural bases or in industries processing resources for exports.[3] Direct investment and foreign control of resource production did not become prominent until the development of oil and metals, which were also meant for exports. As the region became integrated into the world economy in the

---

3 UN, Economic Commission for Latin America, Department of Economic and Social Affairs, <u>Reports on External Financing in Latin America</u> (New York, 1965), pp. 15-18.

nineteenth century, its raw material exports became increasingly subject to fluctuations in the face of industrial activity and the rise in income in the more advanced nations of Europe.

Table 1 clearly elaborates the amount of production of various raw materials in Latin America used for exports and domestic consumption. 91 per cent of copper, 92 per cent of iron ore, 92 per cent of lead, 90 per cent of zinc, 89 per cent of tin and 65 per cent of petroleum production were for exports by 1935-39 which meant that a substantial portion of raw materials which are very strategic for industrial production purposes have been drained out of the region. But, nonetheless the resource sector has been providing a considerable part of foreign exchange for Latin America.

The US private capital owed a lot to Europeans. Europeans showed the way how raw materials could be utilized for industrial development purposes. They created infrastructure for raw material export to other countries. Above all, it is the Europeans who created a base for raw material exploitation in Latin America.

Two main considerations were taken into account by the US private investors when they began to invest in Latin America. Firstly, Latin America proved to be a greater source of raw materials than Europe and secondly, it is not too small a market for dumping industrial and semi-industrial goods. But, in both respects the profit motive has been quite implicit.

Table 1: Latin America: Evolution of Production, Export and Consumption of Selected Natural Materials in Late 1930s, 1950s and early Sixties.
(Thousands of cubic metres of petroleum and forest products and thousands of metric tons of all other products).

Commodity	Period	Production	Exports	Consumption	Share of Production (percentage)			Share of world Total (percentage)		
					Exports	Consumption	Refin-ing	Produc-tion	Ex-port	Cons.
Copper	1935-39	416	377	9	91	2	51	22	25	0.5
	1950-51	494	444	54	90	11	69	19	32	2.1
	1962-64	854	809	93	95	11	39	19	30	1.9
Iron Ore	1935-39	1,959	1,810	1,668	92	(14)	17	1	3	
	1952-53	9,394	6,354	4,763	68	(41)	26	3	9	2.1
	1962-64	42,898	35,057	10,222	82	(68)	18	8	21	2.6
Lead	1935-39	295	272	26	92	8	84	18	26	1.6
	1950-51	365	305	92	84	25	79	22	37	5.8
	1962-64	396	304	103	77	26	76	16	24	3.9
Zinc	1935-39	183	165	14	90	7	19	11	19	0.9
	1950-51	339	302	41	89	12	19	15	23	2.2
	1962-64	479	453	88	95	18	26	13	19	2.6
Tin	1935-39	28	26	3	89	10	3	16	17	1.8
	1950-51	33	32	4	97	12	6	20	19	2.8
	1962-64	25	23	6	92	23	23	18	14	3.6
Petroleum	1935-39	43,578	30,424	13,153	65	30	29	14	53	4.4
	1950-51	117,608	92,290	35,974	78	31	36	18	41	6.2
	1962-64	245,523	181,362	88,400	74	36	52	16	26	5.6
Coal	1935-39	14,087	9,704	-	-	(40)	-	-	-	0.7
	1952-53	17,397	10,011	-	-	(64)	-	-	-	0.5
	1961-63	19,665	10,535	-	-	(73)	31	-	-	

Source: Joseph Grumwald and Philip Musgrove, Natural Resources in Latin American Development (Baltimore: J. H. Press, 1970), pp. 46-47.

Table 2 shows that Latin America as a whole, by 1960, absorbed little less than one-fifth of the total US merchandise exports providing thereby one of the important markets for US goods of various types. They include consumer durables, capital goods and equipments, semi-manufacturing goods and sale of arms. As the sales to Latin America covers the entire range of US national production, the potential of Latin American economies concerns the US producers who consider Latin America as a profitable outlet and a safe market as well. In other words, the market size of Latin America and the amount of US sales of goods and services it absorbs had given it an important role in terms of US private capital exporters.

Beside that, from the very beginning Latin America has been one of the most important sources of US imports and is way ahead of Europe in this respect.[4]

A Brief Survey of US Private Investment Since Independence

Most of the Latin American countries became independent in the first two decades of nineteenth century. Immediately after their independence it is the Europeans who were investing the bulk of the capital needed in Latin America. Prior to 1890s US overseas investments were of very small volume.[5] Of course, some US investments were

---

4 For detail see Rodrigo Botero, "Relations with the United States: A Latin American View", in Victor Urquidi, ed., Latin America in International Economy (London: Macmillan, 1970), pp. 221-2.

5 See UN Report on Foreign Capital in Latin America (New York, Department of Economic & Social Affairs, 1955), pp. 6-10.

Table 2: Value of Exports (Including Re-exports) of U.S. Merchandise by country of Destination, 1897-1910 (million of dollars)

Year	Total value	America					
		Total	Canada	Cuba	Mexico	Brazil	Others
1897	1,051	159	65	8	23	12	51
1900	1,394	227	95	26	35	12	59
1905	1,519	318	141	38	46	11	82
1910	1,745	479	216	53	58	23	129
1915	2,769	576	301	76	34	26	139
1920	8,228	2,553	972	515	208	157	701
1925	4,910	1,541	649	199	145	87	469
1930	3,843	1,357	659	94	116	54	434
1935	2,283	706	323	60	66	44	213
1940	4,021	1,501	713	85	97	111	495
1945	9,806	2,564	1,178	196	307	219	664
1950 a	10,275	4,762	1,995	456	512	343	1,456
1955 a	15,547	6,635	3,235	458	711	254	1,977
1957 a	20,810	8,720	3,905	618	902	482	2,813
1960	20,550	7,479	3,709	224	820	430	2,296

Source: Historical Statistics of the United States from Colonial Times to 1970, pp. 905-6

(a) Includes amount not shown by continents for security reasons.

there in banking.[6] But, whatever US private capital flowed into Latin America, bulk of that was limited to gold mining ventures and railways in Mexico and on some other minor holdings elsewhere.

During the late nineteenth century, US private capital moved into Latin America in a somewhat big way. Although US happened to be a net debtor on international capital account until the First World War, an increasing amount of US private capital flowed out of US and found its way into Latin America, disproving the classical economic theory relating to overseas capital investment.

An important aspect of US private capital in the late nineteenth and early twentieth centuries was that, unlike its European counterparts it was generally confined to equity investments in private business ventures, mainly in public utilities in neighbouring areas like Mexico, Cuba and West Indies and also in agricultural enterprises producing for export to the United States.[7]

US portfolio private investment in Latin America was increasing at a significant rate and by 1929, it was more

---

6 As a matter of fact, American banking capital preceded their direct investment into Latin America. It clarifies that US investors had access to organised money market right from the beginning of their operation in Latin America.

7 See Historical Statistics of the United States: Colonial Times to 1970 (Washington, D.C.: US Department of Commerce, Bureau of Census), Bicentennial edition, pts. I and II.

than one-third of total American private investment in Latin America (Table 3). In the period 1914-1929 Latin America's share in US direct investments abroad was more than 40 per cent of its world total. Its share in case of US private portfolio investment abroad stood at more than 25 per cent of US world total of portfolio investment during the same period. Both of these investments were showing an amazingly increasing trend in the time period of 1897-1929.

Area wise, US private investment, first of all, did choose the neighbouring countries like Mexico, Cuba and West Indian islands mainly because of the presence of critical European competition in South America and Europe. Later, it gradually expanded to South America and Central American economies.[8]

Industrywise, US direct investment, in the first instance, preferred public utilities (railways etc.) and also to some extent mining and agricultural processing (Table 4). Public utilities alone accounted for 45.9 per cent of all US direct investment in Latin America in 1897. But, thereafter, the direct investment in it showed a dramatic downward trend and by the end of 1929, it was only accounting for 22.1 per cent of all US direct investment in Latin America. The sectors like agricultural processing and mining did have a considerable part of US direct investment, but, both of these sectors showed a fluctuating trend right

8 See Cleona Lewis, America's Stake in International Investments (Washington, D.C.: The Brookings Institution, 1938), pp. 68-74.

Table 3

U.S. Direct and Portfolio Investments areawise (1897-1929)
(millions of dollars)

	1897		1908		1914		1919		1924		1929	
	Direct[9]	Portfolio[10]	D	P	D	P	D	P	D	P	D	P
World Total	634.5	50.0	1638.5	886.3	2562.3	861.5	3879.5	2576.1	5388.7	4564.9	7553.3	7839.3
Latin America	304.3	-	748.8	334.1	1275.8	365.6	1977.6	418.1	2779.3	853.7	3645.8	1723.9

Source: Cleona Lewis, America's Stake in International Investments (Washington, D.C.: The Brooking Institution, 1938), Appendix D, pp. 575-607.

---

9 Direct investment here is taken as that investment in which US enterprises or nationals held a controlling interest of more than 25 per cent of equity capital. Direct investment figures are shown at book value.

10 In portfolio investments all the non-government holdings of foreign bonds and securities abroad are included. Private investment in American Banks abroad are also included. Adapted from United Nations, Foreign Capital in Latin America (New York, 1955), p. 6.

Table 4

Concentration of U.S. Direct Investment: Industrywise
1897-1929
(in millions of dollars)

Industry	1897	%	1908	%	1914	%	1919	%	1924	Total	1929	%
Agriculture	58	18.6	162	21.1	243	18.7	506	25.3	839	30.0	885	24.1
Mining (total)	79	26.0	303	40.4	549	43.3	662	33.4	714	25.7	802	22.0
Precious Metals					173		145		151		164	
Industrial Metals					376		517		563		638	
Petroleum (total)	5	3.5	57	9.1	110	10.2	331	16.5	565	19.2	784	20.1
Production							291		505		706	
Distribution							40		60		78	
Railways and Public Utilities	141	45.9	162	21.6	274	21.5	312	15.8	423	15.2	806	
Manufacturing	3	1.0	30	4.0	37	2.9	84	4.2	127	4.6	231	6.3
Trade, Distribution & others	22	5.0	40	3.8	68	3.4	93	4.8	151	5.3	197	5.5

Source: Cleona Lewis, America's Stake in International Investment, Appendix D, p. 575.

up to 1929. The two sectors which showed definite signs of increase during the same period, were manufacturing and petroleum. In petroleum, US direct investment was fast increasing. It accounted for 20.1 per cent of all US direct investments in Latin America in 1929, where as in 1897 it was hardly around 3.5 per cent. The manufacturing sector was experiencing a slow but steady growth so far as American direct investment is concerned, even though, by 1929, its share in all American direct investment in Latin America was just around 6.3 per cent.

By 1908, US direct investment had already moved into the mining sector considerably to extract precious metals and also strategic industrial raw materials for export to United States. Its dominance in agricultural processing sector throughout the time period prior to the Great Depression also meant that it was primarily for export to the United States.

After 1919, US private capital saw petroleum as an attractive outlet to move in and in the eve of the Great Depression of the 1930s the level of the direct investment in petroleum production and distribution had almost come on par with the investment levels in public utilities, mining and agricultural processing sector.

Even if it continued for a relatively shorter time, the gold and silver production in Mexico attracted considerable amount of US private capital until 1929. It was a temporary phenomenon, but nonetheless it fetched the Americans very high profit (Table 4).

To sum up, at the beginning, the US direct investment activities in the time period of 1897-1929 were concentrated in public utilities, mining and agricultural processing sector, and was admittedly growing in manufacturing and petroleum, though not as concentrated in manufacturing as it was in other four sectors.

One of the foremost factors behind US private capital penetration into Latin America was the momentum of Industrial Revolution in US economy during the time period 1897-1929 which combined with the completion of its continental manifest destiny, provided a surplus of venture capital that searched for profitable investment abroad.[11] At the same time, after 1914, US became an immature creditor country with export trade surplus which also gave stimulus to US private capital induction into Latin America. Secondly, from the viewpoint of Latin America especially in the aftermath of its independence, the Latin American countries could think of no other way to obtain the necessary capital to industrialize rapidly. With the slow process of accumulation of capital funds, they kept emphasizing upon inviting foreign private capital in an increasing scale. Thirdly, Latin America provided high rate

11 Also, the turning point in the world power position of US in 1898 after the Spanish-American War, was followed by heavy US private investment in Mexico, Cuba and West Indies.
See Fredric M. Halsay, Investments in Latin America and West Indies. Special Agent Series, No. 169. US Department of Commerce, 1918, pp. 18-21.

of return as well as an expanding marketing outlet which encouraged the US private investors to move in. Fourth factor could be attributed to the policy of conservation pursued by US as its national policy. This encouraged the US private investors to move into the strategic sectors like mining and petroleum. The obvious motive was to extract strategic minerals and industrial raw materials for export to US which was meant to strengthen the energy base and help diversify its industrial base to dominate the world market. At this point, there seemed to be a coincidence of economic interests and strategic requirements of US economy with the interest of US private investors.[12]

Distributionwise, the motive behind US private investment in the field of public utilities in the first instance was because of the fact that many Latin American governments offered guarantees to foreign investors to prefer public utilities. It also happened due to critical European competition in the sectors of mining and agricultural processing. Since the rate of return was reasonably high, the US private investors gained by reinvesting an increasing portion of their profit in Latin America and concentrated their position for further penetration into other sectors by solidifying their respective financial and capital assets.

A gradual shift from the public utility sector was witnessed in the later phase which was due to the fact that

---

12 See Harris G. Warren, "Economic Diplomacy with Latin America", Inter-American Economic Affairs (Washington, D.C.), vol. IV (1951), pp. 38-40.

public utility had already become state prerogative in many countries. Gradually, the investment found itself sufficiently saturated in that very sector. Now since the US investors had already gained some financial strength, they moved into mining, petroleum and also manufacturing. The choice fell on non-public utility sectors due to the fact that there were more chances of nationalisation in public utility undertakings.

Also, some US business corporations extended their activities to cater to the domestic demand of Latin America. Some did move into mining sector and exported them for processing in the United States. The motive was to minimise the cost of production and to earn more profit as the cost of extraction was relatively cheaper in Latin America. In the beginning, with a view to achieve some sort of vertical integration some US firms moved into the same industries in which they had been operating at home. Some wanted to seek raw material base for their production plants in US to produce semi-manufactured and manufactured goods and for that they penetrated into Latin America as it offered them one of the most important proximate resource bases in the world.[13]

As the US private capital penetrated more and more

---

13 During 1925-1929, even though reliable statistical sources do not exist, it was believed that inflow of capital from US which mostly comprised of direct investment exceeded that of UK who enjoyed its peak during 1904-1914. See UN Report on Foreign Capital in Latin America (New York: Department of Economic and Social Affairs, 1955), pp. 39-40.

into the core sectors of Latin American mining and petroleum, it virtually helped US economy grow. Increasingly more US products were demanded in Latin America. At the same time, US private investors tried to control the world market or rather pre-empt the market by taking control of the strategic raw material base which enabled them to introduce product differentiation. Also, their strong technological background helped them make an attempt to monopolize the world market.

Role of US Private Capital in Latin America in Post Second World War Period

In the interim period between 1929 and the end of the Second World War whereas European capital lost ground, a relatively speaking US private capital consolidated itself in Latin America. A gradual process of substitution of European capital for US private capital had actually started since the First World War. The process gathered momentum specially in the post-Second World War period.

Tables 5 and 6 reflect that in the post-Second World War period US private portfolio investment was not so forthcoming into Latin America as US direct investments were. The decline of US private portfolio investment in 1944-60 period was attributed mainly to the bond defaults after 1930.

By 1959, the total US direct investment in Latin America was little less than one-third of the total American direct investment abroad. Even though, there was a decline in percentage terms than its pre-depression level, in absolute terms US direct investment was experiencing a tremendous

Table 5

US Direct Investment area-wise and industries, 1929-60
(millions of dollars)

Year	All Areas	Latin America	Agriculture	Mining & Smelting	Petroleum	Manufacturing	Public Utilities	Trade	Others excluding insurance
1929	7,528	3,519	817	732	617	231	887	119	116
1936	6,691	2,847	400	708	453	192	937	100	57
1943	7,862	2,798	385	405	618	325	875	143	48
1950	11,788	4,576	523	666	1,303	781	942	245	117
1957	25,262	8,052	571	1,232	2,998	1,280	1,049	571	351
1959	29,735	8,990	529	1,416	3,312	1,426	1,150	687	469
1960	32,778	8,387	-	1,155	2,882	1,610	1,131	718	919 (incl. agri.)

Source: <u>Survey of Current Business</u>, 1967 and also vol. 41, No. 8, August 1961 and Supplement 1960.

Table 6: U.S. Private Portfolio Capital to Latin America in 1951-60 (millions of dollars)

Year	New Issue	Redemption	Balance	Other (net) long-term issues	Net total
1951	-	- 11	- 11	- 19	- 30
1952	-	- 10	- 10	- 24	- 34
1953	-	- 9	- 9	- 19	- 28
1954	-	- 8	- 8	111	103
1955	4	- 9	- 5	215	210
1956	-	- 9	- 9	63	54
1957	-	- 10	- 10	174	164
1958	14	- 10	4	47	51
.959	-	- 10	- 10	154	144
.960	107	- 12	95	159	254
otal	125	- 98	27	861	888

Source: Statistical Abstract of United States, 1964.

increase. By the end of the year 1959, the total US direct investment was worth $8,990 millions in Latin America whereas by 1929, it was only worth of $3,519 million dollars.[14]

In 1960, US direct investment in Latin America experienced a slight decline to $8,387 million. An important improvement was noticed after 1950 when it was found that US direct investors are moving into manufacturing on a greater volume whereas before 1950 it was mainly concentrated in petroleum, mining and smelting. In other words, a special attention was given to manufacturing in addition to the sectors like mining and petroleum. By 1960, US direct investment in manufacturing was worth $1,610 million which was a little less than 20 per cent of all US direct investment in Latin America whereas in 1929 it was hardly around $231 millions. The other sectors like petroleum and mining absorbed bulk of US direct investment. In petroleum more than 35 per cent of total US direct investment in Latin America was experienced in 1960. As a matter of fact, US direct investment showed a decline in 1960 in almost all the important sectors from its 1959 level. Trade was the only sector which escaped this fall. To sum up, from 1929 till 1960s, the growth of US direct investment was maximum in Latin America which was second in absolute terms only to Canada.

---

14 As assets were computed in book value, real income may have been less due to sharply rising prices and no doubt, during 1943-50, nearly 70 per cent growth of US direct investment in Latin America was witnessed. See for detail Statistical Abstract of United States, US Department of Commerce, Bureau of Census (Washington, D.C., 1970), pp. 760-6.

Even though the total US direct investment in 1960 fell from its 1959 level, its percentage participation in equity capital in all the important sectors remained more or less unaltered.

A special feature of US direct investment during the post-Second World War period is that it was mainly carried out by a few large corporations and there has been a tendency from the very beginning toward the growth of subsidiaries and branches (Table 7).

A second feature of US direct investment in Latin America during the period was that they owned most of their field of operation and controlled the activities, though in a varying magnitude (Table 8).

Table 8 says that setting up of undertakings in which US corporation had 95 per cent or more ownership, had increased by almost 33.5 per cent in 1957 over its 1945 standings. The third feature of US direct investment which was gradually developing in the post-Second World War period was that it largely catered to its global servicing scheme whereas in the period prior to the Depression it was concerned about short-term profit extraction and export to the United States. But, nonetheless US direct investment in Latin America had come of a great help as far as US economy is concerned.[15]

---

15 See for detail Rodrigo Botero, "Relations with the United States: A Latin American View", in Victor Urquidi, ed., Latin America in International Economy (London: Macmillan, 1970), pp. 222-9.

Table 7: US Direct Investment by form of organization, area and industry by 1957 (in millions of dollars)

Industry	All Areas total	Latin American Republics	Western Hemisphere dependencies
All industries (total)	25,262	7,434	618
Foreign Corporations	18,679	3,533	542
Branches	6,584	3,900	77
A. Mining and Smelting (total)	2,361	1,112	120
Foreign Corporations	1,252	230	83
Branches	1,108	881	37
B. Petroleum (total)	9,055	2,702	296
Foreign Corporations	5,326	688	280
Branches	3,729	2,013	15
C. Manufacturing (total)	8,009	1,270	10
Foreign Corporations	7,676	1,114	10
Branches	333	157	--
[illegible]ic Utili- [illegible]tal)	2,145	1,001	48
[illegible] Cor- [illegible]s	1,761	685	39
[illegible]	384	316	9

[illegible]urce: <u>Supplement to the Survey of Current Business</u>, 1960, p. 97.

Table 8: Number and value of direct investments by percentage of US ownership and period of establishment by area.

	At the end of 1957			At the end of 1945	
Total	All Areas	Latin America		All Areas	Latin America
Number	10,272	2,841	N	4,658	1,157
Value	25,262	7,434	V	17,630	5,591
Percentage of ownership					
95% more	N 8,329	2,313	N	3,952	1,015
	V 18,908	6,349	V	13,203	4,745
50% to 95%	V 1,343	358	V	499	89
	V 5,041	884	V	3,717	701
Less than 50%	V 600	170	N	207	53
	V 1,313	201	V	710	145

Source: Supplement to the Survey of Current Business, 1960, p. 101.

Table 9

Transactions of U.S. direct investments enterprises with the United States by area and industry by 1957

Area	Exports to U.S.	Capital flows from U.S.	Imports from US		Remittance	
			Capital(a) equipment	Non-capital equipment	Fees and Royal-ties(b)	Income
All Areas	3,770	2,482	687	1,972	241	2,249
Canada	1,363	718	47	845	60	335
Latin America	1,563	1,163	360	444	70	886

(a) Exports and Imports by trading companies are excluded.

(b) Excludes film rentals.

Source: Supplement to the Survey of Current Business, 1960, p. 146.

Table 9 says that the amount of imports of goods by United States produced by US direct investment enterprises abroad were 27 percent of all US merchandise imports in 1957 and ironically enough, four-fifths of these sales to US originated from Latin America.

Table 10 reflects how US direct investment controls most of the exports in minerals and metal sector and also petroleum which were exported to US which shows how strategically involved these corporations are in Latin America from US point of view. By 1957, Latin America accounted for more than one-third of total US imports of selected commodities which included food and agricultural products, minerals and metals, petroleum and manufactures of different type. Out of these imports from Latin America, little less than 50 per cent came through the US corporations.

Latin America also served as a big market for US goods and equipments through US direct investment enterprises.

Table 11 shows the market potential of Latin America and the extent to which it absorbs US exports of non-capital equipment and capital equipment through US direct investment. US direct investment enterprises in Latin America were importing around 60 per cent of their required capital equipment and over 90 per cent of all capital and non-capital equipments needed from US by 1957.

