SOVIET BLOC-LATIN AMERICAN ECONOMIC RELATIONS AND UNITED STATES POLICY

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SUMMARY

An increase in Latin American-Soviet Bloc economic relations is assumed and its consequences for Soviet influence in Latin America are examined. It is argued that on balance an increase in trade may decrease Soviet and Communist influence, particularly on some of the Latin countries' newly emerging leaders, largely because of the more intimate acquaintance with, and more realistic appraisal of, Soviet trade and aid capabilities that would probably follow. Soviet maneuverability may also be affected adversely by greater involvement. Likely configurations of expanded trade are examined and appraised from the point of view of US interests. In this connection some specific countermeasures the United States might take to frustrate the effect of Soviet economic moves in Latin America are discussed.

But the principal way of countering any Soviet attempts at penetration and infiltration, by trade or other means, is to improve our over-all position in Latin America. The memorandum analyzes the reasons why our influence in Latin America is not, commensurate with the role we play as traders, lenders, and investors, and points to some of our commodity, investment, and general development-assistance policies in which new approaches could usefully be explored. The beneficial effects on Latin American resistance to Soviet penetration that are likely to result from success of present efforts toward Latin American economic integration are stressed. A final section summarizes recent trends in Soviet Bloc-Latin American trade.
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I. INTRODUCTION

Revolutionary activity and social unrest in much of Latin America is likely to open Soviet eyes to hitherto unsuspected opportunities and may therefore lead to greater efforts to gain economic footholds in a variety of Latin American countries. Thus far these efforts have been rather sporadic and have resulted in only a very limited Soviet Bloc participation in Latin American trade, concentrated on four countries (Argentina, Brazil, Uruguay, and Cuba). The following paper assumes that Soviet Bloc-Latin American economic intercourse will be intensified. It examines the forms such expansion might take, and its probable impact on Latin American attitudes, and discusses US policies in Latin America in the context of heightened East-West competition in the area.

1 See Section VI.
II. THE EFFECTS OF GREATER SOVIET BLOC ECONOMIC INVOLVEMENT IN LATIN AMERICA

Some years ago, an interesting article on Soviet economic aid by Charles Wolf raised the question: Is this aid a threat or a windfall?\(^1\) It was at least conceivable, so Wolf argued, that Soviet aid might turn out to be a windfall to the United States inasmuch as the promotion of economic development would strengthen political stability and independence in Southeast Asia, no matter who the promotor might be. "If Soviet aid contributes to economic growth in recipient countries outside the Bloc, it may yield payoffs to the United States similar to those associated with the growth-effects of U.S. aid."\(^2\) Though Wolf has carefully qualified this point, he nevertheless holds that Soviet economic aid contains at least elements of potential gains in addition to the well-known, widely advertised, and admittedly serious dangers of political penetration.

In the case of Latin American-Soviet economic relations, I concur in these conclusions, but for somewhat different reasons. I feel that the indirect effect that operates via economic development is inadequate as a make-weight against the direct political effects of Soviet aid or trade if these latter effects must be assumed to be favorable to the Soviet Union. But is that necessarily the case? In other words, is it conceivable that the Soviet Bloc, by entering into more active economic relations with the Latin American countries, will lose rather than gain influence, even apart from the reasons pointed out by Wolf?

\(^1\) Charles Wolf, Jr., "Soviet Economic Aid in Southeast Asia: Threat or Windfall?" World Politics, 10 (Oct. 1957), 91-101.
\(^2\) Ibid., p. 97.
To attack this question, the concept of influence must be examined in a brief digression. Country A, by trading and engaging in other economic relations with country B, acquires influence in that country as a result of the economic benefits that accrue to B. In other words, "gains from trade," a concept that has been exhaustively analyzed in the theory of international trade, is relevant to the theory of international political relations: mutual gains beget mutual, but not necessarily equal, influences.