Tables 10 and 11 prove that US direct investment served as an instrument which satisfied two functions at the same time. Firstly, it supplied considerable portion of strategic

Table 10: U.S. imports of Selected Commodities, total and from Direct Investment, 1957 (millions of dollars)

	All Areas		Latin America	
Commodities	Total	US Companies	Total	US Companies
US imports (total)	13,291	3,610	4,314	1,677
Good & Agricultural Products	4,843	375	2,130	284
Metals/ Minerals (total)	3,876	2,219	1,766	1,372
Out of minerals, Petroleum and crude Products	1,506	1,364	1,086	969
Manufactures/ semi-manufactures (total)	4,572	1,015	418	20

Source: Supplement to the Survey of Current Business, 1960, p. 114.

Table 11: Imports of US Direct Investment enterprises by industry, types of imports, and by 1957 (measured in millions of dollars)

Type of industries	All Areas	Latin American Republics Total	Mexico, Central America	South America
Total Imports other than Capital equipment for all industries total	5,299	787	247	540
From U.S.	1,971	444	119	325
Mining & Smelting (total)	72	65	11	54
From U.S.	57	52	10	42
Petroleum, total	3,737	449	135	314
From U.S.	756	156	15	141
Manufacturing (total)	1,442	246	83	163
From U.S.	1,112	210	77	133
Total imports of Capital equipments	856	395	73	321
From U.S.	657	360	70	289
Mining & Smelting (total)	86	75	6	69
From U.S.	82	72	6	66
Petrol (total)	535	228	14	214
From U.S.	409	208	13	194
Manufacturing (total)	129	28	8	20
From U.S.	94	22	6	16
Other industries*	105	64	45	17
From U.S.	70	59	44	13

*includes agriculture, public utility, finance, miscellaneous excludes trading companies which imported $614 million of which $407 million from U.S.

Source: <u>Supplement to the Survey of Current Business</u>, 1960, p. 121.

minerals and fuels which strengthened the industrial and energy base of the United States. Secondly, it provided quite a big market for US equipments and goods and services.

Another sharp feature in the post-Second World War phase is that US direct investment penetrated increasingly into South America to fill up the vacuum left open by the European capital which came on a much reduced scale after the war.

A number of factors can be attributed to this increasing penetration of US direct investment in the post-Second World War period. As the private portfolio investment declined substantially due to bond defaults after 1930, US direct investment virtually compensated more than enough for the decline of US private portfolio investment. One of the foremost factors which resulted in more US direct investment penetration was the weak European competition which was witnessed during the period. After the Second World War, the European capital moved in a much reduced scale and provided a golden opportunity for US private investor to fill in.

Secondly, the high level of US domestic savings prevailing in the immediate post-Second World War period gave a stimulus to US private investment to move abroad. A third factor which contributed to the massive US private capital inflow into Latin America was that no equally profitable outlet was existing inside the US domestic economy. The fourth factor was that in the post-Second World War period, the less developed countries of the world including those in

Latin American continent tried to accelerate the process of their capital accumulation and growth. The revolutionisation of expectation and the craze for modernisation and industrialisation in Latin America opened the way for further penetration of foreign capital in the form of US private capital. As the Latin American domestic capital formation was found to be inadequate, they had to depend some way or other on foreign capital.[16]

The realization of Latin America as a large resource base and a safe market also encouraged inflow of US private capital. But, the most important factor which was responsible for their increasing penetration was the disportionate rate of return which US investor had been accumulating over the past couple of decades.

By 1950, it was around annually $700 million of earnings by US private firms on their direct investment undertakings in Latin America whereas in 1925-29 it was roughly around $150 million to $200 million per year. This was partly due to a rise in the value of investments, rise in the rate of return and partly due to a high proportion of investment in mineral extraction, petroleum and manufacturing.

Table 12 illustrates receipts and payments of US overseas private investment during the decade of 1950s. Receipts

---

16 UN Report on Economic Development of Latin America in Post War Periods, Economic Bulletin for Latin America, UN Publication (S.No. 64), 11 (G-6), Ch. IV. See also Keith Griffin, Financing Development in Spanish America (London: George Allen and Unwin Ltd. and Hague, Ruskin, 1969), pp. 22-23.

Table 12: US International Investment Income Receipts and Payments by Areas 1950 to 1960 (Millions of dollars)

Area and type of investment	1950 Receipts	1950 Payments	1955 Receipts	1955 Payments	1960 Receipts	1960 Payments
Investment in (all areas)	1,593	345	2,444	502	3,205	929
Direct	1,294	148	1,912	191	2,338	239
Other Private	190	66	258	217	518	358
Latin American Republics (total)	554	13	745	21	808	44
Direct	522	1	678	(1)	641	...
Other Private	18	10	33	15	88	30
Canada (total)	410	78	423	108	573	166
Direct	294	36	293	50	362	68
Other Private	116	32	129	43	211	67

Source: <u>Balance of Payment</u>, <u>Statistical Supplement</u>, 1958 and <u>Survey of Current Business</u>, June 1960, March 1962, March 1963 and Records.

of US private concerns in Latin America were far ahead of Canada which holds today the maximum of US direct investment. By 1960, US direct investment enterprises were earning around $2,338 million in Latin America whereas in Canada, they were receiving $641 million by virtue of their direct investment in Canadian economy. Since the US private capital had been earning quite handsomely at a disproportionately higher rate in Latin America, they were first seeking for a suitable time to move in. As soon as the European capital dried up they did move in.

Table 13 focusses on US share in their part of the net earnings of US Corporations and their branches in Latin America which have been remitted to United States. It did not however, include the undistributed profits or part of their earnings which stayed back. By 1959, US share in net earnings remitted by its private corporations and branches amounted to $774 million per year whereas in 1950 it was around $600 million. In fact, in 1957 the share reached a new height of $1,096 million but it came down in 1960 because of the exchange restrictions imposed by Latin American governments on profit repatriation after 1957. Even then, the overall trend says that increasing number of US private firms operating in Latin America took to the accumulation of the better part of their earnings back in Latin America to expand their operation and integrate their business activities in a massive and co-ordinated way.

Distributionwise, the maximum emphasis was on petroleum and manufacturing. Mining comes in the third place so

Table 13

U.S. share in net earnings of US private corporations
and branches by industry and country 1950-1959
(millions of dollars)

Area and Country	All Industry total	Agriculture	Mining & Smelting	Production	Manufacturing	Public Utility	Trade	Finance	Miscl.
1950									
All areas (total)	1,766			627	637				502
Latin American Republics	602			266	106				231
Mexico, Central America, West Indies	171			5	27				139
South America	432			260	80				92
1957									
All areas (total)	3,561	93	266	1726	884	146	263	123	61
Latin America	1,096	73	95	638	129	33	81	28	19
Mexico, Central America & West Indies	213	69	15	7	44	20	39	12	6
South America	883	4	80	631	85	13	41	16	12

Table 13 Contd.

Area and Country	All Industry total	Agriculture	Mining & Smelting	Production	Manufacturing	Public Utility	Trade	Finance	Misc.
				1958					
All areas (total)	3,034		209	1324	926		237		337
Latin American Republics (total)	760		86	393	104		63		113
Mexico, Central America & West Indies (total)	167		14	3	40		39		71
South America	593		73	390	64		25		42
				1959					
All areas (total)	3,255		315	1185	1129		302		324
Latin American Republics (total)	774		141	321	120		98		93
Mexico, Central America & West Indies	156		14	8	44		43		48
South America	617		127	313	76		55		45

Source: Supplement to the Survey of Current Business, 1960, pp. 127-8.

far as US direct investment was concerned. As US direct investment enterprises were more concerned about catering to their global servicing scheme in the post Second World War period as there was an ever increasing demand for US goods in other leading world markets. To satisfy a massive world demand for their products the US private investors deeply penetrated into Latin American economy. The low labour cost and proximity of Latin America as a rich resource base to US, did play a prominent role. Specially after the 1950s, most of the Latin American countries followed import substitution industrialization (ISI) strategy. Since this strategy needed capital to produce capital goods domestically rather than import them, it provided an opportunity for US private capital to move into the capital goods sector substantially.[17]

Another motive behind the US direct investment in the Latin American manufacturing sector was that US private investors were trying to achieve some sort of vertical integration. Previously, they were quite prominent in public utilities and also in mining and petroleum. And after 1950, by moving into manufacturing they tried to minimize the cost of production and differentiate products to pre-empt the Japanese and European competition in the major world markets. In other words, the stepping up of US private capital in mining and manufacturing and petroleum in Latin America was due to

17 See Wendell Gordon, "The Contribution of Foreign Investments: A Case Study of US Foreign Investment History", Inter-American Economic Affairs, vol. XIV, No. 4, 1961, pp. 28-31.

a rise in demand for US goods in the international market. And also, Latin America did provide required raw materials and minerals needed by US investors to step up production of different types of manufacturing and semi-manufacturing goods by setting up production plants in Latin America and expanding the production facilities in United States.

After the Second World War as the developed economies of Europe and Japan stagnated temporarily the US firms emerged in the form of multi-national corporations (MNCs) by expanding their bases in different countries. They virtually dominated the world market in post Second World War period by superficial product differentiation.

The main motive behind the opening up of subsidiaries and branches by US MNCs in Latin America was only to avoid double taxation and to earn tax incentives offered by respective governments. Most of the US MNCs tried to avoid unnecessary, risky and fulfledged undertaking.

As mentioned earlier, the Latin American countries were in need of foreign capital in a big way after the Second World War to satisfy their own development needs. Since US private capital served as a source of modern technology, specialized managerial skill and access to international market, the Latin American countries pursued certain policies to attract more US private capital. This virtually complemented US private capital concentration in the important sectors of mining and manufacturing in Latin America. Also, the ratchet effect of prices, specially in case of manufacturing goods prevailing in the international market and their own advantage in modern technology and marketing intelligence complemented US private capital inflow into Latin America during the post Second World War period.

Chapter II

A SURVEY OF US POLICY TOWARDS OVERSEAS PRIVATE INVESTMENT

Chapter II

A SURVEY OF US POLICY TOWARDS OVERSEAS PRIVATE INVESTMENT

Having discussed the potential that the Latin America's resources offered to overseas private capital and having delineated the trends in respect of US overseas private capital ever since the independence of Latin America, an attempt is made in the present chapter to trace the official US economic policy to promote US private capital since the Second World War.

The policies of the US Government toward the countries of underdeveloped world have been the subject of controversy in the United States for a long time. It is often said that the US economic policies are primarily formulated to serve US business interests abroad. No doubt, business benefits from government policies and also sometimes business community and interests play important role in making them through their pressure groups and lobbies.[1]

THE EVOLUTION OF US POLICY TOWARDS OVERSEAS PRIVATE CAPITAL INVESTMENT

Ever since the First World War, the United States started looking for vitally needed raw materials for its industries, marketing outlet that could absorb the surpluses of a variety of its manufactured goods and fields of investment for its accumulating capital. To serve their basic

---

1 See R. H. Wagner, <u>United States Policy Toward Latin America: A Study in Domestic and International Politics</u> (Stanford, California: Stanford University Press, 1970), pp. 1-3.

economic objectives, the US initiated efforts to formulate an international economic policy which would help encourage private capital investment overseas.[2] That these were, broadly speaking, the major objectives of the United States is amply reflected in the official economic policies of the successive administrations.

US interest in raw materials and markets for its surplus goods obviously demanded its political leaders exert themselves to keep the business channels of the world free and unrestricted. No doubt, the US private capital investment abroad required some active steps to be taken by US government for the preservation of its interests. Before 1914, however, the United States was distant from the main centres of world power and preoccupied in its own political and economic development. Isolationism and protectionism were the dominant features of the American conception of a proper relation between US and the rest of the world. After the First World War, the United States fully established itself as a great power in terms of size and wealth, though its potential was not felt by others.[3] Even the United States was

---

2 For detail see a compile by Arthur D. Gayer and Carl T. Schmidt, American Economic Foreign Policy: Post War History, Analysis and Interpretation, A report submitted in the 12th International Studies Conference (Bergen) on August 27-September 2, 1939, compiled by Coordinating Committee for International Studies (New York, 1940).

3 By 1910, due to high rate of capital formation in the US, it did not depend on investment from abroad. At the turn of the century American National income was approximately equal to that of the UK and Imperial Germany combined with the population greater than any great power at that point of time with the only exception of USSR.

slow to grasp its own economic strength.

Nevertheless, by about the decade of 1940s when the world was experiencing a second major war, the US had set aside its isolationist posture and began assuming new international role in economic, military and political field.[4] Before the mid 1930s, the US Government was barely involved in international economy and the famous Smoot-Hawley tariff of 1930 unmistakably reflected US's independent position and its lack of concern with other nations trade interests.[5] Firstly, everything was considered subordinate to the domestic economic policy of the United States.[6] For that matter, as such there was no definite position on what should be the US international economic policy. The stand was of no surprise as at that time it upheld the long term process of US isolationism which caused withdrawal from the affairs of the rest of the world. The second factor was the state of economic self-sufficiency of the US economy and its huge market size. Thirdly, its ideological attachment to the philosophy

---

4 See the report of a study group sponsored by the Woodrow Wilson Foundation and the National Planning Association under the Chairmanship of William Y. Elliott on <u>The Political Economy of American Foreign Policy: Its Concepts, Strategy and Limits</u> (New York: Henry Colt and Company, 1955), pp. 328-9.

5 Smoot-Hawley Tariff was imposed on imports to the United States to protect US infant industries before 1930s. See Herald B. Malmgren, "US Economic Policy", in Wilfred L. Kohl, ed., <u>Economic Foreign Policy of Industrial States</u> (John Hopkins University Press, 1977), pp. 21-22.

6 Ibid., pp. 19-21.

of *laissez faire* contributed to the efforts which were initiated to minimize the role of the federal government and keep it out of the economic affairs, if at all possible. The last factor responsible for the lack of a foreign economic policy and lack of concern for the rest of the world was the constitutional and political structure of the United States.[7] Concommitantly, a new thinking evolved regarding the foreign economic policy of the United States because US was drawn into a web of international rules and procedures that were of great benefit to the US economically and politically. The International Monetary Fund (IMF), the General Agreements on Tariffs and Trade (GATT) and the Organization for Economic Co-operation and Development (OECD) were all established which greatly benefited the US political and economic interests.[8]

When the Second World War emphasized the ponderance of American economic power, US foreign economic policy moved into a new phase - the Brettonwood phase. A serious post-war planning began in the executive department in Washington during that period.

Brettonwood doctrine was one of liberal economic internationalism. It was liberal in the classical sense because it believed correctly in the vitality and efficiency of private competitive economies. It was internationalist as a whole. In practice, some advances were made in 1947 which shaped US foreign economic policy in a significant way. The

---

7 Ibid., pp. 21-22.

8 Ibid., pp. 22-24.

Brettonwood period recognized an integrated and automatically self-adjusting international economy which could not be accomplished unless national governments adhered to a detailed code of good economic behaviour. This was also the official thinking of the United States.

In the post Second World War phase, the danger of rivalry and possible erosion of US economic supremacy by other potential powers were required to be eliminated by the US governmental action as it was the most needed thing for US private investors at that point of time.

Traditional US policy toward Latin America such as that of Monroe doctrine and Isthimian policy which virtually turned the Carribeans and the other Latin American States into an American brotherhood were needed to be vigorously re-emphasized and incorporated in the evolving policy framework to ensure equal commercial opportunity to US private investors in Latin America.

The United States had intervened during this period in the Carribbeans to protect American lives, property and investments against local disorders and depredation of armed bands to uphold the doctrines.[9] Ever since the First World War years there was a tendency and strong current working toward the formulation of heavy governmental policy action to subserve and save US business and investment interests

---

9 By 1930, there was no strong challenge existing in Isthimian canal region from the Europeans. See for detail Arthur D. Gayer and Carl T. Schmidt, American Economic Foreign Policy: Post War History, Analysis and Interpretation, n. 2, pp. 223-4.

abroad. This trend gathered its momentum in the post Second World War phase and received much significance.

The economic reports submitted to the Congress and the legislative amendments made by numerous US Presidents unmistakably indicate an inherent tendency to give US private capital scope to work freely. This always has been one of the major objectives of the US international economic policy.

In the post Second World War period US believed that economic programmes had to be geared to serve mainly three purposes.[10] They were: a) conservation and development of US natural resources and capital equipment, b) enabling human resources to become fully productive and provide richer and more satisfying lives and c) improving economic institutions and practices so as to utilize free enterprise and representative government effectively toward maximum production and sustained general prosperity. The United States needed judicious conservation and development efforts because in many respects these resources were subjected to excessive drains to supply war time production needs in the past. The official US objective with regard to getting minerals for industrial and other strategic purposes was no doubt an increased emphasis on research, development of substitutes and importation of resources for stockpiling. To satisfy these ends and to strengthen the resource base of the United States, private enterprise expansion in a vigorous way in foreign countries

---

10 See Economic Report of the President: Transmitted to the Congress, January 1948 (Washington, D.C.: Government Printing Office, January 1948), pp. 4-9.

was considered to be the primary objective by US authorities.

For the protection of US business interest abroad and to satisfy US own economic ends, the efforts of the federal government was found to be indispensable which could provide favourable conditions for adequate and well balanced US private capital penetration abroad, specially in productive fields.

The official US policy in case of international economic relations in the post Second World War period was aimed at conducting negotiations with other nations for better standards for the conduct of free world trade, so that each country may get an opportunity to produce resources which it can produce best and buying that which can be produced economically elsewhere. This view was specially pursued to make way for US private investors to penetrate into foreign economies to achieve US ends and objectives on the penetration of preserving free world trade and commerce. No doubt, in case of a free state of world trade and commerce US private firms will be the most benefited lot as they are well equipped in many respects.[11]

After the world wars the changing economic position of the industrially advanced nations were of great significance to the analysis. During the war and its aftermath, many

---

11 The US private capital has had access to organized money market, better technical know-how, managerial skill and the risk taking ability from the very beginning which was giving them an edge over other competitors in the world market, specially in the post Second World War phase when Japanese and European competition was weaker.

areas that were formerly dependent upon Europe and Japan for their industrial products had already begun their efforts towards indigenous industrial development.[12] They could not secure supplies sufficient to meet their increased requirements of capital goods from their traditional trade sources, they were depending increasingly on US technology and private capital.

In the late 1940s, the success in reaching international agreements to reduce obstacles of trade which was expected to help other countries buy US products without depending upon the extraordinary financial assistance, virtually encouraged US private investors. To quote the official policy,

> It is desirable both from our point of view and that of other countries that we, a country rich in capital, make some of our savings available to areas where capital is needed and where properly safeguarded private investments can earn a good return. (13)

An important factor which complemented the US official thinking was the need to maintain a sufficiently high level of

---

12 Many areas include specially Latin American countries and some Asian and middle east countries. See for both 11 and 12 Charles P. Kindleberger, American Business Abroad (Cambridge, Mass: Harvard University Press, 1970), pp. 18-21.

13 See Economic Report of the President: Transmitted to the Congress, January 1948 (Washington, D.C.: Government Printing Office, 1948), p. 88; and for further information see Mid Year Economic Report of the President: Transmitted to the Congress, July 1948 (Washington, D.C.: Government Printing Office, 1948), pp. 15-17.

exports through a substantial amount of US overseas private investment in order to avoid painful readjustment in certain areas of domestic agricultural and industrial production.

Abundant supply of capital and large savings in the United States had enabled US private investors to make available both capital goods and knowledge of technology and production methods to developing countries. The official US stand on this issue since the Second World War has been that US private capital should be encouraged to perform economic progress with a high degree of velocity and the governments which are in need of capital for the development of their respective economies should provide reasonable assurances to the safety of US private investors with minimum amount of risk.

To quote the US President's Economic Report again on capital transfer to other economies:

> It is to be hoped that it can be done more fully by private capital rather than government aid as foreign countries bent on capital development give reasonable assurance of safety to private investors. This they must do if they wish to secure capital in large amounts. (14)

After President Truman the successive administrations have more or less pursued similar policies, the primary objectives being promoting US private investment abroad and thereby ensure US economic supremacy.

---

14 <u>Economic Report of the President: Transmitted to the Congress</u>, January 1949 (Washington, D.C.: Government Printing Office, 1949), p. 74.

SIGNIFICANT POLICY PRONOUNCEMENTS IN 1950S

To promote private capital investment abroad the US Administration had undertaken significant policy pronouncements from time to time. The first of many important pronouncements was the Economic Co-operation Act of 1948 which insured US overseas private investment against the danger of expropriation and inconvertibility of principal or profits into US currency.[15]

The Economic Co-operation Act of 1948 was soon followed by Reciprocal Trade Agreement Act of 1949 which urged and recommended the expansion of both technical and capital assistance programme for the growth of underdeveloped countries which logically meant that this Act had asked for an increase in foreign investment. The strategy made it implicit that the expansion of foreign private investment

---

15 The most important clause which the act provided was an insurance against unfair treatment or expropriation derived from the formation of mixed enterprises in which both Latin Americans and Americans jointly invested. After pronouncement of this act various Latin American countries began to relax their restrictions on the remittance of profits and some even guaranteed the conversion of profits into foreign exchange. On the negative side of the Act, US direct investors suffered from the fact that there was unfavourable tax position and they were taxed in case of business earnings both in countries where they were earned and in the United States. But, nonetheless, some progress was made in the area of mutual agreements by deductions which were allowed for taxes paid in US and in the United States for taxes paid in Latin America. Later on, other legislative improvements were done to remove the obstacles for the outward movement of US private capital. See for detail William Withers, The Economic Crisis in Latin America (Macmillan, 1964), pp. 42-47.

by making more dollars available to the underdeveloped countries (UDCs) would expand their demand generating capacity for capital goods of industrially advanced countries which would in turn improve rest of the world's ability to buy US goods.

In the legislative amendments made in 1949 relating to US foreign economic policies, it was quite inherent that for prosperity the US authorities never believed in a cut in their overseas investment. They only believed that prosperity could only be achieved if a massive expansion of US private investment took place abroad.

As the Economic Report of 1949 states:

> The expansion of foreign investment, by making more dollars available directly to the underdeveloped countries and indirectly to the capital goods exporting countries of Europe, will improve the rest of the world's ability to buy from us. The expansion of technical assistance will stimulate foreign investment by assisting countries that want capital for development to translate their aspiration into concrete projects, by creating new productive investment opportunities, and by increasing the private investor's knowledge of those that already exist. (16)

In the later part of 1949, to help US private investor, the US Administration proposed expansion programmes for Export-Import Bank (Exim Bank) and International Bank for Reconstruction and Development (IBRD) for development activities in priority areas in the developing countries to help achieve

---

16 Taken from Mid Year Economic Report of the President: Transmitted to the Congress, July 1949 (Washington, D.C.: Government Printing Office, 1950), p. 13.

the above objectives. In the early 1950s US authorities recommended for the continuation of the European Recovery programme and also extension of aid programmes to friendly countries of the United States.

To initiate a world wide rise in international trade, the Congress approved promptly the charter of International Trade Organization (ITO) which established a code of fair trade practice and a means for steady improvement in the existing international commercial relations. Also in the early 1950s, the Congress of United States authorized the Exim Bank to guarantee US overseas investment against certain risks peculiar to foreign investment. At the same time, President Truman assured the Congress to conduct negotiations for treaties to improve condition for US private investment abroad and the protection of the legitimate interest of US investors.

Certain tax laws were also reformed to govern the taxation of income from foreign investment in a revised form to stimulate the flow of US overseas investment. Even though, the US authorities were well aware of the fact that private funds including those invested through the international banking institutions would not be sufficient to meet the investment needs abroad, absolute faith was maintained on private investment abroad and its expansion.

In 1949, aid for European Recovery programme reached a post-war record of $5.9 billion, slightly exceeding the previous record total reached in 1947 and exceeding the 1948 total by $1.2 billion.[17] This increase however, did not lead to an expansion of exports because it was more than offset by the decline in other sources of dollars used by foreign countries for making purchases in the United States. The dollar value of US imports of goods and services and net outflow of US private capital declined in this period as many foreign countries as a whole ceased liquidating their gold and dollar assets.

As a result, US total exports of goods and services actually diminished by a billion dollars in 1948-49. These developments indicated that the effect of increased aid was to limit the decline of exports in the face of a reduction in other means of financing them.

The situation took place due to contraction in US business activity abroad. So the US authorities took necessary steps to ensure that the same situation would not take place again by ensuring radical policy changes to promote US private overseas investment. The US official stand has always maintained that the expansion of trade and investment between US and other countries would add to world political stability and reduce the need for extraordinary grants.[18] The problem arose largely due to the intensity of foreign demands for US goods and services which since the war had vastly exceeded what developing countries could finance by selling goods and services to the United States or by attracting private US

---

17 See Economic Report of the President: Transmitted to the Congress, January 1950 (Washington, D.C.: Government Printing Office, 1950), pp. 121-7.

18 See ibid., p. 123.

capital.

For that matter, necessary steps were immediately undertaken by US authorities to build the gap between the two and in turn initiating increasing penetration of US private capital abroad.

In the early 1950s, in addition to a revision of existing tax laws regarding foreign investment a programme was essentially adapted to assist the UDCs in raising their standard of living and creating an atmosphere which would be favourable to the maintenance and development of freedom and democracy.[19] This programme is widely known as 'Point Four' programme.[20] Its four points were: a) to expand flow of capital which would create new international markets which would also mean an expansion of the world market as a whole; b) to furnish technical assistance and expedite the flow of US private capital to the countries who have made little progress in terms of development; c) to provide guarantees against risks peculiar to foreign investment; and d) to encourage US private capital through the negotiations of treaties to get assurance against discriminatory treatment.[21]

The 'Point Four' programme virtually ensured a phase of increasing US private capital penetration in foreign countries through US government risks.

In 1951-52, the US official documents maintained that

---

19 See ibid., p. 125.

20 Ibid., p. 125.

21 Ibid., p. 126.

despite the international tensions US private investment could still be effective in certain areas and were particularly needed to expand raw material production. During this time period, there was an emphasis on selective public investment through Exim Bank and IBRD to create field for more private investment.

The liberalisation of credit for taxes paid abroad by US private investors and other allied measures to promote US overseas private investment were taken to accelerate the defence programme to protect the free world from Soviet penetration.[22] This stand was repeatedly endorsed by successive US administration on the basis of their understanding that economic future and security concerns are inseparable in case of free world.

The US authorities have always been a strong believer of fewer restrictions for the free operation of market mechanism. In 1954, the US Congress enacted the 'Customs Simplification Act' which was designed to simplify and remove the inequities of customs regulations in case of imports. It was hoped that this tariff reducing act would be accompanied by similar measures by other nations to reduce governmental interference with the free movement of goods and capital. The US administration also renewed its plea for the removal of the barriers to the movement of private capital so that, it could play a further role in developing new sources of raw materials

---

22 See President's Economic Report: Transmitted to the Congress, January 1952 (Washington, D.C., 1952), pp. 16-17.

by creating new production facilities and increasing the standard of living of the United States and throughout the Free World.[23]

In the following year, the US administration approved a considerable portion of Randall Commission's guidance to open up new channels of trade, to foster foreign investment and to provide technical aid to UDCs.[24] On the basis of Randall Commission report, the administration called for a reduction in existing tariffs and ensuring an efficient customs administration.[25] On the basis of Randall Commission recommendation the US administration adopted the following major tax laws to encourage US private capital penetration abroad: a) It reduced the tax rate on corporate income from all foreign sources by 14.1 percentage points and made it equal to the rate already applicable to western Hemisphere Trade Corporations; b) It avoided double taxation on corporate income from foreign sources; c) The tax law allowed that the US corporations with foreign branches would be permitted to defer the tax on branch income until it was withdrawn from the country in which it was earned. This provision facilitated

---

23 See also _President's Economic Report: Transmitted to the Congress_, January 1954 (Washington, D.C., 1954), pp. 108-10.

24 Randall Commission was appointed by the President of the United States in 1953-54 to look into the matter of promoting US private investment abroad and evolving an efficient tariff and customs policy.

25 See _Economic Report of the President: Transmitted to the Congress_, January 1954 (Washington, D.C.: Government Printing Office, 1955), p. 52.

the end of discrimination between the operation through branches and those through foreign subsidiaries; d) Under proper safeguards, the tax law continued to give full credit for income taxes that were collected by a foreign country for a specified initial period from US private investors; and e) It recommended to set up International Finance Corporation (IFC) which would be an affiliate to IBRD to provide capital to needy private enterprises to go abroad. These reforms in the old tax laws contributed in a big way to encourage new US overseas enterprises.[26]

In 1958, the US administration renewed the Trade Agreement Act for 5 more years and asked for the reduction of trade barriers on a wide scale.

Even in 1959, when the United States faced a severe balance of payment crisis, several steps were undertaken to augment the flow of capital from US through different sources to the UDCs. During these years there was a massive US private capital inflow into Latin America and other UDCs.

In the late 1950s, the US administration decided to set up an International Development Association (IDA) to further the flow of both public and private capital from the United States. It also tried to achieve the same objective through UN programmes.

By 1961, the US authorities were quite successful in

---

26 For detail see Economic Report of the President and the Report of the Council of Economic Advisers: Transmitted to the Congress, January 1955 (Washington, D.C., Government Printing Office, 1955), pp. 51-53.

diminishing the discrimination against US exports substantially except of course, for US agricultural products to Western Europe. They succeeded in lowering the tariff barriers through the General Agreements on Tariffs and Trade (GATT) and also had a considerable part of the capital needed by UDCs supplied from US private sources.[27]

US administration believed that US private capital outflow makes a contribution to the world's supply and velocity of circulation of dollars and thereby contribute to the international monetary stability. As the US economy itself runs on free enterprise and market mechanism, it is very logical to expect what the US administration, in successive years, has been doing to help promote free enterprise mechanism in other world economies. Active government policy measures for the promotion of private capital abroad, have helped many US based firms emerge as monopoly houses over a period of time. At present, most of the US based multinational corporations (MNCs) run a parallel international economy of their own.

Admittedly, most of the cases relating to the promotion of US private capital, the US administration had acted unilaterally. Even in the areas where US administration has drafted rules for international institutions to maintain free world movement of goods, capital and technical assistance, it

---

27 See Economic Report of the President: Transmitted to the Congress, January 1961 (Washington, D.C.: Government Printing Office, 1961), pp. 33-40 and 107.

has taken somewhat unilateral actions from time to time. The mechanised belief in its ability to tackle any crisis on its own has been reflected in the US policies toward the export of its private capital.

But, by the end of 1960, the economy of the United States has become more vulnerable to major world developments. This has been a gradual process.[28] This trend virtually made the US authorities consider a change in their policies relating to world economic issues which also included the issues of US private investment abroad.

In the 1960s the US administration pursued different policies in the different parts of the world. With regard to Latin America the US administration launched the Alliance for Progress; the various aspects of which are discussed in the following chapters.

---

28 For detail see Herald B. Malmgren, "U.S. Economic Policy", in Wilfred L. Kohl, ed., Economic Foreign Policies of Industrial States (J. H. University Press, 1977), pp. 15-18. Also see for additional information Benoit Otis Brookens, "Diplomatic Protection of Foreign Economic Interests: The Changing Structure of International Economic Order", Journal of Inter-American Studies and World Affairs University of Miami), vol. 20, no. 1, February 1978, pp. 37-40 and 43-50.

Chapter III

ALLIANCE FOR PROGRESS: EVOLUTION, INSTRUMENTS AND POLICY MEASURES

Chapter III

ALLIANCE FOR PROGRESS: EVOLUTION, INSTRUMENTS AND POLICY MEASURES

An attempt is made in the present chapter to examine the Alliance for Progress initiated and implemented by US administration in the wake of Cuban Revolution. Divided into three sections, the chapter, in the first part describes the circumstances leading to the formulation of the Alliance for Progress. In the second part, an attempt is made to enumerate the important instruments of the Alliance programme, the way in which they were planned and implemented. In the third and final section, the focus is on the policies contained in the Alliance framework relating particularly to overseas private capital.

Circumstances Leading to the Formulation of the Alliance for Progress

On 31 May 1961, US President John F. Kennedy made an important announcement, the purpose of which was to launch a far-reaching framework of economic co-operation with Latin America. The signing of the Charter at Punta del Este which dealt at length on the massive economic co-operation that the US proposed was certainly neither sudden nor unexpected.[1]

---

1 The Charter at Punta del Este was signed by the members of the Organization of American States (OAS) except Cuba on 17 August 1961, which was in fact two and a half months after the original announcement was made by the US President Mr. Kennedy. This Charter was signed to help out the Latin Americans in their 'social development' process.

There were many factors which led to the culmination of the Charter. Primarily, the Punta del Este Charter was the outcome of the longstanding and shifting relationships of the United States with Latin America. The relationships between the two have been generally characterized by three elements: i) domination and intervention; ii) neighbourliness and mutuality and iii) economic assistance and rehabilitation.[2]

Ever since their political independence the Latin American countries faced the danger of renewed European penetration, economic domination and indirect political influence. The United States with its eye on emerging as the dominant continental power felt it necessary to assert its own interest. As a result, about the period when the Latin American countries had gained their independence, the United States enunciated a policy known as Monroe Doctrine (named after the President James Monroe) which unequivocably conveyed such a sentiment. By the end of the First World War, an exhausted Europe had openly recognized the basic principles enshrined in the Monroe Doctrine.[3] The European powers

---

2 For details see Harvey S. Perloff, Alliance for Progress: A Social Invention in Making (J. H. Press, 1969), pp. 1-3.

3 James Monroe, 7th Annual message to the Senate and House of Representatives, Washington, December 2, 1823) which later came as a doctrine, taken from the Documents on International Cooperation (Philadelphia: University of Pensylvania Press, 1955). Also in James W. Gantenbein, The Evolution of Our Latin American Policy: A Documentary Record (Columbia University Press, 1950), pp. 14-17.

virtually accepted the right of the US to maintain its dominant position in the Western Hemisphere which was implicit in the Monroe Doctrine.[4]

The first formal machinery designed to bring Latin America together with the United States was the Pan American Union (known initially as the Bureau of American Republics) which was set up way back in 1889-90. The Pan American Union provided a framework of co-operation on some economic and social matters of mutual interest including patents, commercial laws and trade.

As the Monroe Doctrine was formulated and applied originally as an unilateral gesture within the context of American foreign policy, it was incorporated in a big way much later in Rio de Janeiro Treaty of 1947 which was considered as another forward step in the inter-American relations. But it was not until the third and fourth Pan-American Conference held at Buenos Aires in 1908 and 1910 that the United States interventionist policies in various Latin American countries was bitterly criticized. The fact became clear since these years that the Latin Americans had become conscious of US intervention and were determined to prevent it.[5] In these

---

4 After the European declaration the Latin American countries found themselves confronting a new and potentially more dangerous threat of a stronger, geographically closer, politically more unified and expansive nation than the Europeans. See Robert N. Burr, _Our Troubled Hemisphere: Perspectives on US-Latin American Relations_ (Washington, D.C.: The Brookings Institution, 1967), pp. 1-5.

5 John A. Crow, _The Epic of Latin America_ (New York: Doubleday, 1946), pp. 690-2.

early years much of debate centred around political issues. Economic matters were brought to debate systematically for the first time in 1933 in the seventh Inter-American Conference at Montevido when competition from Germany in the form of German capital infiltrated into Latin America.

In the same year a new policy was initiated by the Roosevelt Administration - the basic objective of which was to check the increasing hostility of the Latin American countries towards the United States and help safeguard US economic and political interests in South America. The policy was known as the Good Neighbour Policy.[6]

One very important point is that the Good Neighbour Policy came into operation only after the US had displaced the European nations as Latin America's major trading partners. This announcement came only after the US direct investments had amounted to $3.5 billion in Latin America in the year 1929 which was more than twice the value of US overseas direct investment in any other part of the world at that point of time. The policy of "non-intervention" which formed the core of Good Neighbour Policy was practised only after the Latin Americans had found themselves to be

---

6 In his inaugural address of 1933, President Franklin Roosevelt declared: "I would dedicate this nation to the policy of Good Neighbour - the neighbour who resolutely respects himself, and because he does so, respects the rights of others: the neighbour who respects his obligations and respects the sanctity of agreements in and with the world of neighbours. Taken from <u>Documents on Inter-American Cooperation</u> (Philadelphia, 1955).

increasingly dependent upon the US for more and more capital as their European source of capital was gradually diminishing.[7]

In other words the Roosevelt Administration initiated a new posture in respect of its ties with Latin America and began giving up its interventionist posture in Latin America. The policy sought the neighbouring South American states to respect the sovereign rights of others in the Western Hemisphere. The prevailing general atmosphere of sympathy was maintained and strengthened when during the Second World War the US tried to keep the Western Hemisphere as a secure bastion for the Allies. In the process, the entire region of Latin America gained gradual importance as an essential part of any US security arrangement.

The period, however, was marked by important economic changes. In Latin America, the Great Depression severely damaged the major export industries upon which the Latin American economies were so largely dependent. There was a cry for positive public action and many of the Latin American governments introduced measures which they thought would keep these economies less vulnerable to external fluctuations of demand for their goods in future. The Chapultepec Conference in 1945 recommended for economic adjustments in the Western Hemisphere. And in 1948 the nineth Inter-American Conference at Bogota approved an Inter-American economic agreement.

Some of the Latin American countries also introduced

---

7 See Robert N. Burr, Our Troubled Hemisphere: Perspective on US-Latin American Relations (Washington, D.C.: The Brookings Institution, 1961), pp. 6-11.

import substitution scheme and tried to maintain reasonable price stability in case of basic commodities. Thus emerged a new trend of governmental responsibility in economic affairs in various Latin American countries.

The inter war years also saw an expansion of technical and financial assistance from the US to Latin America. During these years the concept of external assistance was greatly used by the champions of the Pan-American framework.[8]

In the post Second World War years when economic development was already becoming a matter of intense interest by means of external assistance, the US itself was involved in reconstructing the European economy through Marshall Plan to prevent Soviet Union's penetration in Western Europe in particular.

After the war years the Eisenhower Administration, being Republican in essence, pursued a perverted form of Roosevelt's Good Neighbour Policy. Analysts called the Eisenhower policy as more or less a "good partner policy". This policy defined

> a relationship in which a group of countries had to live with a neighbour which was much more wealthier and stronger. So, it called for a relationship in which the

---

8 The concept of external assistance was broadened with the establishment of the position of co-ordinator of Inter-American Affairs. Nelson A. Rockfeller held this post during most of the war period. This office was to set up an atmosphere of co-operation by strengthening US-Latin American Relations in cultural and economic matters. For detail see S. Perloff, n. 2, pp. 5-7.

> leadership of that neighbour must inevitably be accepted in some crucial matters. This did not mean that materially less developed countries in order to accept leadership would deteriorate into subservience. (9)

The 'good partner policy' in practice meant nothing but a rhetoric for, throughout his administration President Eisenhower ignored the Latin American claim for more public assistance for their development plans in order to enable them to achieve higher standards of living. The US policy of neglect in respect of Latin American development continued until a real serious crisis emerged in the form of Cuban Revolution which virtually threatened the US political and economic hegemony over Latin America.

In the case of Latin America ever since the 1930s all was not well also. The impact of the "revolution of rising expectations" swept through Latin America in the inter-war years. The problem of underdevelopment took a new and dramatic turn.[10] This "rising expectation" of Latin American people on the one hand and the eagerness of US to secure access to the natural resources of Latin America and thereby provide sufficient scope for its private capital overseas on the other hand, came in direct conflict after the Second World War and the confrontation literally led to the death

---

9 Taken from Simon G. Hanson, "The Good Partner Policy", <u>Inter-American Economic Affairs</u> (Washington, D.C.), vol. 10, no. 2, 1956, p. 46.

10 Fernando Monckeberg, <u>Checkmate to Underdevelopment</u>, Stephen Friedman, trans. (Santiago, University of Chile, 1975), pp. 41-46.

of the 'Good Neighbour Policy'.

Since the First World War, the tremendous rise in population caused great concern for the policy makers in Latin America. Because of the introduction of public health measures and related activities the death rates fell. The population of Latin America increased from 124 million in 1940 to 206 million in 1960. The life in the countryside became increasingly difficult and a great number of people from rural Latin America migrated to urban areas and disguised unemployment increased both in the countryside and the urban centres.

The post Second World War years marked a phase of rapid industrialization in countries like Brazil, Argentina, Mexico, Cuba, Chile and elsewhere. Steel, electrical equipments, non-electrical equipments, petroleum, chemicals, pulp, paper and other kinds of industries were set up through governmental as well as private auspices. A large urban labour force was in the process of formation during these years. Still, the number of people who secured gainful employment during the period fell short of the increase in population. Sizeable unemployment figures in some countries reached between 10 and 15 per cent.[12]

---

11 Ibid., pp. 47-50.

12 In an extreme case, between 1950 and 1960 Venezuela's urban population increased at an annual rate of 6.3 per cent while the rural population increased at only 0.7 per cent. In Brazil the urban population grew at 5.2 per cent and in the rural Brazil it was 1.6 per cent. See Economic Commission, The Latin America, 1959, 1960, 1961. UN Publications. Chapter on 'Economic Trends in Latin America'.

The attempt of some Latin American countries to industrialise speedily through high tariffs and various subsidies contributed to inflation. The pressure of limited import capacity due to vulnerability to outside demand fluctuations helped create economic imbalances which caused a lot of hardship to the lower middle class and the poorer section of the Latin American societies.

The emerging social group of industrial entrepreneurs, merchants, labour union officials and intellectuals in their efforts to accelerate the modernizing process started emphasising on economics of nationalism. The middle and working classes became more conscious of their civic responsibilities. A strange sharpening struggle of ideas took place between classes nearer to their international elites and the masses talking about nationalism. There was a strong feeling pursued across the Latin American continent that the US had dominated their country for long economically and politically. Also, growth of communication and transportation had caused growth of new ideas and expectations. And the gap between the expectation and achievement overtime caused distress and frustration among the masses.[13]

These sources of dissatisfaction were potent enough to force political responses. Some progressive governments took their good offices during the 1950s and initiated efforts to launch economic development programmes. Automatically the

---

13 See Fernando Monckeberg, n. 10, pp. 23-26.

confrontation took place between the section who objected the changes and defied the status quo and those who had asked for change. Gradually, the ruling elites compromised their stand and found it very convenient to use the language of economic nationalism and social reform to hold on to power.

The fact became crystal clear that something should be done to the long standing problems of poverty and dependence and an effort should be initiated to reduce the imbalance between wealth and poverty.[14]

The obvious point behind the discussion of the Latin American side of the problem is that the problem of poverty and underdevelopment had long been ignored by the Latin American power elites. Whenever there was a growing social tension these two groups initiated together some new mechanism to diffuse the issues and defuse the impending crisis only to satisfy their own interests.

The Good Neighbour Policy or the 'good partner policy' was outward oriented and nothing concrete was contributed to the common masses of Latin American countries. Or, for that matter, the Pan-American framework failed to take up the same task.

As a consequence to a disproportionality low income elasticity of demand for their exports, the Latin Americans tended to suffer from deteriorating terms of trade ever since. In addition to the enjoyment of a more favourable

---

14 Victor Urquidi, "Two Years of the Alliance for Progress," Inter-American Economic Affairs (Washington, D.C.), vol. 17, no. 4, 1964, pp. 21-36.

demand situation, the economically more advanced countries had a greater capacity to control the prices of their products and trading conditions.

For a long time, the Latin Americans demanded the US to undertake efforts to help stabilize prices of their export commodities and to diversify their exports. As time passed the Latin American governments undertook more and more responsibilities starting with the policy of import substitution.

The scarcity of development capital in these countries made them think that they were inevitably dependent on external capital in substantial amount. As most of the Latin Americans are against the dominance of foreign private capital in their economies, they have been asking for huge public assistance from rich nations, specially the US to help accelerate the process of their economic development. After the Second World War, the US concern for Europe and other parts of the world made the Latin Americans believe that the US is concerned only about its strategic requirements and not for the benefit of the American brotherhood.[15] Because of the

---

15 Some international developments during the 1950s compelled the US authorities to take a revised stand about the economic policies toward Latin America. In 1954, along with the support for the overthrow of a Guatemalan government, the US threatened with potential takeover in case of any anti-US activities or campaign. But, at the same time, it refused to assist in the stabilization of Latin American export prices and to finance development programmes. So the third element of economic assistance and rehabilitation mentioned earlier was not given any consideration when the US stoutly refused and resisted requests for large scale aid to Latin America.

danger of more and more extra-hemispheric intervention in Latin America after the war periods, the US pursued again the old policies of intervention and domination.[16]

Policy makers in the United States also viewed that the Latin Americans were over emphasizing the role of the state which was against age-old institution of the private enterprise and initiative. The United States always emphasized that free enterprise was a symbol of true American tradition. They added that in the long run the emphasis on state would socialize Latin American economies and would finally, affect the US business interests in Latin America.

Until the end of the 1950s when the Cuban Revolution which urged radical revision of their stand on economic policy toward Latin America, policy makers in the United States had been defending their policy of protecting their private investment in Latin America. Sometimes, they made it categorically clear that they would not tolerate any obstacles to the entry of their private capital into the countries needing capital assistance for the economic development.