Fortuna est servitus. The relationship between B's gain from trade and the influence wielded by A is most obvious when political power is held by those local groups in B that have an interest in maintaining trade with A. Basically, of course, the influence acquired through trade-in-being by a sovereign nation rests on that nation's ultimate power to interrupt the trade, i.e., to withdraw the benefits that have accrued and thereby to force deprivation, adjustment, and dislocation upon the erstwhile trading partner. Naturally, by withholding trade a country would at the same time injure itself; hence it looks at first glance as though the game of acquiring influence through foreign trade should be played by maximizing one's partner's gains-from-trade rather than one's own! Normally a country, however influence-hungry, will not follow this rule to the end, but will insist on deriving some gain from trade for itself. Elsewhere it has been shown that by concentrating its trade on small and poor countries, by giving that trade a certain commodity composition and by keeping it in strictly bilateral channels, a large trading country may secure both economic advantages for itself and induce political dependence in its trading partners.¹

¹ Cf. my National Power and the Structure of Foreign Trade, Berkeley, 1945.
A further point should perhaps be made. In the real world of many countries, B's gain from trade with A is not measured solely by the gain accruing from trade with A as compared to a situation where B would be entirely deprived of this trade. Rather, an evaluation of B's gain would have to take into account its ability to make up for the interruption of trade with A by increasing its trade with other countries. This adjustment can often be made by submitting to slightly worsened terms of trade. In other words, supposing B to carry on 10 per cent of its trade with A, its gain from trade with A is likely to be much less than one tenth of its total gain from trade. But this also implies that, as A's participation in B's trade expands and, consequently, as diversion of trade from A becomes more difficult, B's gain and the influence acquired by A increase more than proportionately, at least within a certain range.

So much, then, for the influence acquired by a country through trading. Since it is based on trade-in-being, we may refer to it as an influence by threat to interrupt trade. It is influence of this type that the Soviet Union would acquire by intensifying economic relations with Latin American countries. In fact, since such relations are handled, on the Soviet side, by agencies that are clearly instrumentalities of the Soviet state, the possibility that trade may be interrupted is far more clearly impressed on everyone's consciousness than is the case where foreign trade is carried on through private channels. In this latter situation also, trade is subject to interference for political reasons, but since such interference will take place only under conditions of extreme tension, its prospect is easily dismissed from everybody's mind.
Thus far, then, it does look as though the Soviet Union would gain rather than lose politically through intensifying its economic relationships in Latin America. However, under present conditions of competitive coexistence and given the small initial volume of Soviet Bloc trade, the ability of the Soviet Bloc to exert influence by threatening to cut off trade is not likely to be decisive in controlling the actions of an uncommitted country. Being bound up essentially with the possibility of inflicting harm through a curtailment of trade, this type of influence is checked by the readiness of the "competitive coexistor" to come in and take up the slack. In Latin America in particular, it is not likely that the Soviet Bloc could acquire within the next few years a trading position that would endow it with much influence of this kind.

Under these conditions, Soviet influence is likely to be based on something else: namely, on the ability of the Soviet Bloc as a group of nations with large commercial and financial resources simply to increase its economic relations with the Latin American countries. Under conditions of competitive coexistence, and given the universal concern with economic development, the Latin American countries are likely to pay much more attention to the prospect of economic gain than to the dangers of economic loss. Influence acquired through this prospect may be termed influence by prospect of gain. This kind of influence can exist and may be considerable even when actual economic intercourse is limited or even nonexistent. Thus, the Soviet Union may be able to create in the minds of a Latin American country the idea that it can bestow large gains through trade, aid, and technical assistance. In the absence of actual experience,
the chances of Soviet success in this endeavor will depend on the propagandistic abilities of the Soviets and the readiness and desire of Latin officials to accept Soviet propaganda at face value. I have tried to show elsewhere that the propensity to nourish illusions, to believe in the availability of some miraculous short cut to wealth and national welfare is a characteristic trait in underdeveloped countries. Closely allied with this trait is the correlative propensity to be rapidly and exaggeratedly disillusioned.¹

If this is so, then it will readily appear that:

1. The influence resulting from the prospect of economic gain may at times be considerable, particularly in the absence of any ongoing economic relations.

2. This influence may well decline as economic relations expand and as performance, bad, indifferent or even good, is measured against entirely unreasonable expectations.