But some international economic developments in the

---

16 This was proved in 1954 when the US supported the overthrow of a legally constituted Guatemalan government which had allegedly been infiltrated by the communists. In the OAS meeting at Caracas in 1954, the US Secretary of State John Foster Dulles insisted on the passage for appropriate action in case of a potential communist infiltration. This view was in the true tradition of the 'Good Partner Policy' followed by the Eisenhower Administration. See Perloff, n. 2, pp. 10-12.

1950s showed that there was a limit to the development efforts of US private enterprises. It became clear that in many countries the US private capital was limiting itself to the exploitation of small high income markets and seeking, frequently with success, the monopoly and near monopoly positions. At the same time, the US private capital showed less interest in undertaking risky manufacturing enterprises which would have helped open new export markets for Latin America and also in broadening their national markets. Actually, very few US companies did penetrate into Latin American risky manufacturing undertakings before the 1960s with both capital and technical know-how.

It also became clear that there was a limitation to rely on funds channelled through the Exim Bank which was actually used to encourage the import of the US goods. The World Bank operation were, before the 1960s, limited to a few infra-structural and industrial projects. The US apathy toward Latin American economic development problem became clearer to Latin Americans as US happens to be a dominant capital owning partner in these international banking operations.

These major and minor factors were grossly complemented by the Cuban Revolution in 1959 in the overthrow of US supported Batista regime in Havana. The revolution, in fact, challenged the US economic and political hegemony over the Western Hemisphere. It also encouraged the leftists in other Latin American countries to indulge in anti-American campaign and extract massive political capital. With a view to check the infiltration of communist and left-leaning groups the US obviously had to do something to pacify them and protect the "Free World".[17]

The Cuban Revolution accelerated the process of a transformation in US policy toward Latin America. On April 8, 1959, Inter-American Bank for Economic Development was set up to look after the credit facilities for development purposes to interested parties. Alongside, the Eisenhower Administration evolved a policy for granting $500 million for 'Social Progress Trust' to help out the poorer strata and enable them to live happier.[18]

In the Inter-American Conference held in Bogota in 1960 OAS members initiated steps to institutionalize the Inter-American development programme for executing measures to improve productivity in the use of land, to raise the living standards of the rural mass, to expand housing facilities, to develop educational and training systems, to improve public health measures and to increase the mobilization of

---

17 See R. H. Wagner, US Policies Towards Latin America (Stanford: California: Stanford University Press, 1970), pp. 28-31.

18 Government Documents: US Information Agencies Estimate of the Latin American Situation, March 28, 1961, Inter-American Economic Affairs, vol. XV, no. 2, 1961, pp. 89-91; also see Hearings Before the US House Appropriation Sub-Committee, Departments of State and Justice, the Judiciary and Related Agencies Appropriation for 1962, pp. 227-8.

domestic resources. The creation of Inter-American Development Bank (IDB) and Social Programme Trust Fund (SPTF) contributed in a modest way to the launching of the Alliance for Progress programme in the early 1960s.

To sum up, it may be said that the Alliance for Progress was undertaken a) as a logical extension of the Pan-American framework which had proved to be inadequate in the past to satisfy the basic economic and social needs of the Latin American people; b) to pacify the social tension and rising expectations prevailing in Latin America which was furthered by the worsening economic situation in the 1950s; c) to check further infiltration of extra-hemispheric ideological and political forces in Latin America; and d) to undertake different type of socio-economic development programmes to satisfy the 'social development' needs.[19]

IMPORTANT INSTRUMENTS OF THE ALLIANCE PROGRAMME

The main points of the Charter of Punta del Este 1961 were as follows:

a) Efforts would be undertaken in a decisive way by the American nations to mobilize their resources and modify their social standards in order that everyone should be benefited. To the Latin American national efforts reciprocally, the US would furnish resources of sufficient magnitude and

---

19 See Pat M. Holt, Survey of the Alliance for Progress: The Political Aspects; prepared for the Sub-Committee on American Republics, Affairs of the Committee on Foreign Relations Senate (Washington, D.C., 1967).

range to reach the goals.[20] b) Each Latin American country should formulate its own plan for long range development, providing for priority targets, standards for moving stability, machinery for executing social reforms, stimulation of private initiative and activity and application of the maximum national effort. These plans would constitute the basis for distribution of external resources. c) Support would be given to all regional economic integration efforts providing for the establishment of broader markets and greater opportunities for competition. d) The US would co-operate in the study of problems of the market in primary products seeking practical methods to overcome the harmful features of that market. e) It would intensify immediately the 'Food for Peace' programme. f) The programmes of technical assistance and cultural co-operation would be expanded.[21]

The main objectives of the Alliance Programme regarding development stood as follows:

a) an autonomous and cumulative growth rate of 2.5 per cent yearly per capita with a reasonable social distribution and a balanced and diversified expansion of agriculture

---

20 The Alliance asked for a meeting of the Inter-American Economic and Social Council (IAECOSOC) at ministerial level to initiate the broad planning that would constitute the foundation of the Alliance. See Perloff, n. 2, pp. 68-71; and also see Fredrick B. Pike, "Can We Slow Our Loss of Latin America", Inter-American Economic Affairs (Washington, D.C.), vol. XV, no. 1, 1961, pp. 3-30.

21 Taken from Roberto de Olivera Campos, Reflection on Latin American Development (University of Texas Press, Austin and London, 1967), pp. 141-5.

and industry; b) the elimination of adult illiteracy besides the general improvement upon the quality and adequacy of the educational system; c) a rise of five years in life expectancy through a number of sanitary and social measures; d) the construction of sufficient number of homes to expedite a solution to the housing problems; e) the stabilization of the prices of import and export products and increase in the foreign currency revenues of the Latin American countries; f) the stabilization of internal prices in those countries; and g) a strengthening of the movement toward regional economic integration.[22]

To carry out the overall development programme for agriculture, tax structure and land reforms and also education system, the US promised help and co-operation. It admitted its responsibilities to aid the Latin American countries in their 'social development' process and to satisfy the rising expectation of their people.[23]

The Alliance programme apparently assured the Latin American countries that there would not be any shortages of external capital. In addition to a programme of enlarged

---

22 See Joseph Grunwald, Latin Economic Integration and US Policy (Washington, D.C.: The Brookings Institution, 1972), pp. 15-16.

23 The US expected that if Latin America could take necessary internal measures, it could get an inflow of capital amounting to at least $20 billion from all sources (including European, Japanese and above all US private investment) for the decade following the year 1961. For details see Roberto de Olivera Campos, n. 21, pp. 145-7.

public expenditure for economic and social progress, there were also proposals and measures to stabilize, strengthen and enlarge markets for the Latin American products in the Alliance framework. In other words, the Latin Americans were promised massive public capital from US through different financial agencies to help them out in their social development scheme.

In the case of external assistance scheme to make the Alliance a success, provisions were made to disburse public capital through institutions like Agency for International Development (AID), Export Import Bank (Exim Bank), Social Progress Trust Fund (SPTF), Inter-American Development Bank (IDB), International Bank for Reconstruction or Development (IBRD) and its affiliates on a long-term basis.[24] For the short term capital assistance scheme, provisions were guaranteed for assistance through Exim Bank, US Treasury, International Monetary Fund (IMF), etc.

To make the Alliance a success, the Latin Americans were asked to undertake the needed institutional changes to work up actual projects for the eradication of poverty, poor communication, dual economy and inadequate distribution of wealth.

In the public assistance programme, all the international financial institutions promised assistance at an annual average of approximately $2,123.4 million to help in

---

24 AID was one of the chief architects of the Alliance based public fund financing to Latin America.

the Latin American 'social development' process.

In the beginning, the OAS was given the responsibility of executing the programme. There was a 'Committee of Nine' which was formed to be given merely supervisory and consultative functions.[25] This was a panel of nine experts. But these bodies did not have the power to encourage change and reform in a substantial manner. As they had no permanent status they could not confront each Latin American country each year with its record of accomplishments and failures. In case of other multilateral ventures, there was a scheme to co-ordinate the technical assistance efforts of the OAS, ECLA and IDB. It was hoped that such collaborations would eliminate duplication and pool talents from various agencies.[26]

From the beginning, it was evident that the efforts of multilateralization were essentially make-shift arrangements. Since there was no provision for a machinery to evaluate and guide the Alliance efforts, it became a matter of controversy over a period of time whether the Alliance was a genuine multilateral development effort at all.

---

25 'Committee of Nine' was initially not cohesive standing committee but was called upon by the OAS Secretary General to supply two or three members at a time to form half the membership of ad-hoc committees. Such ad-hoc committees carried little weight but was empowered to review national plans to make recommendation. See S. Perloff, n. 2, pp. 72-77.

26 Another Committee of Coordination was also set up in the name of inter-American Committee on Agricultural Development (CIDA) which was to help the Latin Americans in their most difficult agricultural problems. See S. Perloff, n. 2, pp. 78-82.

The sources of funds under the Alliance framework were substantially enlarged. In addition to IBRD which was mainly for loans to some specific infra-structural projects, there was an Exim Bank which was mainly set up to assist in the import of US products. Also, IDB was ready to advance loans to projects in any category that promoted economic and social development. But the largest source of funds was AID. It could supply programme loans not limited to any specific project but available to help finance a set of broad governmental programmes of development. In addition to these, firm commitment was also made to give overseas private capital an important role in the Alliance programming as a complementary source to the flow of private capital.[27]

SPECIFIC POLICY MEASURES PROMOTING PRIVATE CAPITAL IN THE ALLIANCE FRAMEWORK

The Charter of Punta del Este maintained that both private capital and enterprise must play a decisive role (300 million dollars were expected to come from private sources to the Alliance programme per year) in the realization of the Alliance targets.[28]

---

27 Simon G. Hanson, Five Years of the Alliance for Progress: An Appraisal (Washington, D.C.: Inter-American Affairs Press, 1967), pp. 163-4.

28 As the US Treasury Secretary Dillon put it that time, "The goal of two and a half per cent yearly increase in per capita economic growth cannot be achieved without more private capital".
As President Kennedy put it: "It is impossible for us to supply all funds necessary for the development of Latin America. They must come through private sources". See n. 27, p. 163.

By virtue of an International Development Act of 1961 the US officially committed itself to strengthen the economy of the underdeveloped friendly nations. The policy actually was to strengthen friendly foreign countries by encouraging the development of their free economic institutions and productive capabilities which would be done by minimizing and eliminating the barriers to the flow of private foreign capital.[29] The Act was accepted basically to encourage the flow of US private investment capital and was incorporated as one of the key elements in the formulation of the Agency for International Development (AID).[30]

Specially to encourage US business abroad, the Kennedy Administration inaugurated a) new export insurance programmes under the aegis of the Exim Bank and b) setting up of commercial services abroad for export promotion.

The Kennedy Administration during the Alliance years maintained that to place controls over the flow of US private capital would be contrary to American tradition and interests. With that in view, some improvements were brought about in the tax laws. To ensure greater flow to developing countries including all the Latin American nations, it eliminated the special tax incentives which were previously given to US

---

29 Head of AID in Latin America put it "There will have to be a climate in the area that will keep domestic capital at home and attract foreign private capital". Ibid., p. 163.

30 See AID, 1961, Section 102 (Washington, D.C.: Government Printing Office, 1961).

private capital to go into the countries which were already developed and economically strong but continued for developing ones.[31]

The policy of tax incentive to private capital moving out to developing countries indirectly did mean that the administration wanted to stimulate US private capital more in LDCs of Latin America, Asia and Africa. Since Latin America has been one of the bedrocks of US private investment, the US administration tried to strengthen its control over Latin American economies by creating a climate that would help them move into the risky manufacturing and mining ventures.

In 1962, a legislation was passed in the Congress for a change in the composition of the US foreign economic assistance programme with an emphasis for long term development lending in the form of Foreign Assistance Act and Related Agencies Appropriation Act. The Act also placed emphasis on the encouragement of private investment in the less developed countries through an expanded use of 'investment guarantee scheme'.[32] To make the investment guarantee scheme a success the US Government set up one 'Investment Insurance Corporation' to help bail out its private investors who were facing the

---

31 <u>Economic Report of the President</u>: <u>Transmitted to the Congress</u>, 1964 (Washington, D.C.: Government Printing Office, 1964), pp. 10-12.

32 See F. Mikesell, ed., <u>US Private and Government Investment Abroad</u> (Eugene: University of Oregon Books, 1962), pp. 191-225.

danger of expropriation in foreign countries. The Kennedy Administration by virtue of this policy encouraged US private capital participation in promoting development abroad specially in developing economies. For that, the US administration offered them tax incentives, investment guarantees and clarified its anti-trust policies.[33] The administration maintained that other countries should be urged to extend private enterprises in their own countries to utilize resources for development. For that, it asked for a creation of a policy of partnership between US companies and the US government. In case of investment guarantee scheme, the US government offered guarantees of convertibility in case of investment returns, dividends or amortization of foreign investment for over a decade but these measures had not stimulated the flow of funds in the early sixties which the US administration had thought they would. The Hickenlooper amendment which came into operation in 1962 authorized the US Congress to cut off aid to those countries that expropriated US private properties operating in their countries without just, prompt and effective compensations.[34]

By 1965, the US aid programmes remained closely tied to exports of US goods and services. This policy was undertaken to encourage US exports as it was facing balance of payment crisis in the late 1950s and early sixties. The plan

---

33. Simon G. Hanson, n. 27, Chapter on 'Private Investment on Public Risk', pp. 165-92.

34 S. Perloff, n. 2, pp. 82-84.

did not, however, include hidden grants which the US administration made during the Alliance years.[35] For LDCs, the US administration assured to initiate efforts of assistance to seek a larger role for their private capital.

The US policy essentially relied on private ingenuity, initiative and industry. It had categorically made its role clear as to support the steady growth of the US private capital penetration abroad. Even during the Alliance years the official US policy continued to be one of expanding the opportunities of its free enterprises overseas.

One perceptible change in the US government's attitude was seen in the mid sixties. With a view to recover from its balance of payment crisis the US administration restrained any persistent outflow of short term private funds which were moving out in response to relatively high short-term interest rates. Nevertheless, during these years the private capital outflows abroad were mostly of a long term nature.[36]

To sum up, the circumstances leading to the formulation of the Alliance for Progress were not unexpected. It came through a gradual process which was initiated in the late 19th and early twentieth century. The instruments of the Alliance framework were multilateral in nature without having

---

35 See for detail Economic Report of the President: Transmitted to the Congress, 1965 (Washington, D.C.: Government Printing Office, 1951), pp. 13-14.

36 President's Economic Report: As Transmitted to the Congress, 1964 (Washington, D.C.: Government Printing Office), pp. 10-13 and 74-79.

proper supervisory functions. Finally, in the official policy evolution of the US administration in the sixties some efforts in the form of new legislations, tax laws and economic assistance were undertaken to promote long term outflow of US private capital. It is rather interesting to see how these amendments and legislative reforms to promote private investment fitted into the framework of US commitment for massive public funds for the social development projects in Latin America during the Alliance years. The focus on this aspect will be discussed in the following chapters.

Chapter IV

ALLIANCE FOR PROGRESS: IMPLEMENTATION AND IMPACT ON THE LATIN AMERICAN DEVELOPMENT PROCESS

Chapter IV

ALLIANCE FOR PROGRESS: IMPLEMENTATION AND IMPACT ON THE LATIN AMERICAN DEVELOPMENT PROCESS

The previous chapter discussed at some length the circumstances leading to the formulation of the Alliance for Progress, its important instruments and the reforms brought about by the US administration in the sixties in the policies to promote its overseas private investment.

In the present chapter the discussion will centre around how the US policy of promoting the export of private capital abroad, specially to the developing countries of Latin America, fitted into its massive public assistance programme to help encourage the social development process in Latin America. An attempt is also made to assess the contribution made by the Alliance to the Latin American development process.

Public Assistance Under the Alliance for Progress

Since the Alliance was initiated as a joint venture to help in the 'social development' process of Latin America, it is very important to see the implementation and disbursements of funds by different international financial agencies to ensure public capital inflow into Latin American countries during the course of the Alliance.

Using the most generous possible interpretation of public financial assistance which include both long term and short term commitments to Latin America, the assistance annually provided by the US based agencies accounted for around $2 billion annually for the period 1961-68 (see Table 1). The US share in the process came to $1.2 billion, not counting its contribution to the Inter-American Development Bank or to the World Bank.[1]

Short term commitments were largely compensatory financing in nature. They were generally disbursed through Exim Bank, the US Treasury and the IMF. These short-term loans were found to be extremely helpful in overcoming temporary financial difficulties. As these commitments were short-term finances in nature, technically speaking, they cannot be treated as development aid. These loans had fairly substantial interest charges.[2] Still the yearly average of long-term loans were quite substantial. It came to $1.6 billion per year. If the sources from Europe and others are added up, the total flow of long-term commitments to Latin America through different lending agencies were about $1.75 billion on the average per year. The actual disbursement to Latin American countries were much lower. The grants and long-term loan disbursement from the US based agencies averaged slightly above $1.1 billion annually for the period 1961-68 (Table 2).

After the deduction of the European contribution, the US long-term disbursements amounted to some $775 million a

---

1 The loans contributed through IDB are here included for US share but the money went on behalf of Social Progress Trust Fund was excluded.

2 The 1961-68 time span coverage was greatly influenced by the substantial Exim Bank and IMF commitments of 1961 when there was a large 'roll over' of previous debt.

Table 1: Commitments of Financial Assistance by the US and International Financial Institutions (millions of dollars), 1961-68

	1961	1962	1963	1964	1965	1966	1967	1968[a]	1961-68 (average)
Long-term Assistance	1179.5	1540.8	1393.3	1798.7	1562.4	1681.9	1713.8	2093.8	1619.4
US Govt. grants and long-term loans [b]	728.6	1066.7	872.2	1439.5	857.2	944.0	1054.0	1088.3	1006.3
AID	371.8	440.6	508.2	817.2	478.8	618.8	464.4	403.5	512.9
Food for Peace[c]	100.2	221.3	212.2	257.6	142.6	137.1	95.1	233.1[d]	174.9
Exim Bank	139.4	183.9	86.4	239.1	160.8	150.7	470.5	428.2	232.4
Peace Corps[e]	1.6	16.0	18.3	39.7	23.8	37.4	23.7	23.59	23.0
Social Progress Trust Fund	115.6	204.9	47.1	85.9	51.2	-	-	-	63.1
International Development Bank (IDB)	174.4	125.3	213.9	214.8	321.2	395.8	493.3	427.0	295.7
Short-term Assistance	1254.5	348.9	352.6	312.1	476.1	467.9	391.4	428.8	504.0
US Government	798.3	127.6	186.4	169.4	218.1	136.4	75.0	4.8	214.5
Exim Bank[f]	651.3	2.6	126.4	73.1	148.3	123.9	-	-	140.7

Table contd.

	1961	1962	1963	1964	1965	1966	1967	1968[a]	1961-68 (Average)
US Treasury	147.0	125.0	60.0	96.3	69.8	12.5	75.0	4.8	73.8
I M F	456.2	221.3	166.2	142.7	258.0	331.5	316.4	424.0	289.5
Total	2434.0	1889.7	1745.9	2101.8	2038.5	2449.8	2105.2	2522.6	2129.4

a: Preliminary

b: Excludes US contribution to international financial institution except social progress trust fund, excludes military assistance.

c: Excluding title of P.L. 480 sales agreements for agricultural products intended for generation of local currency for US uses.

d: Fiscal years

e: Including funds for the Inter-American Highway.

f: Including reprogramming of old debts as follows:
1961: $298.4 m. Brazil 1962: $2.6 m.(Costa Rica); 1963: $913.3 m. (Argentina) $72.0 and Brazil $19.3; 1964: $73.1 m.(Brazil); 1965: $58.3 m. (Argentina) $15.4, Costa Rica $2.8 and Chile $40.4; 1966: $33.9 m. (Bolivia).

Sources: Food for Peace and Peace Corps: "US Report to the Inter-American Economic Social Council, 1967" (Washington, D.C., April 1967), and data provided by AID to the Pan-American Union. All others data: Pan-American Union. "El Financiamiento Externo para el Desarrollo de la Americe Latina".

Table 2: Disbursement of official loans and grants by the US and International Financial Institutions, 1961-68

(millions of dollars)

	1961	1962	1963	1964	1965	1966	1967	1968[a]	1961-68
Long-term Assistance	676.5	794.7	1054.8	1136.5	1107.3	1351.5	1242.7	1487.9	1106.5
US Govt. grants and long-term loans [b]	569.4	600.8	707.0	755.2	802.8	949.8	806.1	1009.2	775.0
AID	201.5	277.9	347.3	360.5	455.7	578.5	426.6	466.2	389.3
Food for Peace	162.5	128.3	183.9	241.6	102.9	111.8	102.0	150.0[c]	147.9
Exim Bank	193.6	163.9	98.3	74.1	146.1	162.5	199.8	318.0	169.5
Peace Corps	10.9	8.6	11.7	12.2	27.7	26.8	17.7	20.0[c]	17.0
Social Progress Trust Fund	0.9	22.1	65.8	66.8	70.4	70.2	60.0	55.0	51.4
Inter-American Development Bank	5.9	36.6	75.5	130.8	111.6	143.2	180.9	235.0	114.9
IBRD & affiliates	101.2	157.3	272.3	250.5	192.9	258.5	255.7	243.7	216.5
Short-term Assistance	888.9	276.6	455.5	139.4	220.6	224.9	159.9	270.5	329.5
US Government	541.5	180.9	224.0	76.9	73.4	50.9	37.2	-	148.1

Table contd.

	1961	1962	1963	1964	1965	1966	1967	1968[a]	1961-68
Exim Bank	476.5	146.4	133.5	58.6	60.0	37.4	37.2	-	118.7
US Treasury	65.0	34.5	90.5	18.3	13.4	13.5	-	-	29.4
I M F	347.4	95.7	231.5	62.5	147.2	174.0	122.7	270.5	18.1
Total	1565.4	1071.3	1510.3	1275.9	1327.9	1576.4	1402.6	1758.4	1436.0

a: Preliminary

b: Excluding US Contribution to International Financial Institutions except for Social Progress Trust Fund. US contribution to IDB, in addition to SPTF, amounting to $970 in 1961-66 excluding also military assistance.

c: Fiscal years

Source: Food for Peace Corps: "US Report to the Inter-American Economic and Social Council, 1967" (Washington, D.C.: April 1967 and data provided by AID to PAN-American Union. All other data: Pan-American Union "El Financiamiento Externo para el Desarrollode la Americe Latina" (to be published for the 1969 CIES meeting).

year.[3] Disbursement of official long-term funds to Latin America fell short of expectations by a sizeable margin and consequently did not fill the resource gap in Latin America as initially anticipated.

To have concrete view of the situation it is better to take note of the net flows of official capital. In Table 3 the repayment of loans by the Latin American countries to the donor agencies for the period 1961-68 is shown. Reliable data showed that a large part of the unpaid debt of several countries - especially Argentina, Brazil, Chile and Columbia was rescheduled, which increased the obligation to be paid in later years. This rolling over of repayments and the accounting practices of some institutions involved made it impossible to distinguish the exact amount of the amortization of loans in 1961-68 that correspond respectively to original long-term and short-term assistance.

As shown in Table 3, total amortization of loans during 1961-68 averaged about $516 million a year. The amounts increased to over $600 million for the period 1966-68. So it is only after deducting the debt repayment one gets the figure of the net official financial assistance to Latin America in the Alliance years.

---

3 US commitment-disbursement gap was quite steady throughout the Alliance for Progress years, for example, by the end of 1967, the IDB had committed $2.9 billion including SPTF which it administered but disbursed only $1.3 billion or 44.8 per cent of the total commitments.
See S. Perloff, Alliance for Progress (Baltimore: J. H. Press, 1969), p. 50.

Table 3: Amortization of Long-term and Short-term loans Granted by the US and International Financial Institution, 1961-68

(millions of dollars)

	1961	1962	1963	1964	1965	1966	1967	1968[a]	1961-68 Average
United States A I D	0.4	4.2	10.7	10.2	19.1	14.4	22.6	24.2	12.0
Exim Bank	326.6	140.4	207.6	251.4	205.1	254.2	272.6	229.2	235.9
US Treasury	47.0	7.1	64.8	48.3	31.2	41.4	6.8	10.0	32.1
Social Progress Trust Fund	-	0.4	1.3	3.0	4.3	6.2	10.3	13.8	4.9
U.S. Total	374.0	152.1	284.4	312.9	249.7	316.2	312.3	272.2	284.9
I.D.B.	-	-	0.7	5.6	11.9	23.9	36.2	50.5	16.1
IBRD affiliates[b]	40.9	42.0	52.1	53.2	65.9	73.5	79.7	84.8	61.5
I M F	60.8	164.2	118.1	133.3	170.0	215.2	146.0	221.5	153.6
Total	475.7	358.3	455.3	505.0	497.5	628.8	574.2	634.0	516.1

a: Preliminary b: Except IFC

Source: Pan-American Union, 'El Financiamiento Externo para Desarrollo de la Americe Latina.

Taken from Perloff, Alliance for Progress, p. 52.

Table 4 shows the net disbursement of loans and grants during 1961-68 period by the major donor agencies which averaged about $920 million a year.[4]

The adding up of European and other sources (for which no complete data is available) reached a grand total of net financial assistance in the vicinity of $1 billion annually during the Alliance years.

Table 4 also illustrates the US aid to Latin America. The irony of the fact is that the US public capital flows to other Alliance members reached its peak only in the first year of the Alliance when it amounted to $737 million.[5] The net amount was high again in 1968 ($732 million) but was low in the intermediate years and averaged only $638 million for the time period of 1961-68.

While the aggregate of US disbursements shows that both the short-term and long-term commitments were rather massive, thanks to the population density of Latin America the per capita availability of net financial assistance amounted to only about $3.00. Even the total of all disbursements from all sources added, it still amounted to slightly over $4.00 per capita. It is obvious, such massive assistance could not make any profound difference in the lives of the

---

4 These companies with an average figure of just over $2 billion for total commitments made during the same period. See S. Perloff, n. 3, pp. 52-54.

5 1961 figure is high because of the considerable short-term loans made by the Exim Bank in that year. See Table 2.

Table 4: Net (official) Long-term and Short-term capital flows to Latin America from the United States and International Financial Institution, 1961-68.

(millions of dollars)

	1961	1962	1963	1964	1965	1966	1967	1968[a]	Average 1961-68
U.S. Government[b]	736.9	629.6	646.6	519.2	626.5	684.5	531.0	732.0	638.3
I D B[c]	5.9	36.6	74.8	125.2	99.7	119.3	144.7	184.5	98.8
IBRD & Affiliates[d]	60.3	115.3	220.2	197.3	127.0	185.0	176.0	158.9	155.0
I M F	286.6	-68.5	113.4	-70.8	-22.8	-41.2	-23.3	49.0	27.8
	1089.7	713.0	1055.0	770.9	830.4	947.6	828.4	1124.4	919.9

a - Preliminary

b - Including the SPTF

c - Excluding SPTF

d - Does not include IFC amortization payments

Source: Tables 2 and 3

Taken from Perloff, p. 54.

Latin American people[6]

Table 5 shows the distribution of US commitments to different countries in Latin America over the years of the Alliance programming. It can be easily seen that aid to Brazil, Chile, Colombia and Mexico amounted to almost 60 per cent of the total. But, in per capita terms the picture is quite different. Panama, the Dominican Republic, Chile and Bolivia were far ahead of others in this respect. Their low population density attributed to this rise in per capita financial assistance.

The low per capita figure of Mexico indicates that US financial assistance had been influenced by the capacity of Latin American countries to earn foreign exchange and to tap the commercial financial markets.[7]

In the third chapter, reference was made about the economic crisis which many Latin American countries faced in the 1950s. A massive unfavourable balance in their international trade account caused them to ask for substantial amount of short term and medium term debt to cover the costs of imports as they were pursuing an import-substitution strategy.

A part of the contracts was made by the public sector, but, an important proportion had its origin in suppliers'

---

6 Regional averages are avoided as they seem to be misleading, since the US aid and total aid had been concentrated in a relatively small number of countries, and in certain strategic sectors. See S. Perloff, n. 3, p. 53.

7 But the higher Venezuelan figure suggests that these were not the only considerations involved in granting US grants to other Latin American countries.

Table 5: Commitments of Financial Assistance to Latin American Countries by the US

Countries	1961	1962	1963	1964	1965	1966	1961-66	Total 1961-66 per capita[a]
	(millions of dollars)							
Brazil	302.6	194.3	204.7	450.5	173.2	329.6	1654.9	20.4
Chile	142.7	123.5	79.6	214.8	50.6	106.7	717.9	82.4
Colombia	89.1	120.0	60.6	143.8	88.9	43.4	545.8	29.2
Mexico	24.0	56.9	80.8	123.2	52.9	99.0	436.8	10.2
Dominican Republic	0.1	53.4	40.7	25.3	107.8	73.6	300.9	82.0
Peru	39.7	50.5	31.9	96.8	25.2	38.0	282.1	29.2
Bolivia	30.5	52.5	60.3	66.0	19.1	37.2	265.6	64.2
Venezuela	70.1	76.3	29.5	36.9	30.0	18.2	261.0	28.6
Argentina	7.5	81.4	80.9	14.0	57.9	1.6	243.3	10.8
Ecuador	16.3	43.4	26.6	38.2	29.0	20.9	174.3	34.3
Panama	10.5	23.2	17.0	27.7	9.3	23.1	106.8	89.7
El Salvador	10.3	13.1	6.7	15.1	18.0	15.3	78.5	44.9
Costa Rica	17.8	2.3	22.5	15.3	9.8	7.5	75.2	50.5
Paraguay	16.8	8.6	6.0	13.0	4.0	14.7	63.1	30.9
Guatemala	3.7	14.4	9.3	21.7	5.3	7.3	61.7	13.7
Honduras	5.2	7.9	10.6	11.6	9.7	7.6	52.6	24.1
Uruguay	4.7	16.4	8.5	7.6	1.9	6.9	46.0	16.9
Haiti	4.2	10.5	2.6	3.7	5.1	3.4	29.5	6.4
Regional	12.8	27.5	37.8	78.6	64.0	31.4	252.1	24.1
	826.6	989.6	838.4	1419.3	778.7	891.2	5743.8	

a: includes short-term Exim Bank loans and differs from Table 1 where such loans are treated differently.

credit to private firms. When lack of foreign exchange prevented the firms from meeting their obligations, the loans had to be refinanced, with the government or monetary authorities under-writing them.

In the beginning of the Alliance this problem was virtually ignored. But by December 1964 in the A.E.C.S.O.C. meeting this became very clear.[8] The reports showed that to a large extent the Alliance aid provided during 1961-64 (in gross terms) had been significantly offset by the repayment of outstanding debt of the public and private sectors. For 1965 and 1966 the situation was more serious as the total repayments were around $1.9 billion and another $1.4 billion fell due. Most of the debt was owed by four countries - Argentina, Brazil, Chile and Colombia.[9]

Some actions were taken in 1965 and 1966 to solve the problem temporarily by resorting to refinancing agreements involving the US government (particularly in reference to Exim Bank credits). IMF, European suppliers and other international financial agencies.[10]

---

8 IAECOSOC stands for Inter-American Economic and Social Council.

9 See for detail Pan-American Union, <u>El Esfuerzo Interno y las Necesidades de Financiamiento Externo de America Latin</u>, Doc. CIAP/150 Mimeographed (Washington, D.C., 1964), p. 58.

10 The situation was slightly bettered by the improved export situation by most of the Latin American countries in the late sixties which permitted them to repay part of their 1965 and 1966 obligations. Nevertheless, the problem was serious as hard currency obligations rose from $4.3 billion in 1955 to $12.6

(footnote contd.)

A substantial amount of Alliance financing went to repay the outstanding debts. This no doubt was a deviating process from the actual Alliance framework. In the process, public fundings which were supposed to help in the 'social development process and increase productivity in Latin American economies deviated considerably from the original objectives of the Alliance. Also, the gap between the commitments and disbursements of funds to Latin America developed largely due to the existing bureaucratic obstacles in the implementation and the limited absorptive capacity of Latin American economies.[11] Consequently, whatever resources that were committed to the socio-economic developmental purposes of most Latin American countries did not contribute to rapid increase in productive and efficient capital use. A large portion of foreign exchange provided to Latin America by external financial assistance programme were used to cover balance of payment deficits resulting from the import of non-developmental goods and services.[12] In countries having food deficits the net contribution of external financial assistance for development purposes were really

---

billion at the end of 1966. The service on this indebtedness therefore, rose from 6 per cent of the region's export earnings in 1955 to 18 per cent in 1966. The repayment of debt remained a serious burden throughout the Alliance years.

11 The total of undistributed funds increased by another $500 million in 1965, but, by 1966, some progress was made in accelerating the use of committed funds.

12 Latin America had to import annually more than $800 million worth of food which took place due to rapid rate of population rise and slow improvement in agriculture.
See Perloff, n. 2, pp. 19-60.

negligible.

Due to these constraints, the donor organizations made it a point to give loans to only those projects which were deemed to be technically, economically and financially feasible. Out of the total amount of development loans authorized in the 1961-66 period about 83 per cent were earmarked for specific feasible projects, while only 17 per cent were found to be in a more general developmental category.[13]

The United States Government was the mainstay of developmental assistance to Latin America under the Alliance for Progress. By the end of 1968, the US Government aid commitments had totalled over $8 billion. This included AID loans and grants, "Food for Peace" loans and grants, Exim Bank loans, loans from SPT Funds administered by the IDB and contributions to the IDB's Fund for special operation (for soft loans) in the Peace Corps, and the Inter-American Highway projects.[14]

But, to a large extent, AID loans had been for projects in agricultural development programmes, health, housing, highways, airports, school buildings and the like. This was done in response to the Latin American Governments requests along

---

13 Ibid.

14 Soft loans generally called 'concealed grant' carries an interest rate that does not cover the cost of the funds to the donor, the grace period is generally excessive for financial discipline. The terms of payment was to place ultimate burden beyond the generation concerned and the repayment could be contemplated in local currency, i.e. free of meaningful repayment to the donor or lender. Taken from Simon G. Hanson, <u>Five Years of the Alliance for Progress</u> (Washington, D.C.: Inter-American Affairs Press, 1967), p. 2.

with their private institutions. Most of them resulted in useful physical structures.

Absence of broad gauge criteria for AID project loans, based on carefully developed strategy decisions and priorities meant that the aid was granted for specific investment projects with major attention focussed on questions of engineering and financial specifications, provisions about national participation in the financing of the project, importation of the required capital equipment from the US and the like.

Sometimes, loans were made for specific projects because the concerned projects were ready and sanctions for necessary programmes were neglected because they were not ready.

Because of the difficulties involved in project lending the AID charged its strategy from programme lending to sector lending in 1967. This change in strategy was done to assist Alliance countries that were willing to mobilize increasing shares of their internal resources in order to achieve major progress in agriculture, education and health services.[15]

AID programme loans had two main objectives. The first one was to help the Latin American countries rescue from their balance of payment deficit and to increase their ability to import US goods and services. It had also another objective in essence that was to ensure against the capital flight or the misuse of domestic resources which generally came through

---

15 Chile was the first country to take advantage of this new loan technique. It borrowed $10 million for educational development and $23 million for agricultural development.

Table 6

Sectoral Distribution of IDB Loans
1961-67
(million of dollars)

I.D.B.	Total	percentage
Agriculture	578	24.2
Industry and Mining	488	20.4
Economic Infrastructure	468	19.6
Water Supply and Sewerage	395	16.5
Housing	288	12.0
Education	102	4.3
Preinvestment	52	2.2
Export Financing	20	0.8

Source: S. Perloff, Alliance for Progress (Baltimore: J. H. Press, 1966), p. 108.

inefficient budgeting, reduced local savings or inflation.

AID was generally cautious in its use of programme loans because most of the Latin Americans did not submit their comprehensive planning scheme to achieve 'social development'. Also, lack of devotion by the donor side (US) to the single minded task of supporting development contributed to the gap which always existed between the commitments and disbursements and it was certainly one of the shortcomings of the Alliance.[16]

To recapitulate, the US aid commitments had not increased over the life of the Alliance, rather they had flattened out at a level that made it possible for the US to help only two or three countries substantially at a time. Also, the actual net disbursements of financial assistance to Latin America during the Alliance years were much below the actual commitments made at Punta del Este. These commitments were used primarily to clear up temporary economic difficulties and were used to service the outstanding debt burdens. In addition, the lack of interest from both sides to the real achievement of 'social development' process in the continent had almost defeated the basic objectives of the Alliance.

Alliance Programming and the Climate for Private Investment

One of the main deficiencies of the Latin American economies which the Alliance tried to correct as the shortage of indigenous development capital. However, it did not

---

16 William D. Rogers, The Twilight Struggle (Oxford: Oxford University Press, 1951).

succeed in creating an atmosphere in which the Latin American private capital could contribute to indigenous development.[17]

On the basis of IMF reports, it was calculated that in the five years ending in 1961, private residents of Latin America excluding the banks increased their investments in the US and Swiss Banks by approximately $1 billion. This trend more or less continued throughout the Alliance years. In effect, the US public funds in the Alliance were only compensating this outflow from Latin America. Ending 1961, the US assistance to Latin America totalled around $1.3 billion annually which was clearly not enough to more than compensate the outflow of Latin American private capital.

Even if reliable data are not available to show the Latin American private capital outflow, different industrial sources of US and Europe indicated that since the initiation of the Alliance, the flight of domestic capital from Latin America had considerably increased.[18]

Whether the Alliance for Progress encouraged or discouraged this outflow is difficult to determine. One thing, however, became very clear that there was a climate of political and monetary instability in the Latin American economies which led to the domestic private capital outflow.

The remedy certainly did not lie in the substitution of government capital for private capital. It even did not

---

17 Simon G. Hanson, "Notes on the Alliance for Progress", <u>Inter-American Economic Affairs</u>, vol. 17, Summer 1963, pp. 85-97.

18 Ibid., pp. 89-90.

lie in forcible repatriation to Latin American capital deposited in US or Swiss Banks.

National Planning Association (NPA) estimated that the flight of capital from Latin America had been $700 million in 1961 and perhaps continued at the rate of $600 million annually in the couple of years following 1961. It estimated a flight of $1 billion in the 18 months starting from 1961 and at the same time, the US net assistance came to $1.05 billion during the same time period.[19]

In the light of these developments together with the increasing gap between Alliance's commitments and disbursements and the utilisation of public funds in servicing outstanding debts, the actual development efforts and financing development capital had to come necessarily from elsewhere. The source was no other than foreign private capital.[20]

A major purpose of the assistance programme under the Alliance was to encourage recipient countries to establish a satisfactory climate for private investment. But, by the end of the second year the private investment climate was deteriorating rapidly and the target of an annual flow of $300 million per year in terms of foreign private investment remained unrealized. In the calendar year of 1963, there had

---

19 These Notes were prepared for use in Congressional discussions on the Alliance for Progress. See _Congressional Records_, May 6, 1963, pp. 7304-22.

20 Enrique Garcia Vazquez, An Argentine View in Raymond Vernon's _How Latin Americans View the US Investor_ (New York: Praeger Publications, 1966), pp. 49-53.

been actually been a reversal of the flow and a net withdrawal of $32 million was reported instead of the desired $300 million net inflow which was supposed to come every year. Only manufacturing investment had held up fairly well at $114 million and a withdrawal of $167 million from Venezuelan petroleum investment was materialized.[21] Actually, when business investment declined in Latin America in the wake of Cuban Revolution, the US State Department pursued an immense programme of donations and concealed donations.[22] In fact, more of concealed donation assistance was extended in the first 15 months of the Alliance than had ever been distributed in the previous 8 years jointly. Only 9 per cent of the such commitments went to Mexico whereas 5 per cent went to Venezuela (Table 7).

The US administration shifted to a form of 'dollar diplomacy' in which increasing portion of the financing for the Alliance which was appropriated for the socio-economic development in Latin America was diverted to bail out the US investors who had made unwise investment decisions.

The State Department regarded this as a necessary step to prevent the Congress and the American people from distinguishing between the rhetoric and the reality of the Alliance programme. In order to capitalize upon this opportunity the business community of the US stressed for private

---

21 <u>Hearings on the Foreign Assistance Act of 1962</u>, 9 May 1962, p. 415; and also see <u>Congressional Records</u>, 25 May 1962.

22 <u>Hearings on the Foreign Assistance Act, 1962</u>.

Table 7

Latin America: Character of Aid authorized for Countries Other Than Medico

	Real loans	Outright grants[a]	Concealed grants[b]
Fiscal 1962	13%	29%	58%
1963[c]	7	29	64
1964	10	27	63
1965	11	27	62
1966	7	24	69

a: A grant is a grant.

b: A concealed grant (sometimes called "soft loan" to confuse the public and particularly the Congress into believing that it does not involve subsidy or donation by the donor) carries an interest rate that does not cover the cost of the funds to the donor, the grace period is excessive for financial discipline, the term of repayment is such as to place ultimate beyond the generation concerned or repayment may be contemplated in local currency, i.e., free of meaningful repayment to the donor or lender.

Source: Simon G. Hanson, <u>Five Years of the Alliance: An Appraisal</u> (Washington, D.C.: Inter-American Affairs Press, 1966).

investment at public risk.

At the same time, most of the Latin American leaders were waiting for an opportunity to nationalize foreign undertakings in public utilities and mining as part of a populist measure to pacify the tension packed society and economy of theirs. Keeping in view the US official policy toward the expropriation of US properties abroad which comes under the purview of the country concerned subject to the payment of just prompt and effective compensation, the countries of Latin America preferred to compensate from whatever source they could. They could even use the Alliance money.

It also became a matter of concern for US policy-makers whether it was proper to bail out their investors at the expense of US tax payers which eventually they did in any case.

Viewing the Latin American assets, the use of Alliance funds for compensating the foreign investors whose properties were nationalized came as no surprise as it is quite clear that Latin American countries do not have funds enough even to pay for their debt servicing requirements. For that matter, they had to use Alliance money which was coming as a virtually bonus to them.

To change the business climate in Latin America which was steadily deteriorating for US private capital in the initial years of the Alliance, the US administration in numerous cases asked the concerned Latin American countries to grant concession to US investors and help them move into the sectors which fetched high profits.[23]

The concept of the Alliance as an Alliance for mutual co-operation more often than not, was interpreted to the advantage of US interests. When the business climate in Latin America became uncertain in the initial years, the US proposed that any country had the choice of using the US contribution either to buy out the existing investments or to finance the socio-economic development for which the Congress had granted funds. Such an interpretation helped the Latin American countries to pay the compensation out of the Alliance funds.

By the end of the second year of the Alliance, the funds were used indirectly to pay for utilities acquired by Argentina, Colombia, Brazil, etc. This was done to bail out the losing US companies and to create climate for business

---

23 The US Government asked for oil contracts to Argentina. When President Peron of Argentina refused he was overthrown. This was one of the major reasons for his overthrow. When next President Frondizi granted oil contracts to US companies, the focus of US attention shifted from Brazil to Argentina. The whole Alliance programming to Argentina had been staked on 3 petroleum concessions which were economically unsound and politically vulnerable as it resulted from secret negotiation by US executive branch seeking to prevent the Congress or the people from voicing protest. In the second year when the new Argentina government annulled the contracts, the US threatened to withdraw the Alliance funding if the companies were not allowed to continue their contracts and promised to continue aid if the Argentine government would pay just, prompt and effective compensation. By 1963, the US had already extended aid to Argentina in preferential proportion vis-a-vis other Latin American countries in the amount of $129 million on a non-commercial basis. See Simon G. Hanson, n. 3, pp. 58-61.

investment in the later years of the Alliances as a decision to invest takes place much before the actual capital is invested.[24]

The most important point in the analysis is not the case of just compensation, but the focal point here is that any country which indicated that it preferred to redistribute its assets so as to gain control over the economy rather than to expand the resources at its command, was saying in effect, it defeated the objective of the Alliance. The United States was definitely a party to this decision which was defeating the primary objective of the Alliance.[25]

Irrespective of the Congressional commitment of not to grant loans to any country which would be used to cover its

---

24 The Rockfeller-Wriston-Collado report suggested that the US government should not lend money or make grants in countries which persisted policies that discouraged foreign private investment. The US Congress also threatened with Hicken-Looper Amendment to cut off aid if expropriation was not followed by just compensation.

In Brazil when the US based international telephone and telegraph company was nationalized, the US embassy in Rio de Janeiro joined hands with the American and Foreign Power Company to force Brazil buy some $140 million worth of utility properties to enable the company to switch over to a better profitable outlet. The same thing happened in case of Costa Rican Railway. Here, the Aid donations made up the compensation. The US administration never protested as it had already set a precedence in Brazil and Argentina.

25 John M. Cabor of <u>New York Times</u> said: "whereas our policy seeks to promote reform and social justice in Latin America, the need to protect our large economic stakes inevitably injects a conservative note into our policies". See <u>New York Times</u>, 7 November 1963.

balance of payments deficit or to finance the expropriation of private companies in any field of operation the US administration itself violated the policies and in many cases encouraged the Latin American governments to use the concealed loans and grants for paying the US companies whose properties were expropriated. One-sixth of the concealed commitments were used to bail out over extended US business ventures in public utilities and mining by cost free retroactive insurance. Out of these, one-sixth of the funding went to Brazil and 11 per cent to Argentina for the petroleum concession it granted to the US corporation.[26]

In addition, a substantial amount of the concealed grants and loans were used for purchasing military equipments from the United States which again is an instance of deviation from the main Alliance objectives. Sixty per cent of the budgetary deficits of many Latin American countries during the Alliance years were due to the arms race undertaken among themselves.[27]

To sum up, there was a climate of monetary and political instability in most parts of Latin America in the initial years of the Alliance. The indigenous private capital was in no mood to stay back home, as a result, the overseas private capital was the only other main source of capital which participated in the Latin American development process in the 1960s.

---

26 See Simon G. Hanson, Five Years of the Alliance for Progress: An Appraisal (Washington, D.C.: Inter-American Affairs Press, 1966), pp. 48-51.

27 Ibid., pp. 145-9.

The money which came from the US and other US based agencies were grossly misused and indirectly helped US private investors move into more profitable outlets of manufacturing and petroleum.

CONTRIBUTION OF THE ALLIANCE FOR PROGRESS IN THE PROCESS OF LATIN AMERICAN DEVELOPMENT

Since it is not possible to analyse each and every variable to measure development, some important variables will be analysed in the section to show some general trends in the light of the amount of public capital disbursement to Latin America during the Alliance years.

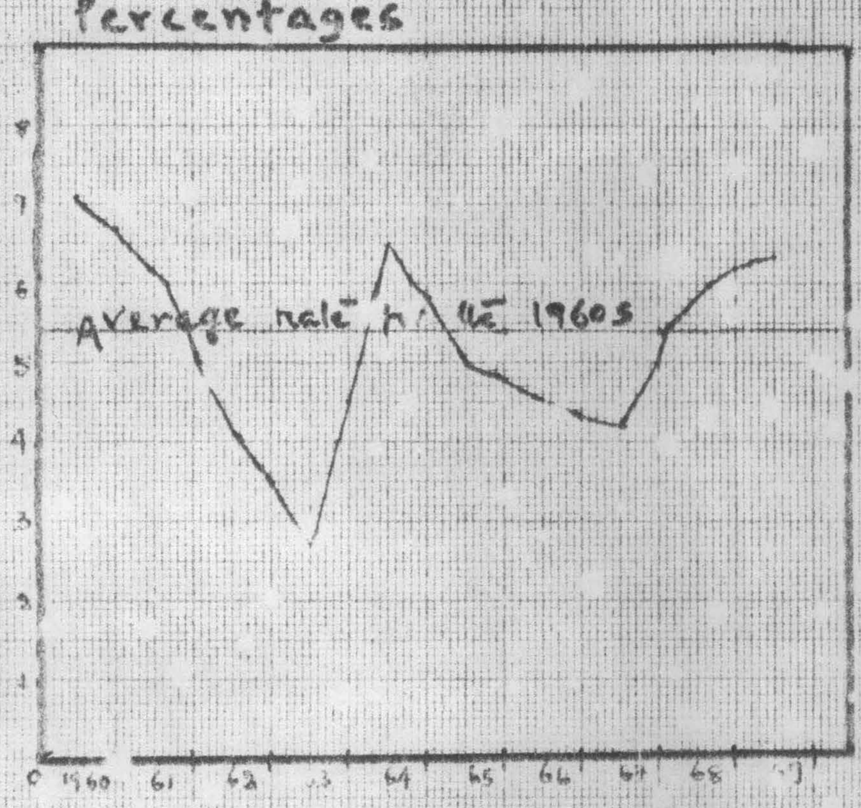
In the first section of the present chapter it was shown how the public capital inflow to Latin America was utilized or rather misutilized. It was also shown how a substantial amount of the external financing to Latin America in the Alliance years was spent on different heads for covering budgetary deficits, neutralizing balance of payment crisis, servicing outstanding debt obligations, purchasing unnecessary military armaments, and also for bailing out the US investors in public utility services. This also happened to some extent in mining. These operations no doubt contradicted the basic objectives of the Punta del Este Charter.

An attempt is made in the present section to study the major trends of Latin American economies during the Alliance years. In comparative and over all terms the rate of expansion of the Latin American economy during the 1960s slightly exceeded the figure for the fifties. In fact, the rate was

Figure - 1

LATIN AMERICA : ANNUAL PERCENTAGE GROWTH RATES, 1960-69.

Natural Scale



Source: Economic Survey of Latin America 1970 P. 33

about the same as that of the world economy.[28]

Figure 1 clearly shows that growth rate was rapid in the beginning of the 1960s as well as in the closing years of 1968 and 1969. The fluctuations in between were largely due to the fluctuating growth pattern in the big economies of Argentina and Brazil.

In the sixties, the average annual growth rate of Latin American gross product was 5.4 per cent and so it exceeded the 5.1 per cent growth rate attained in the preceding decade. In the first four years of the Alliance, the annual growth rate for the region declined steadily dropping from over 6.5 per cent in 1961 to almost little over 3 per cent in the year 1964. It fell again in the post-1965 years but by 1968 it was again over 6 per cent.[29]

The growth rate should be analysed in the light of trends prevailing in separate groups of countries in Latin America according to the pace of their economic growth.

The first group of countries including countries such as Brazil, Mexico, Panama, Costa Rica and Nicaragua registered the highest rate of growth during the Alliance years which varied from 6 to 8 per cent.

The second group of countries such as Colombia, Guatemala, Peru, El Salvador, Honduras and Bolivia showed medium growth rates similar to the average of Latin America as a whole.

---

28 See Economic Survey of Latin America, 1970, p. 29. These trends do not possess any value if they are just appraised without taking into account structural and social implications of growth.

29 See ibid., p. 33.

Table 8

Latin America: Growth of the Gross Product
(Annual percentage growth rate)

	1959-69		1959-64		1965-69	
Average for Latin America		5.4		5.4		5.3
Above the Regional Average	Brazil	6.0	Brazil	5.9	Brazil	6.0
	Mexico	6.9	Mexico	7.3	Mexico	6.5
	Panama	8.0	Panama	7.7	Panama	8.2
	Costa Rica	7.1	Peru	7.4	Costa Rica	8.5
	Nicaragua	5.9	Nicaragua	6.4	Honduras	6.0
			El Salvador	6.6	Bolivia	5.9
			Peru	7.4		
Close to Regional Average	Colombia	4.9	Colombia	4.8	Colombia	5.0
	Guatemala	4.9	Guatemala	4.8	Guatemala	5.0
	Peru	5.6	Chile	5.3	Nicaragua	5.3
	El Salvador	5.4	Costa Rica	5.6	Paraguay	5.0
	Honduras	4.9	Domincan Republic	4.8		
	Bolivia	5.3				
Below the Regional Average	Argentina	3.9	Argentina	3.4	Argentina	4.5
	Venezuela	4.3	Venezuela	4.4	Venezuela	4.1
	Uruguay	1.1	Uruguay	1.4	Uruguay	0.8
	Haiti	2.0	Haiti	2.1	Haiti	1.8
	Ecuador	4.6	Ecuador	4.7	Ecuador	4.5
	Chile	4.7	Honduras	3.8	Peru	3.9
	Dom. Rep.	3.5	Paraguay	3.7	El Salvador	4.2
	Paraguay	4.3	Bolivia	4.6	Chile	4.0
					Dom. Rep.	2.2

Source: <u>Economic Survey of Latin America</u>, 1970 (U.N. Publication, 1970), p. 34.

The last group of countries including Argentina, Venezuela, Chile, Uruguay had growth rates below the Latin American average.[30] Up to 1967, the average growth rate of the gross product of the Latin American countries as a whole was around 1.6 per cent per capita at constant market prices. Table 8 shows the average for Latin America for the year 1969 also. So this may not be exactly suitable for analysing the trends of the Alliance years.

During the 1961-68 period, the growth of the region's GDP was around 4.9 per cent and in fact it was quite close to the Alliance goal of 5 per cent.[31] But whatever growth was achieved in the Alliance years was grossly upset by a tremendous population increase in almost all the Latin American countries. The population grew at annually average rate of 2.9 per cent in the 1960-69 period. The countries experiencing a slight decline in their population growth in the Alliance years were Brazil, Argentina, Venezuela and Uruguay.[32] Consequently perhaps the 4.9 per cent annual growth rate of Latin American GDP appeared less satisfactory if an account is taken of the fact that the population grew at 2.9 per cent per year instead of the expected rate of 2.5 per cent.

---

30 The growth rate in the third group varied widely ranging from Chile's 4.7 per cent to Uruguay's 1.1 per cent of growth.

31 See Antonin Basch and Malic Kybal, <u>Capital Markets in Latin America</u> (New York: Praeger Publishers, 1969), p. 3.

32 See "Statistical Bulletin for Latin America", <u>ECLA</u>, vol. VI, no. 2, September 1969.

Table 9: Latin Ameria: Average Annual Increase in GDP, per capita, 1961-67

		Percentage
<u>High growth</u>		
Panama		5.2
Nicaragua		3.8
Mexico		3.4
Bolivia		3.4
Costa Rica		3.2
El Salvador		3.1
Guatemala		3.1
<u>Moderate Growth</u>		
	Peru	2.3
	Chile	1.8
	Ecuador	1.5
	Venezuela	1.3
	Brazil	1.0
	Colombia	1.0
	Honduras	1.0
<u>Low Growth</u>		
	Argentina	0.4
	Paraguay	0.4
	Uruguay	1.1
	Haiti	2.2
	Dominical Republic	n.a.
Latin America	total average	1.6

Source: Economic Commission for Latin America on the basis of official statistics, 1970, p. 36 and also see S. Perloff, <u>Alliance for Progress</u>, pp. 66-67.

In 1960-67, the annual per capita GDP increase was only 1.9 per cent instead of the projection of 2.5 per cent in the Punta del Este Charter.

From 1961 to 1967 the Economic performance of Latin America as a whole not only fell short of 2.5 per cent per capita, it even failed to match the performance in the 1950s (Table 9). Only in 1968, the figure of GDP growth showed an upward trend.

Since a projection on GDP alone cannot serve the purpose of analysing the contribution of the Alliance for the Latin American development process an attempt is made to survey the other different trends during the Alliance years.

In the agricultural sector, net farm production in Latin America throughout the 1960s was just enough to keep up with the population growth. The rate was roughly 3 per cent a year. While the total farm production during the later Alliance years had increased some 28 per cent when compared with the average for 1957-59, the per capita output had been roughly at the same level as it was in 1957-59.

Per capita output of farm production in 1965-67 was substantially higher than at the end of 1950s but only in countries of central America, Mexico and Venezuela.[33]

The most important feature of the farm production was that the share of agriculture in total production declined to 17.3 per cent in 1969 from 20.2 per cent in 1960 (Table 10). This gradual decline continued throughout the Alliance years.

---

33 As reported in US Agency for International Development, Statistics and Growth and Report Division, <u>Latin America: Economic Trends</u>, October 1967, p. 18.

Table 10: Latin America: Some indicators of structural changes in the economy

Country	Agriculture	Industry and basic services	Services
	Share of productive sectors (percentage)		
Argentina	17.4	46.4	36.2
Brazil	22.1	33.9	44.0
Mexico	16.6	32.6	50.8
Colombia	34.1	32.3	33.6
Venezuela	7.2	47.3	45.5
Peru	24.1	35.4	40.5
Chile	12.1	46.1	41.8
Uruguay	19.3	35.3	45.4
Costa Rica	27.0	27.2	45.8
El Salvador	32.4	23.7	43.9
Guatemala	30.3	17.7	52.0
Honduras	44.1	22.5	33.4
Nicaragua	37.2	24.6	38.2
Panama	24.9	26.2	48.9
Haiti	48.5	18.5	33.0
Dominican Republic	30.7	24.7	44.6
Ecuador	36.8	27.4	35.8
Paraguay	38.8	24.7	36.5
Bolivia	30.6	36.4	33.0
Latin America	20.2	36.9	42.9

Source: ECLA, on the basis of official statistics. Taken from Economic Survey of Latin America, 1970, Table 25.

The progress in the area of land reforms contrary to the basic objective of the Alliance Charter was, however, far from satisfactory. Actually, whatever progress made in 'Land Reform' in some countries of Latin America during the Alliance years was due to the fact that these countries such as Mexico and Peru had launched land reform programmes even before 1961.[34]

In the manufacturing sector the growth rate was encouraging in the Alliance years. Increases in gross value added by manufacturing activity in Latin America as a whole had averaged about 6 per cent a year during the 1960s, compared with agriculture's 3 per cent.[35] In Mexico and Venezuela, manufacturing output rose by 65 per cent and 58 per cent respectively between 1960 and 1966. In almost all the Latin American countries which were industrially more advanced, manufacturing sector showed considerable progress in the Alliance years. A notable illustration was automobile manufacturing and assembly operations.

Also, the traditional manufacturing declined whereas the intermediate goods industries particularly the metal transforming industries which produced both consumer durables and capital goods gained ground. The decline of traditional industries in the structure of industrial product was found

---

34 Inter-American Development Bank, Socio-Economic Progress in Latin America, Social Progress Trust Fund, 6th Annual Report, 1966, p. 46.

35 Agency for International Development, 1969, Latin America: Economic Growth and Trends, p. 20.

Table 11

Latin America: Share of Traditional Industries in total industrial production

	1955		1968	
About 40%			Argentina	39.8
			Brazil	41.9
			Mexico	41.2
Between 40 and 70%	Argentina	52.2	Chile	47.5
	Brazil	52.2	Venezuela	48.0
	Mexico	52.9	Peru	57.3
	Venezuela	52.6	Uruguay	61.3
	Chile	57.1	Colombia	63.2
	Uruguay	62.3	Ecuador	65.5
	Peru	66.7		
	Colombia	69.3		
Over 70%	Ecuador	75.8	Bolivia	71.4
	Panama	78.4	Panama	73.7
	Bolivia	82.5	Dom. Republic	85.7
	Guatemala	94.2	Guatemala	91.9
	Dom. Rep.	94.6		

Source: Economic Survey of Latin America, 1970, p. 49, based on ECLA estimates.

noticeably only in Brazil, Argentina, Mexico, Peru, Bolivia, Ecuador and the Dominican Republic and was unremarkable in other countries (Table 11).

Although, the manufacturing production had risen at a faster rate than the over all gross regional product during the period of the Alliance, the rate of increase in some important sectors had taken off since the 1950s primarily due to the relative decline of import substitution.[36] A comparison of growth rates in specific kinds of manufacturing during 1955-60 and 1960-65, for the region as a whole showed a slow down in growth in case of food stuffs, beverages and tobacco, from 4.4 to 4 per cent a year, textiles from 3.2 to 2.8 per cent, petro-chemicals from 10 to 8.8 per cent, basic metal industries from 9 to 8 per cent, metal products, transportation equipment dropped from 15 to 7.3 per cent. Substantial increases in production during 1960-65 were recorded in the paper and automobile industries.[37]

By 1965, the manufacturing in Latin America was accounting 23.4 per cent of the GDP whereas agriculture's share was 20.9 per cent.[38] The manufacturing development of the C.A.C.M.[*] countries was the highest. In the sixties, they

---

36 Inter-American Development Bank, Socio-Economic Progress in Latin America, S.P.T.F., 7th Annual Report, 1967, p. 4.

37 AID Latin America: Economic Growth and Trends, p. 17.

38 Economic Commission for Latin America: Toward a Dynamic Development Policies for Latin America. UN Doc. E/CN.12/680 (April 1963), p. 167.

* CACM stands for central American Common Market.

Table 12

Latin America: Composition of the Manufacturing Sector

(Percentage)

	1955 Tradi-tional	Inter-mediate Indust-ries	Metal Trans-form-ing	1968 Tradi-tional	Inter-mediate Indust-ries	Metal Trans-form-ing
Argentina	52.2	21.8	26.0	39.8	24.0	36.2
Brazil	52.2	26.1	21.7	41.9	30.9	27.2
Mexico	52.9	21.6	25.5	41.2	27.5	31.3
Colombia	69.3	24.0	6.7	63.2	25.0	11.8
Venezuela	52.6	34.4	13.0	48.0	32.7	19.3
Peru	66.7	16.4	16.9	57.3	18.6	24.1
Chile	57.1	27.7[d]	15.2[d]	47.5	29.2	23.3
Uruguay	62.3	20.4	17.3	61.3	26.6	12.1
Guatemala	94.2	5.8	-	91.9	8.1	-
Panama	78.4	16.2	5.4	73.7	18.2	8.1
Dominican Republic	94.6	5.4	-	85.7	12.5	1.8
Ecuador	75.8	22.5	1.7	65.5	28.0	6.5
Paraguay				70.3	19.8	9.9
Bolivia				71.4	23.2	5.4

Source: See Table 11.

recorded that 68 per cent of the trade was of the locally produced goods.

The second most important trend was the dynamic growth of the metal transforming industry with the sole exception of Uruguay where the share of the industry had declined. However, the regions output of machinery and equipment continued to be small and it was outstanding only in Brazil. Argentina and Mexico which accounted for 27.2, 36.2 and 31.3 per cent respectively of total manufacturing output of Latin America[39] (Table 12).

As regards to the development of intermediate goods which produced general inputs, the changes during the period, were moderate assuming importance only in Bolivia and Dominican Republic.

Table 11 shows three levels for the share of traditional industries in the industrial product reflecting different levels of industrial development. The countries generating the larger share of the industrial product such as Brazil, Argentina, and Mexico had considerably strengthened the fastest growing branches of their industry with the result that the share contributed by the traditional industries dropped to 40 per cent by 1968.

An overall assessment of the manufacturing sector in Latin America during the Alliance years showed a rise in the capital intensive manufacturing sectors at the expense of

---

39 In 1966, the metal transforming industries accounted for 34.1 per cent of industrial output in Japan and 39.7 per cent in United States.

traditional industry.

Table 13 shows that the two main trends observable in the structural evolution of Latin American exports in the Alliance years. Three major product exports declined in importance. It happened due to diversification of exports. There was an increase in the relative share of manufacturing goods in total exports although it did not represent any fundamental change in the structure of exports. In Latin America as a whole, the relative share of the principal export products dropped from 62.1 per cent in 1955 to 50.5 per cent in 1968 (Table 13). The diversification of exports was visible to some extent. But the diversification of exports had chiefly been due to one primary product being replaced by another so that primary products still account a sizeable share in the region's total exports. Nevertheless, there was a rise in the share of manufactures in the Latin American exports.

Despite the continued expansion in the value of exports between 1962 and 1966, the overall balance of payment deficit continued to affect the majority of countries in the region since the early 1950s which kept imports from rising at a rate similar to export growth.

During the Alliance period, imports rose at an average annual rate of 3.8 per cent and reached $9.6 billion in 1966. It increased again to $500 million in 1967. Generally, the flow of funds over a period of time determined a country's capacity to import.

Table 13: Latin America: Structure of merchandise exports, 1955-1968

Countries	One major product			3 major products			Manufacture goods, SITC, Sections 5, 6, 7, 8 (except division 68)		
	1955	1960	1968	1955	1960	1968	1955	1960	1968
Argentina	26.5	20.3	24.5	62.0	47.0	44.7	3.5	2.8	12.0
Bolivia	37.4	64.8	52.6	79.4	78.9	73.5	0.2	0.3	1.9
Brazil	59.3	56.2	41.1	74.9	65.8	53.7	1.1	1.7	6.9
Colombia	82.9	71.8	62.9	95.8	92.0	74.0	1.3	1.5	8.3
Costa Rica	46.5	55.4	32.6	95.0	87.4	59.6	0.4	0.1	19.1
Chile	70.4	70.4	76.1	83.5	82.7	88.6	3.1	5.4	3.1
Ecuador	54.7	60.2	47.6	91.4	89.5	80.8	2.5	0.9	1.9
El Salvador	85.7	65.7	44.0	94.9	83.3	55.4	1.9	5.5	31.8
Guatemala	71.0	67.4	30.4	91.2	89.5	48.6	2.3	3.0	20.5
Haiti	66.7	52.3	37.6	87.5	75.0	59.0	-	-	-
Honduras	52.6	46.4	47.7	88.1	78.7	67.6	2.4	2.1	8.2
Mexico	29.3	20.7	13.6	51.3	37.7	27.4	9.7	12.0	17.3
Nicaragua	43.2	34.3	38.0	86.7	66.6	62.5	0.3	3.9	9.3
Panama	79.8	69.7	56.7	90.9	92.0	85.4	1.2	0.4	1.2
Paraguay	37.0	26.3	28.4	59.3	52.9	55.3	19.7	15.6	8.4
Peru	25.2	21.7	24.1	49.7	49.4	52.2	0.9	1.3	0.7
Dominican Republic	39.2	54.3	54.5	84.9	78.5	74.0	1.1	2.5	2.9
Uruguay	57.4	51.6	43.6	85.9	87.2	86.2	2.1	7.1	11.4
Venezuela	94.1	91.2	92.7	98.6	98.7	97.2	0.7	1.0	1.3
Latin America (excl. Cuba)	62.1	58.4	50.5	79.9	74.4	65.2	2.5	3.0	7.5

Source: IMF, International Financial Statistics.
Taken from Economic Survey of Latin America, 1970, pp. 86-87.

In case of imports, the share of consumer goods had fallen in the Alliance years which reflected the continuation of a characteristic stage in the process of import substitution in the Latin American countries (Table 14). For Latin America as a whole, the proportion of consumer goods in total imports dropped from 20.7 per cent in 1955 to 16.2 per cent in 1968. The only exceptions were Chile and the Dominical Republic. It was because of the substitution of imported consumer goods by locally produced goods.

The trend in Table 7 shows that the share of intermediate products and raw materials, capital goods and equipments in total imports had increased in the Alliance years which complemented the export-led growth strategy followed by different Latin American countries in the 1960s. The strategy was based on non-traditional and manufacturing exports. Since the Latin Americans did not have the required technical and intermediate know-how, they had to import from abroad.

On an average, 83.3 per cent Latin American imports consisted of industrial raw materials, intermediate goods including fuel and capital goods and equipment. These imports helped boost Latin American industrial production in the Alliance years. The industrial production growth rate, therefore, was more than the GDP growth rate in that period.

Interestingly enough, during the Alliance years, the region's dependence and vulnerability _vis-a-vis_ other countries became even more acute. The balance of payments deficits on current account increased still further. Rise in export

Table 14: Latin America: Structure of Merchandise Imports in Selected Years

(Percentage of the total)

Country	Consumer goods			Raw materials and intermediaries			Capital goods including construction materials		
	1955	1960	1968	1955	1960	1968	1955	1960	1968
Argentina	8.2	6.3	5.8	67.6	49.3	50.1	23.9	43.6	43.7
Bolivia	29.3	32.0	25.4	38.1	30.0	35.0	32.0	37.3	39.1
Brazil	9.2	5.6	8.5	58.8	53.4	58.8	31.8	40.8	32.1
Colombia	17.1	11.3	5.2	35.1	42.5	41.6	47.1	45.0	53.0
Costa Rica	34.6	27.8	30.6	32.6	42.4	45.0	32.4	29.6	24.2
Cuba	42.4	31.4	-	37.4	44.2	-	19.8	23.5	-
Chile	13.2	15.6	22.1	54.5	43.2	45.7	32.1	40.7	31.3
Ecuador	23.5	22.4	17.1	34.0	33.8	41.9	42.2	43.3	39.8
El Salvador	42.8	33.8	31.7	30.5	39.6	42.0	26.3	26.3	26.2
Guatemala	43.1	26.3	29.2	31.8	44.5	43.2	24.9	29.1	27.4
Haiti	54.5	54.6	-	32.6	32.7	-	10.4	7.5	-
Honduras	45.3	30.4	29.3	31.3	43.8	40.4	21.1	25.5	29.7
Mexico	15.4	13.3	11.3	45.1	43.9	42.4	39.3	42.1	46.2
Nicaragua	35.9	29.3	32.1	32.5	44.2	40.7	30.0	23.4	27.0
Panama	55.8	44.6	34.8	26.6	35.3	47.3	17.3	18.8	17.9
Peru	22.5	19.5	18.8	41.7	44.1	39.2	34.9	36.1	41.7
Dominican Republic	38.1	35.9	46.8	30.8	37.4	31.0	28.5	25.2	20.7
Uruguay	15.4	13.3	15.0	55.5	57.5	58.3	28.5	28.2	25.2
Venezuela	31.2	40.3	22.2	22.3	25.3	38.7	46.0	33.8	38.0
Latin America Average	20.7	18.7	16.2	45.5	43.4	45.8	33.4	37.3	37.5

Source: Economic Survey of Latin America, 1970, p. 90, on the basis of ECLA Statistics.

could not keep pace with the imports which also rose, as a result, there was persistent negative trade balance. A sharp rise in remittances of interests and profits abroad specially in non-manufacturing sectors doubled in that period and accentuated the imbalance on current transactions. In the circumstances, the public funding programme based on the Alliance framework virtually helped in the capacity to import and corresponded to an increase in external indebtedness.

The outcome was a kind of vicious circle: the deficit on current account necessitated more external financing which raised the payments abroad and in turn put a strain on the capacity to import, so that more external financing was needed again.[40]

In the Alliance years the domestic savings had increased over the years and even in some cases moved ahead of the rate of income expansion. The rate of investment rose at a slower rate than GNP. But, the proportion of national product devoted to investment had been slightly low during the Alliance years than the 1950s.

Even if it would be slightly beyond the scope of the present analysis, some words must be mentioned about the social development process in Latin America during the Alliance years. Neither the education and health services nor the new housing, water supply and sewerage services reached their target in the Alliance years. Only in tax reform, the picture was brighter. In other cases, the gap between expectation and

---

40 *Economic Survey of Latin America*, 1970, pp. 31-32.

achievement was tremendous.

The major targets set for education were to end illiteracy by 1971 and provision for six years of free compulsory education for the entire population of school age. Literacy in the region as a whole was expected to reach the vicinity of 67 per cent, but none of the Alliance countries were able to achieve the target.[41]

While most data on developments in education during the years of the Alliance were essentially encouraging, the fact remained that almost one-third of the population was still illiterate. Improvements in education remained as a basic key to the social and economic betterment in Latin America.

There are some other problems like population growth and immature migration which the Alliance failed to tackle.

There were enormous problems which the Alliance for Progress failed to satisfy, but it set the trend for a complex and capital intensive industrial base of manufactured goods share went up in the Latin American GDP and the rise in manufacturing share in its exports.

Sectoral Distribution of US Private Capital in the Alliance Years

Earlier in the dissertation, it may be recalled that an attempt was made to examine the potential of Latin American economies in respect of US private capital. It was shown that

---

41 The literacy target of 67 per cent by the end of 1960s was only attained by Cuba which was of course a non-member in the Alliance framework. See S. Perloff, n. 3, p. 153.

since the Latin American economy endowed as it is with rich resource base the United States has always been looking for opportunities that would help exploit the Latin American resources for the benefit of its own economic interests through its private investment and transnational corporations.

Given the potential of huge profits in the exploitation of raw materials and a market which is expanding in Latin America, it is not surprising that ever since the early part of the present century, the US Government adopted a foreign economic policy that helped decidedly its private capital move more and more into the different Latin American economic sectors, importantly such as mining, manufacturing and petroleum.

To some extent, while US official policy proved beneficial to the Latin American countries in bringing the much needed capital, it nevertheless had its own deterious impact on the Latin American economies. For, much of the US private capital that came to be invested in Latin America moved primarily into some key sectors and in the process contributed to a distorted pattern of development. The resulting lopsided industrial development and export oriented production base created a sentiment of nationalism in the Latin American countries resulting in the growing hostility over a period of time against US private capital. The Latin Americans began to see the US private capital in their countries as a symbol of exploitation and neo-colonial economic penetration.

Sensing a great danger to their economic and military hegemony in Latin America, the US authorities in the wake of the Cuban Revolution initiated a set of policy measures which would not only protect and safeguard the interests of US private capital, but at the same time provide for the economic rehabilitation of Latin America. Details of what these policy measures were and how they were implemented have also been discussed.

In the present chapter, it is but logical to focus attention on the basic question as to what, in essence was the Alliance programme. Whether its basic objectives were different at all from the traditional economic policy of the US towards the Latin American countries. What was the disguised or the covert strategy behind the massive economic assistance through government, loans, grants and aid as well as through multilateral funding agencies such as IDB, Exim Bank and IBRD. More basic than this question is whom did the Alliance benefit? Was it a genuine programme to provide for the much needed investment capital to Latin America? Or, was it an attempt to pave the way for US private capital penetrate more deeply into Latin American economy, and if necessary, shift from traditional sectors to move into more critical and core sectors of these countries. These and related questions are relevant and need to be discussed at length to adjudge the Alliance for Progress programme.

An attempt is, therefore, made in the present analysis to show what the Alliance did particularly in respect of US private investment in Latin America. Available evidences suggest that the US investors during the Alliance years were given an opportunity to leave the less profit fetching sectors of public utilities (also mining to some extent) and concentrate more on risky manufacturing ventures. Controlling the manufacturing sector would mean controlling the key to the industrial sector of Latin America. Above all, manufacturing promises a world-wide market as against other sectors.

The level and composition of US private investment had, in fact, changed since the rise of Castro. But, aside from extractive industries, little evidence exists to support the notion that there has been a persistent and significant decline in aggregate US business activity in Latin America, despite adverse effects on US investors expectations.

Out of the first three years of the Alliance as is shown in Table 15 only the year 1962 showed a negative trend. A capital repatriation to the extent of $932 million took place that year from Latin America. Even though, a net addition of $64 million of US private capital materialized in 1963, as a whole, the rate of net inflow of US direct investment to Latin America had slowed down. This did not mean that the Alliance discouraged the foreign private investors.

The circumstances leading to the slowing down of US private investment abroad had little to do with either the changing political situation in Latin America or the massive public assistance initiated under the Alliance programme.

As shown in Table 16, the net US private portfolio

Table 15

US net direct private investment outflow to Latin America

(million of dollars)

Year	Total Latin America	Cuba	Petroleum Venezuela	Latin America (Cuba and Venezuela)
1950	45	7	-68	106
1955	167	17	27	123
1957	1163	88	734	341
1958	229	20	125	154
1959	218	63	-37	192
1960	95	--	-60	155
1961	173	--	-44	217
1962	-32	--	-172	140
1963	64[a]	--	-41[a]	105[a]
lean 1950-59	330	--	116	178
lean	75	--	-81	154

Source: US Department of Commerce, Office of Business Economies, B.O.P. Statistical Supplement, Survey of Current Business, August 1974.

Table 16

Total US net private investment outflow to Latin America
(million of dollars)

Year	Net direct investment (1) + undistributed (2) Earnings	Portfolio investment	Total 1 + 2
1950	205	-27	178
1951	386	-30	178
1952	437	-30	356
1953	212	-28	184
1954	134	103	237
1955	270	210	480
1956	417	54	471
1957	508	164	672
1958	274	51	325
1959	369	144	513
1960	358	254	612
1961	461	119	580
1962	398	149	547
1963	268[b]	-21[b]	247[b]
Mean 1950-1959	321	61	382
Mean 1960-1963	376	125	497

Source: Taken from Leland L. Johnson, "US Private Investment in Latin America since the Rise of Castro", Inter-American Economic Affairs, vol. 18, no. 3, 1964, pp. 56-57.

investment in Latin America which was very small relative to US direct investment in the immediate post-war years had shown an increasing trend in the initial years of the Alliance. The table has also proved that the mean of US net direct investment plus undistributed earnings in Latin America in the first 3 years of the Alliance had been considerably greater than the mean of the same in an earlier time period of 1950-60. It may, therefore, be argued that during the early years of the Alliance when the net US direct investment to Latin America was forthcoming in a much reduced scale, the US investors were substituting the fall in net investment to a considerably extent by their undistributed profits which they had accumulated over a number of years and could not repatriate due to exchange and repatriation restrictions in Latin America.[42] The same logic of course cannot be imposed on private portfolio investment as it declined also in 1963 and was actually negative that year. This point can be further elaborated from a global point of view. With the EEC countries consenting to the Reciprocal Trade Agreement Act of 1961-62, providing for considerable reduction of restriction on the entry of US capital to EEC and with the increasing monetary instability in Latin American countries, US capital preferred the organized economies of Western Europe than Latin America for fresh investments. Consequently, the fresh flow of direct investment in Latin America, declined during the initial years of the

---

42 See Leland Johnson, "US Private Investment in Latin America, since the Rise of Castro", Inter-American Economic Affairs, vol. XIII, no. 3, 1964, pp. 57-63.

Alliance period.

Table 17 provides data relating US direct investment in the major Latin American countries' major manufacturing sectors. The statistical data unmistakably shows there had been actually an increase in manufacturing investment in Latin America. Tremendous improvement was achieved in Argentina and Mexico and not much decline was noticed in Brazil and Venezuela. Between 1957 and 1962 the US private manufacturing activity in Latin America was on the increase at an average annual rate of 11 per cent, compared to the rate of 4 and 8 per cent in Canada and Europe respectively during the same time period.[43]

The royalties and fees paid by the US direct investment enterprises in Latin America to their parent firms in the US for all industries together rose from $51 millions in 1955 to $74 million in 1960, $103 million in 1961 and $123 million in 1963.[44] Royalties and fees are notable as a reflection - although a very crude one - of the transfer of 'intangible capital' such as sales of managerial and technical services, licensing patents and trade markets and technical assistance agreements.[45]

All these suggest that even in the initial years of

---

43 See the <u>Survey of Current Business</u>, October 1963, p. 19.

44 It is conceivable that royalties and fees represent in part to cover repatriation of capital in addition to serving as a reflection of the transfer of intangible capital. See Balance of Payments and Unpublished Data, US Department of Commerce (Washington, D.C., 1963), taken from Leland Johnson, n. 1, pp. 59-61.

45 Ibid.

Table 17

US net direct investment of undistributed Earnings in Manufacturing

(million of dollars)

Year	Latin America	Argentina	Brazil	Mexico	Venezuela
1950	108	12	41	31	5
1951	205	10	109	63	5
1952	172	25	120	15	6
1953	-13	2	-33	4	4
1954	97	17	53	5	9
1955	146	55	32	31	7
1956	151	10	52	35	32
1957	147	10	56	41	30
1958	116	-2	78	1	27
1959	121	23	56	17	-2
1960	211	53	81	38	19
1961	156[b]	88	26	25	16
1962	212	94	63	34	0
1963[b]	188	29	47	59	9
Mean 1950-59	125	16	56	24	12
Mean 1961-63	192	66	54	39	11

a: excluding Cuba. b: Preliminary
Source: See Table 16

the Alliance when the fresh flow slowed down, it did not mean that the US business activities in Latin America had declined. On the other hand, contrary trends were seen.

To sum up, even in the initial years of the Alliance the net US direct investment declined in money terms, it expanded in some other terms such as patents, managerial skill, etc. It was a sort of expansion of US business activity through kind. In the later years of the Alliance the private investors felt that the investment chances were brighter. This was partly due to the stable political and monetary climate in Latin America and partly due to the adoption of investment guarantee scheme by the US Government. These two factors undoubtedly gave a renewed stimulus to US private capital to move with fresh investment into Latin America, but a change was seen in their direction.

They moved into manufacturing in a massive scale because the nationalization of manufacturing undertakings were less feared as many of the Latin American countries followed export-led growth of non-traditional goods in the 1960s. Massive US assistance to build socio-economic infra-structure in Latin America also provided scope for private investors to go into manufacturing as it minimized the cost and in some cases the 'social development' expenditure was tied to invite more US private capital into manufacturing. Again, manufacturing was found to be more rewarding because of the intensive drive for integration in export-led growth strategy which virtually complemented the big US corporations' global servicing scheme.

Table 18

Value of US Direct Investment in Foreign Countries, by Area, Industry Groups 1961-1968

(million of dollars)

Year	Total All Areas	Latin America
1961	34,717	8,286
1962	37,276	8,474
1963	40,736	8,712
1964	44,480	8,942
1965	49,474	9,441
1966	54,799	9,876
1967	59,491	10,270
1968	64,983	11,033

Source: Historical Statistics of US Colonial Times to 1970, pp. 870-1. US Department of Commerce.

Table 19

Sectoral Distribution of US Direct Investment

(million of dollars)

Year	Latin America	Mining & Smelting	Manufacturing	Public Utility	Trade	Petroleum
1961	8,286	1,153	1,684	681	775	3,254
1962	8,774	1,145	1,898	692	813	3,162
1963	8,712	1,143	2,102	715	882	3,095
1964	8,942	1,154	2,341	568	947	3,100
1965	9,441	1,164	2,745	596	1,041	3,034
1966	9,876	1,198	3,081	624	1,159	2,897
1967	10,270	1,277	3,310	621	1,207	2,903
1968	11,033	1,410	3,711	628	1,251	3,014

Source: See Table 4, pp. 870-1.

Table 18 if compared to Table 15 would show that after an initial hesitation of fresh investments in Latin America, the US direct investment went up to $11,033 million in 1968, registering a substantial increase over its 1967 figure of $10,270 million.

Table 19 provides data relating to the sectoral distribution of US investments during the Alliance years. Data provided in the table show a massive increase of US direct investment in manufacturing throughout the time period of 1961-68, whereas in petroleum and mining sectors investment activities showed fluctuation. It is because of threats of expropriation and nationalization in the last sectors.

The US profit orientation of the manufacturing sector can very well be judged from Table 20.

Table 20

Profits of US Enterprises Remitted to the US 1960-68
(percentage) (million of dollars)

Region	Total	MDS	Petroleum	Manufacturing	Other
Latin America					
1960-64	79	97	95	42	54
1965-68	79	93	94	52	61
1960-68	79	94	94	48	57

Source: Economic Survey of Latin America, 1970, pp. 58-59; also Survey of Current Business, various issues.

Table 20 shows that the US private investors remitted fresh profits from other sectors with the fear that it might get expropriated. But, in case of manufacturing it was less and more than 50 per cent of the profits in manufacturing sector earned by the US investors were ploughed back to tighten their stranglehold in the sector.

Table 21 presents a picture of productive capacity of manufacturing sector in the US, Latin America and Brazil. It shows that the Latin American productive capacity in the manufacturing sector has not lagged behind its counterpart in the United States. Statistically speaking, therefore, the decision of a number of US firms to move into manufacturing leaving their public utility and other related ventures now quite expected.

Above all, the differentiation of products to pre-empt the foreign markets to over come the potential economic rivals is more possible in case of manufacturing unlike other sectors.

The manufacturing sector includes all capital intensive industries of capital equipments, non-capital equipments, automobiles, fertilizers, chemicals, electrical and non-electrical etc. Being capital intensive in nature this very trend towards the heavy manufacturing sector initiated in the Alliance years defeated the very basic objective of the Alliance which was destined to promote social development in Latin America.

Table 21: Comparison between the growth of US investment in manufacturing industry abroad and the growth of the productive capacity of the manufacturing industry in the US.

1950=100 and 1960=100

Indexes	1950	1960	1961	1962	1963	1964	1965	1966	1967	1968
1. US investment in manufacturing abroad[a]	100	345	376	414	466	528	604	690	756	821
		100	109	120	135	153	175	200	219	238
2. US investment in manufacturing in Latin America[a]	100	196	220	251	284	323	380	427	461	514
		100	112	128	145	165	194	218	235	262
3. US investment in manufacturing in Brazil[a]	100	320	337	380	412	415	449	525	555	634
		100	105	119	129	130	140	164	173	198
4. Productive capacity of manufacturing in US[b]	100	161	167	172	179	187	195	209	224	232
		100	104	107	111	116	121	130	139	144

Source: a) US Department of Commerce, Survey of Current Business, Various issues.

b) Statistical Abstract of the US, 1968, taken from Economic Survey of Latin America, 1970, pp. 181-2.

Chapter V

CONCLUSION

The primary objective of the dissertation is to examine the role of US overseas private capital in Latin America during the Alliance years and particularly focus attention on how the US private capital was promoted during the 1960s and show the direction and distribution of US private investment in the different sectors of Latin American countries. On the basis of the analysis presented in the different chapters of the dissertation, following conclusions are drawn.

Contrary to the apparent claims made by the policy makers that the launching of the Alliance for Progress was a significant landmark in US economic relations with Latin America and that it was a total departure from the traditional US policy towards the countries south of Rio Girande, it appears that the Alliance's major thrust was no different from the earlier policy pursued by the United States ever since the enunciation of the Monroe Doctrine. Despite the high sounding rhetoric of the so-called philosophy of the Alliance for Progress programme, the basic emphasis in the formulation of the Alliance was to create an economic and business climate in South America that would be propitious and profitable to US private investment. Much of the public assistance, either directly offered by the US Government or through multilateral funding agencies, essentially helped the Latin American countries to over come their short-run economic crisis such as budgetary deficits, outstanding debt servicing and balance of payment difficulties so that, they can create a more favourable climate for US private capital to move further into the core sectors of Latin American economies. The investment guarantee scheme and the policy of private investment at public risk implemented by the US administration during the Alliance years convey seemingly at least the real intentions of the policy makers.

A definite shift in the direction of US private investment was visible throughout the Alliance years towards the critical and capital intensive manufacturing sector in Latin American economies. The less profitable ventures such as public utilities (mining to some extent) were given up and the US private capital actually concentrated increasingly in the manufacturing sector. Such capital intensive manufacturing sector included the capital equipment, electrical, non-electrical, automobiles, chemicals and non-electrical industries, etc. The shift towards complex manufacturing was seen specially in the Alliance years possibly because of the high incidence of expropriation in the non-manufacturing sector. Also, there was more chances of pre-empting the foreign markets by initiating superficial produce differentiation in case the US private investors controlled the manufacturing sector. Another factor responsible for this noticeable shift was that US based transnational corporations became increasingly interested in catering to their global servicing scheme which included markets existing in different parts of the world. The overriding factor behind the shift admittedly was the high expected rate of profit because in case of the manufacturing goods as the demand was relatively more elastic than in case of primary goods.

In the industrial sector of most of the Latin American countries, the Alliance for Progress initiatives introduced and imposed a huge technological gap. Especially with acceleration of massive private investment penetrating increasingly into the manufacturing sector with its accent on capital intensive technology, introduced an element of dichotomy in the industrial sector. Highly specialized capital intensive manufacturing units catering to an export market expanded at a rapid pace denying the indigenous less capital intensive ventures any role in the development process.

Precisely because the US private investment moving more and more into capital intensive manufacturing ventures, thanks to the climate that the Alliance programme created for it, the income generation and distribution became even more skewed resulting in much greater economic and social disparities. And in that sense, the much publicized objectives of the Alliance that it was geared essentially to promote far reaching social and economic development through massive US economic assistance and minimize thereby the income and social disparities in the Latin American countries could not be realized. In reality, the Alliance for Progress as an economic policy became self-defeating in respect of its own stated objectives.

BIBLIOGRAPHY

BIBLIOGRAPHY

Primary Sources

Parliamentary Publications

US, Congress Hearings on the Foreign Assistance Act, 1962, Congressional Records, May 9, 1962

US, Congressional Discussions on Alliance for Progress, Congressional Records, May 6, 1963, pp.7304-22

US, Congressional Records, 1949-68.

US, House Appropriation Committee, Hearings on Foreign Assistance, 1968, 1969.

US, House Appropriation Committee, Hearings on Foreign Operations, 1964-1968

US, House Foreign Affairs Committee, Hearings on Mutual Development and Co-operation Act of 1973

US, President's Economic Report : As Transmitted to the Congress, 1945-70

US, Senate Foreign Relations Committee Hearings on Latin America, 1961-64

US, Senate Sub-Committee on Foreign Relations: Survey of the Alliance for Progress, 1965-67

United Nations Documents

UN, Department of Economic and Social Affairs, Reports on Latin America (New York), 1955-65.

UN, Economic Bulletin for Latin America (New York), 1961-66.

UN, Economic Survey of Latin America (New York), 1961-70

UN, Panel Reports on Foreign Investment and International Flow of Private Capital, 1946-52 and 1971.

UN, Statistical Bulletin for Latin America, 1966-1967.

UN, World Economic Survey, 1960-69.

UN, Year Book of International Trade, June, December 1969.

Government Documents and Other Documents

US, Agency for International Development, Statistics and Report Division (On Alliance for Progress) (Washington, D.C., 1961-64).

US, Bureau of Inter-American Affairs, On Latin American Growth Trends, 1964-68

US, Department of Commerce, Historical Statistics of the United States, Colonial Times to 1970 (Washington, D.C., 1972).

US, Department of Commerce, Survey of Current Business, 1959-72.

US, Department of Defense, Estimate of Latin American Situation, 1966.

US, Government Documents on US Agencies Estimate of the Latin American Situation, 1961.

US, Government Documents on The Bases of US Policy Toward Latin America, 1970-72.

Secondary Sources

BOOKS

Ady, Peter, ed., Private Foreign Investment and the Developing World (New York: Praeger Publishers, 1971).

Aguilar, A., Pan-Americanism from Monroe to the President: A View from the Other Side (London and New York: Monthly Review Press, 1968).

Bailey, Norman A. ed., Latin America-Politics, Economics and Hemispheric Security (New York: Praeger, 1965).

Baran, Paul A., The Political Economy of Growth (Middlesex, England: Penguin Books, 1973).

__________ and Sweezy, Paul M., Monopoly Capital: An Essay on the American Economic and Social Order (Middlesex, England: Penguin Books, 1973).

Barlow, E. R. and Wender, J. T., Foreign Investment and Taxation (Englewood Cliffs, N.J. Prentice-Hall, 1955).

Barnet, R.J. and Müller, R. E., Global Reach: The Power of the Multinational Corporations (New York: Simon and Schuster, 1974).

Basch, Anotonin and Kybal Milic, Capital Markets in Latin America (New York: Praeger Publishers, 1970).

Bayitch, S. A., Latin America: A Bibliographical Guide to Economics (Florida: University of Miami Press, 1961).

Benham, F., Short Introduction to the Economy of Latin America (London: Oxford University Press, 1960).

Bernstein, H., ed., Underdevelopment and Development (Harmondsworth: Penguin, 1973).

Brown, C. C., ed., World Business: Promise and Problems (New York: Macmillan, 1970).

Brown, Michael Baratt, Economics of Imperialism (Middlesex: Penguin Books, 1974).

Burr, Robert N., Our Troubled Hemisphere: Perspectives on US-Latin American Relationship (Washington, D.C: The Brooking Institution, 1969).

Cairncross, A. K., Home and Foreign Investment, 1870-1914 (Cambridge: Yale University Press, 1953).

Campos, Roberto de Oliveira, Reflections in Latin American Development (Austin: University of Texas Press, 1967).

Connor, J. M., Market Power of Multinationals: A Quantitative Analysis of US Corporation in Brazil and Mexico (New York: Praeger Publishers, 1977).

Crow, John A., The Epic of Latin America (New York: Doubleday, 1946).

Duncan, W. R. and Goodsell, J. N., The Quest for Change in Latin America - Sources for a Twentieth Century Analysis (New York: Oxford University Press, 1970).

Dunning, John H., International Investment (England: Penguin Books, 1972).

Dunning, J. H. ed., The Multinational Enterprise (London: Allen and Unwin, 1971).

Edward, Bob, Multinational Companies and the Trade Unions (Nottingham: Bertrand Russel Peace Foundation, 1977).

Fann, K. T. and Hodges, Donald C., eds., Readings in US Imperialism (Boston: Porter Sargent, 1971)

Foxby, Alejandro, ed., Income Distribution in Latin America (Cambridge: Cambridge University Press, 1976).

Frank, A. G., Latin America: Underdevelopment or Revolution (New York: Monthly Review Press, 1970).

__________, Capitalism and Underdevelopment in Latin America (Harmondsworth: Penguin, 1971).

__________, On Capitalist Underdevelopment (Bombay: Oxford University Press, 1975).

__________, Lumpenbourgeoisie: Lumpen Development: Dependence, Class and Politics in Latin America (New York: Monthly Review Press, 1973).

Furiado, Celso, Economic Development of Latin America: A Survey from Colonial Times to the Cuban Revolution (Cambridge: Cambridge University Press, 1970).

Galeano, R., Latin America and the Theory of Imperialism (New York & London: Monthly Review Press, 1970).

Gannon, Thomas A., ed., Doing Business in Latin America (USA: AMA, 1968).

Gantenbein, James W., The Evolution of Our Latin American Policy: A Documentary Record (New York: Columbia University Press, 1950).

Gayer, Arthur D. and Schmidt, Carl T., American Economic Foreign Policy: A Post War History, Analysis and Interpretation (A Report to the 12th International Studies Conference, New York August 27-September 2, 1939).

Gibson, Charles, Spain in America (New York: Harper Colophon Books, 1967).

Glade, William P., Latin American Economies: A Study of Their Institutional Evolution (New York: Van Nostrand Reinhold, 1969).

______________, Foreign Private Investment: The Challenge of Latin American Nationalism (Washington, D.C.: The Brooking Institution, 1971).

Goldberg, Ray A., Agribusiness Management for Developing Countries: Study of Latin America (Cambridge: Ballinger, 1974).

Gongora, Mazio, Studies in the Colonial History of Spanish America, Richard Southern, trans. (Cambridge: Cambridge University Press, 1975).

Gordon, Lincolro, A New Deal for Latin America (Cambridge: Mass., 1963).

Gordon, Wendell C., Economy of Latin America (New York: Columbia University Press, 1950).

Griffin, K., ed., Financing Development in Latin America (London: Macmillan, 1971).

_______________, Underdevelopment in Spanish America (London: George Allen and Unwin Ltd., Ruskin Hague, 1969).

Grunwald, Joseph and Musgrove Philip, Natural Resources in Latin American Development (Baltimore & London: J. H. Press, 1970).

Grunwald Joseph, Wionczek M. S. and Carnoy Martin, Latin American Economic Integration and U.S. Policy (Washington, D.C.: The Brooking Institutions, 1971).

Halper, Stephen A. and Sterling John R., eds., Latin America: The Dynamics of Social Change (London: Allison and Busby, 1972)

Halsay, Fredric M., Investments in Latin America and West Indies (A Special Agent Series, No. 169, U.S. Department of Commerce, 1918).

Hanson, Simon G., Five Years of the Alliance for Progress: An Appraisal (Washington, D.C.: The Inter-American Affairs Press, 1967).

Harris, Seymour, ed., Foreign Economic Policy of the United States (Harvard University Press, 1948).

_______________, Economic Problems of Latin America (Harvard University Press, 1955).

Hellman, Ronald G. and Rosenbaum, John H., eds., Latin America: The Research for a New International Role (New York: John Wiley, 1975).

Hirschman, Albert O., Journey Toward Progress: Studies of Economic Policy Making in Latin America (New York, Greenwood Press, 1968).

Holt Pat M., Survey of the Alliance for Progress: The Political Aspects (Washington, D.C.: U.S. Government Printing Office, 1967).

Horowitz, Irving Louis, ed., Masses in Latin America (New York: Oxford University Press, 1970).

Hymer, S., Direct Foreign Investment and the National Economic Interest (Yale Centre Paper No. 168, New Haven, 1967).

Jaguaribe, Helio, Political Development: A General Theory and a Latin American Case Study (New York: Harper and Row, 1973).

Johnson, Harry G., Economic Nationalism in Old and New States (Chicago, University of Chicago Press, 1967).

Johnson, John J., Political Changes in Latin America: The Emergence of the Middle Sectors (Stanford: Stanford University Press, 1958).

Kaufman, Edy, Superpowers and their Spheres of Influence: The United States and Soviet Union in Eastern Europe and Latin America (London: Croom Helm, 1976).

Kindleberger, Charler P., American Business Abroad: A Concern for U.S. Direct Investment (Connecticut: Yale University Press, 1969).

Knorr, Klaus and Patterson Gardner, A., Critique of the Randall Commission's Report on U.S. Foreign Economic Policy (Princeton: Princeton University Press, 1954).

Kohl, Wilfred L., ed., Economic Foreign Policies of Industrial States (Bolgna Centre: J. H. Press, 1977).

Lauterbach, Albert, Enterprise in Latin America (New York: Connel University Press, 1966).

Lewis, Cleona, America's Stake in International Investments (Washington, D.C.: The Brooking Institutions, 1938).

Loveman, Brian and Davis, Thomas M., eds., Politics of Anti-Politics: The Military in Latin America (Lincoln: University of Nebraska Press, 1978).

Lowenthal, Abraham F. ed., Armies and Politics in Latin America (New York: Holiness and Meik, 1976).

Malloy, James M., ed., Authoritarianism and Corporation in Latin America (London: Febber and Simon, 1977).

Marquomd, Donald, Are We Good Neighbours: Three Decades of Inter-American Relations, 1930-1960 (Ganisville: University of Florida Press, 1959).

Mikesell, Raymond, ed., U.S. Private and Government Investment Abroad (Oregon: University of Oregon Books, 1962).

Needler, Martin C., ed., Political Systems of Latin America (New York: Van Nostrand Reinhold, 1970).

Nehemkis, Peter, Latin America: Myth and Reality (New York: Alfred Knoph, 1964).

Owen, Roger and Sutcliffe, Bob, Studies in the Theory of Imperialism (London: Longman, 1976).

Oxaal, Ivar etc. eds., Beyond the Sociology of Development: Economy and Society in Latin America and Africa (London: Routledge, 1975).

Palmer, Thomas W., Search for a Latin American Policy (Gainesville: University of Florida Press, 1957).

Parkinson, F., Latin America: The Cold War and the World Powers, 1945-73: A Study in Diplomatic History (London: Sage Publications, 1974).

Pearson, Lester B., Partners in Development (Report of the Commission on International Development) (New York, 1969).

Perloff, S., Alliance for Progress: A Social Invention in Making (Baltimore and London: J. H. Press, 1969).

Pike, Fredric B., United States and the Andean Republics: Peru, Bolivia and Ecuador (Cambridge: Harvard University Press, 1977).

Platt, D. C. M., ed., Business Imperialism, 1840-1930: An Enquiry Based on British Experiences in Latin America (Oxford: Oxford University Press, 1977).

Prebisch, Raul, Change and Development is Latin America's Great Task (Report submitted to the IDB) (New York: Praeger Publishers, 1971).

Radice, Hugo, ed., International Firms and Modern Imperialism (Middlesex, Penguin Books, 1975).

Rai, Lajpat, Latin America: A Socio-Economic Study (New Delhi: Institute for Afro-Asian and World Affairs, 1962).

Rippy, J. Fred, Latin America and the Industrial Age (New York, 1944).

____________, British Investments in Latin America, 1822-1949 (Minneapolis: University of Minneapolis Press, 1959).

_______________, Latin America: A Modern History (Ann Arbor: University of Michigan Press, 1958).

Rogers, William D., The Twilight Struggle (Oxford: Oxford University Press, 1951).

Schmidt, Orvis A., The World Bank Group in Latin America (Montreal, 1966).

Snow, Peter G., Government and Politics in Latin America (New York: Holt, Rinehart and Winston, 1967).

Swansbrough, Robert H., The Embattled Colossus: Economic Nationalism and United States Investors in Latin America (Gainesville, University of Florida Press, 1976).

Tancer, S. B., Economic Nationalism in Latin America: The Quest for Economic Independence (New York: Praeger Publications, 1976).

Tella, Torenato S, Di, Para Uma Politica Latina-Americana, Abigail Pereira Nunes, trans. (Rio de Janeiro: Editora Paz e Terra, 1969).

Theberge, James D. and Fontaine, Roger W., Latin America: Struggle for Progress (Lexington: Lexington Books, 1977).

Turner, L., Multinational Companies and the Third World (New York: Hill and Wang, 1973).

Urquidi, Victor L., ed., Latin America in the International Economy (London: Macmillan, 1970).

_______________, The Challenge of Development in Latin America, Marjony M. Urquidi trans. (New York: Fredric A. Praeger,Inc., 1964).

Vaitsos, Constantine, Inter-Country Income Distribution and Transnational Enterprise (Oxford: Oxford University Press, 1974).

Van Philip, Paul A. M., Public Finance and Less Developed Economy with special reference to Latin America (The Hague: Martinus Nijhoff, 1957).

Veliz, Claudio, ed., Latin America and the Caribbean : A Handbook (New York: Fredric A. Praeger Publishers, 1968).

Vernon, Raymond, ed., How Latin America Views the U.S. Investor (New York: Praeger, 1966).

______________ ed., Public Policy and Private Enterprise in Mexico (Massachusetts: Harvard University Press, 1964).

______________, Sovereignty at Bay: The Multinational Spread of U.S. Enterprises (Harmondsworth: Penguin, 1973).

______________, Private Longterm Foreign Investment in Latin America (C.I.A.P. Enquiry, January 1967).

______________, Foreign Direct Investment in the LDCs: An Exploration of Alternative Forms (Harvard: Harvard University Press, mimeographed January 1968).

VISION Incorporated, Analysis of the Survey of US Firms on the Business Climate of Latin America (New York: 1963), Mimeo.

Wagner, R. H., United States Policy Toward Latin America: A Study in Domestic and International Politics (Stanford: Stanford University Press, 1970).

Wilkins, Mira, The Emergence of Multinational Enterprises: American Business Abroad from the Colonial Era to 1914 (Cambridge, Mass.: Harvard University Press, 1970).

Williams, E. J., The Political Themes of Inter-American Relations (Belmont, Calif.: Duxbury Press, 1971).

Winkler, Max, Investments of U.S. Capital in Latin America (Boston: World Peace Foundation Pamphlets, 1929)

Wionczek, Miguel S., Economic Co-operation in Latin America, Africa and Asia: A Handbook of Documents (Massachusetts: M.I.T. Press, 1969).

Wilhers, William, Economic Crisis in Latin America (London: Macmillan, 1969).

Woodis, J., An Introduction to Neo-Colonialism (London: Lawrende and Wishart, 1967).

Woytinsky, W. S. and Woytinsky, E. S., World Commerce and Governments (New York: The Twentieth Century Fund, 1955).

Wright, H. K., Foreign Enterprise in Mexico: Laws and Policies (North Carolina: University of North Carolina Press, 1971).

Wythe, George, Industry in Latin America, ed. (New York: Columbia University Press, 1949).

Yudelman, Mantague, Agricultural Development and Economic Integration in Latin America (London: George Allen and Unwin, 1970).

Zeitlin and Petras, Latin America: Reform or Revolution (New York: Fowcett Publications, Inc., 1968).

ARTICLES IN PERIODICALS

Alaba, Victor, "The Alliance for Progress is Dead", New Republic, 5 September 1964.

Alexander R. J., "Political Experiment in Venezuela", Current History (Philadelphia), vol. 49, no. 292, 1965, pp. 336-41.

__________, "New Directions: The United States and Latin America", Current History, vol. 42, no. 246, 1962, pp. 65-70.

"A Ticklish Task for Repatriating Profits", Business Week (New York), no. 56, 1976, pp. 77-78.

Bailey, Samuel L., "Argentina: Search for Consensus", Current History, vol. 51, no. 303, November 1966, pp. 301-6.

Ball, M. Margaret, "Latin America and the Balance of Power", Current History, vol.40, no. 236, 1961, pp. 193-200.

Bernstein, Marvin D., "Foreign Investment and Mineral Resources", Inter-American Economic Affairs (Washington, D.C.), no. 3, 1959, pp. 33-49.

Bianchi, Andres, "Notes on the Theory of Latin American Economic Development", Social and Economic Studies (Jamaica), vol. 22, no. 1, March 1973, pp. 96-121.

Botero Rodrigo, "Relations with the US-A Latin American View", in Victor Urguid, ed., Latin America in International Economy (London: Macmillan, 1970), pp. 222-9.

Brookens, Benoiv, Otil, "Diplomatic Protection of Foreign Economic Interests: The Changing Structure of International Economic Order", Journal of Inter-American Studies and World Affairs (Washington, DC), vol. 20, no. 1, February 1978, pp. 37-50.

Campos, Roberto, "The Dilemma of Private Investment", Inter-American Economic Affairs, vol. 24, no. 3, 1970, pp. 81-84.

Cardoso, F. H., "Dependency and Development in Latin America", New Left Review (London), no. 74, July-August 1972,

Cochrane James D., "U.S. Attitudes toward Central American Integration", Inter-American Economic Affairs, vol. 18, no. 2, 1964, pp. 48-61.

Cohen, Alvin, "Echa and Economic Development of Peru", Inter-American Economic Affairs, vol. 17, no. 1, 1963, pp. 3-28.

Curren Documents, "The Charter of Punta del Este", Current History, vol. 46, no. 269, 1964, pp. 39-46.

Dos Santos, Theotonio, "The Structure of Dependence", American Economic Review (Tessessee), no. 60, May 1970, pp. 231-6.

Emannel, Arghiri, "The MNCs and the Inequality of Development", International Social Science Journal (Paris), vol. 28, no. 4, 1976, pp. 754-72.

Fortner, Robert S., "Strategies for Self-Immolation: The Third World and the Transfer of Technology", Inter-American Economic Affairs, vol. 31, no. 1, Summer 1977, pp. 25-50.

Garza, Julio Gonzalez, "Foreign Enterprises Must Contribute to National Development", Siempre (Mexico City), 6 June 1973.

Gil, Federico G., "Socialist Chile and the U.S.", Inter-American Economic Affairs, vol. 27, no. 2, 1973, pp. 29-48.

Glade, William, "Social Backwardness, Social Reform, and Productivity in Latin America", Inter-American Economic Affairs, vol. 15, no. 3, 1961, pp. 3-32.

Gordon, Wendell, "The Contribution of Foreign Investment: A Case Study of U.S. Foreign Investment History", Inter-American Economic Affairs, vol. 14, no. 4, 1961, pp. 34-56.

__________, "From Reciprocal Trade to Point IV", Inter-American Economic Affairs, vol. 4, no. 4, 1951, pp. 12-19.

Hanson, Simon G., "The Good Partner Policy", Inter-American Economic Affairs, vol. 10, no. 2, 1956, pp. 45-96.

__________, "The End of the Good Neighbour Policy", Inter-American Economic Affairs, vol. 7, no. 2, 1953, pp. 3-49.

____, "The End of Good Partner Policy", Inter-American Economic Affairs, vol. 14,no. 1, 1960, pp. 65-92.

____________, "Inter-American Relations", A paper presented in the Brazilian Round Table Series sponsored by New York University, 3 May 1960.

____________, "Failure at Punta del Este", Inter-American Economic Affairs, vol. XV, no. 4, 1962, pp. 29-45.

____________, "Notes on the Alliance for Progress", Inter-American Economic Affairs, vol. 17, no. 1, 1963, pp. 85-97.

____________, "The Alliance for Progress, the Second Year", Inter-American Economic Affairs, vol. 17, no. 3, 1963, pp. 1-93.

____________, "The Alliance for Progress: The Third Year", Inter-American Economic Affairs, vol. 18, no. 4, 1965, pp. 3-88.

____________, "The Alliance for Progress: The Sixth Year", Inter-American Economic Affairs, vol. 22, no. 3, 1968, pp. 3-39.

____________, "The Curtain that Shields the Diplomats", Inter-American Economic Affairs, vol. 4, no. 4, 1951, pp. 37-47.

Hickey John, "Role of Congress in Foreign Policy", Inter-American Economic Affairs, vol. 14, no. 4, 1961, pp. 67-90.

Johnson, John J., "Politics and Economics in Brazil", Current History, vol. 42, no. 246, 1962, pp. 89-95.

Johnson, Leland L., "U.S. Private Investment in Latin America Since the Rise of Castro", Inter-American Economic Affairs, vol. 18, no. 3, 1964, pp. 53-74.

Johnson, "On the Alliance for Progress", Current History, vol. 51, no. 300, 1966,pp. 307-8.

Karaganov, S., "The Subversive Activities of the MNCs", International Affairs (Moscow), October 1976, pp. 50-56.

Langdon, George, "Mercantilism and American Trade", Current History, no. 250, 1962, pp. 321-6.

"Latin American Opens the Door to Foreign Investment Again", Business Week, no. 2444, 9 August 1976, p. 34.

"Legal Disposition of Foreign Investment", Comercio Exterior de Mexico (Mexico City), no. 20, 1974, pp. 21-28.

Malmgren Herald B., "United States Economic Policy", in Wilfred Koul, ed., Economic Foreign Policies of Industrial States (J. H. University Press, 1977), pp. 21-48.

Meek, George, "U.S. Influence in the Organisation of American States", Journal of Inter-American Studies and World Affairs (Washington, D.C.), vol. 17, no. 3, 1975, pp. 82-91.

Morse, Robert, "Report to the Senate Foreign Relations Committee on a Study Mission to South America", February 20, 1960.

Navarette, A. R., "El financiamiento del desarollo economico", La Economica (Mexico, D.F.) 1960.

Pike, Fredrik B., "Can We Slow Our Loss of Latin America", Inter-American Economic Affairs, vol. 15, no. 1, 1961, pp. 3-30.

Pizer, Samuel & Culter, Fredrick, "U.S. Business Investments in Foreign Countries", A Supplement to the Survey of Current Business (Washington, D.C.), 1960, pp. 89-137.

Pizer, S. and Cutler, F., "The Role of U.S. Investments in the Latin American Economy", Survey of Current Business, vol. 37, no. 1, January 1957, pp. 6-15.

Potash, R. A., "Argentina's Quest for Stability", Current History, vol. 42, no. 246, 1962, pp. 71-76.

Rippy J. Fred, "U.S. Post War Aid to Latin America", Inter-American Economic Affairs, vol. 14, no. 4, 1961, pp. 57-66.

____________, "Public Policy and the Foreign Investor in Latin America", Inter-American Economic Affairs, vol. 4, no. 4, 1951, pp. 30-36.

Ronning C. Neale, "Brazil's Revolutionary Government", Current History, vol. 51, no. 303, 1966, pp. 296-300.

Salera, Virgil, "Vernon's Mexican Development Dilemma", Inter-American Economic Affairs, vol. 18, no. 4, 1964, pp. 59-72.

Schneider, Ronald M., "The U.S. in Latin America", Current History, vol. 148, no.281, 1965, pp.1-8.

________________, "U.S. Policy in Latin America", Current History, vol. 51, no. 303, 1966, pp. 257-63.

Schweinitz, Karl de Jr, "The Needs of Underdeveloped Economics", Current History, vol. 51, no. 300, 1966, pp. 72-77.

Swansbrough, Robert H., "The American Investors View of Latin American Nationalism", Inter-American Economic Affairs, vol. 26, no. 3, 1972, pp. 61-82.

Taylor, Philip B. Jr, "Democracy for Venezuela?", Current History, vol. 51, no. 303, 1966, pp. 284-90.

Tulcheri, Joseph S., "Latin America: Focus for U.S. Aid", Current History, vol. 51, no. 299, July 1966, pp. 28-35.

Urguidi, Victor L., "Two Years of the Alliance for Progress", Inter-American Economic Affairs, vol. 17, no. 4, 1964, pp. 21-36.

Vernon, Raymond, "Multinational Enterprise and National Sovereignty", Harvard Business Review (Harvard) March-April 1967, pp. 62-81.

"Views on Foreign Investment", Business Week (New Jersey), no. 2273, 31 March 1973.

Warren, Harris G., "Economic Diplomacy with Latin America", Inter-American Economic Affairs, vol. 4, no. 4, 1951, pp. 3-11.

Whitaker, Arthur P., "Yankee Phobia: The U.S. and Latin America", Current History, vol. 42, no. 245, 1962, pp. 15-19.

________________, "From Dollar Diplomacy to the Good Neighbour Policy", Inter-American Economic Affairs, vol. 4, no. 4, 1951, pp. 12-19.

Zuvekas, Clarence Jr, "Argentine Economic Policy", Inter-American Economic Affairs, vol. 22, no. 1, 1968, pp. 45-74.

NEWSPAPERS

Excelsior (Mexico City)
Indian Express (New Delhi)
International Herald Tribune (New York)
Le Monde (Paris)
New York Times
The Hindu (Madras)
The Times of India (New