On this basis, then, we may surmise that advantages will accrue to the United States from an expansion of Latin American-Soviet economic relations. It may be objected: Why worry about an influence that is based on illusions, that is bound to be scaled down drastically as soon as experience with actual Soviet trade is acquired? The reason is simple: In Latin America we are today principally concerned with the possibilities of revolutionary change and with the emergence, in the course of rapid economic and social development, of new inexperienced leaders who advocate a wide variety of

changes and reforms and who are full of resentments against the wealth- and power-holders of yesterday. We must take it for granted that these leaders will frequently be less than friendly to the United States, both because this is a popular stand to take and because, unfortunately, the United States is largely identified in the public mind with the local "oligarchies." Given this situation (which we are attempting to change, but which, for the present, must be taken as a realistic working hypothesis), it is of great importance to us that these new leaders should be cautious in dealing with the Russians. Otherwise, once in power, they might recklessly gamble with their country's independence. Also, the extent to which anti-US policies are advocated and pursued may well be related directly to the belief that such policies may be adopted with impunity, because the Soviet Bloc will "save us" by coming in with trade and aid.

We have here essentially an argument in favor of Latin American countries acquiring experience with Soviet Bloc trade in advance of political upheavals so that not only their present but also their prospective leaders will acquire some skepticism toward Soviet capabilities. In part, we believe that disillusionment is likely to result from the excessively high hopes held prior to the experience. In part, our expectation rests on an appraisal of the type of trade that is likely to develop under present and future Soviet Bloc economic conditions, programs, and institutions. Not only can it be expected that trade will be accompanied by the usual frictions and inefficiencies, but given the Soviet Bloc's basically autarkic policies, trading opportunities are
likely to result primarily from the temporary and uncertain shortages and surpluses that will appear in the course of Soviet Bloc economic development. Trade relations are then likely to be marked by instability, frequent renegotiations and recriminations, Soviet attempts to resell Latin commodities in third markets, and so on.

The preceding argument -- like any argument about the future -- rests on probabilities rather than certainties. Things may turn out otherwise. In the first place, it is possible that a mediocre Soviet Bloc performance will be discounted by a Latin American country's prospective leaders because the Soviets may claim that much finer things are in store for the country once it enters more resolutely into the Socialist Camp. It is also conceivable that a limited amount of economic intercourse will enable the Bloc to gain considerably at the expense of the West -- by financing projects the West has rejected, by purchasing commodities at the moment they are in surplus because of a decline in Western demand, and so forth.

One can attach a high degree of probability to such a course of events only by attributing a diabolical degree of cunning and maneuverability to the Soviets and a very low ability to react and adjust to and compete with the West. It may be claimed that under conditions much less favorable than in Latin America, namely in the Middle East and Southeast Asia, this theory of Soviet superiority and Western incompetence does not seem to be borne out by the facts. Actually, the position taken here is based largely on the experiences of countries such as Burma, Afghanistan, and perhaps the U.A.R., where prolonged and close contact with the Soviets
appears to have produced a degree of sophistication unparalleled in most of Latin America.¹

Sophistication does not mean rejection. It may well turn out that in Latin America as in Southeast Asia, Soviet Bloc trade, after some "threatening" advances and "heartening" retreats, will find a more or less permanent niche. But this domestication of the Soviet trade offensive is precisely what is desirable. In fact, domestication is more likely to occur in Latin America than in some of the countries on the periphery of the Soviet empire.

We have argued that it will be useful for Latin America to acquire some experience in trade with the Soviet Bloc. Perhaps the same can be said for the Soviet Union. At present, Latin America looms in Soviet eyes as another area abounding in revolutionary potential and in opportunities for penetration through economic deals. There may also be illusions at work that make for a Soviet willingness to engage in adventure. Certainly if the Soviet Union became convinced through actual experience that its possibilities were no longer unlimited, that it was encountering serious difficulties in widening the area of economic penetration and political subversion in the underdeveloped countries,

¹I would exclude from this statement the present Venezuelan and perhaps Bolivian regimes, and such political leaders as Costa Rica's Figueres, and Venezuela's Betancourt, in whom one can discern the beginnings of a resolutely non-Communist Left in Latin America (as a result of prolonged experience with local Communist parties). Almost everywhere else, the Communists are still accepted by Liberals and Leftists as useful and easily controllable partners.
a new element of stability might result in East-West relations. It may be to our interest to let the Soviets run up against the limits of their influence, particularly in an area where we can make sure that there will be limits.

One further point should be made: From the point of view of the United States, the most obnoxious aspect of the Soviet Union's economic position vis-à-vis the underdeveloped countries is its flexibility -- its ability to maneuver and its readiness to come up with something new. Now it is possible that this flexibility is really only a token of the low level of Soviet economic involvement in the non-Communist world. It is likely that a country's ability to turn trade and aid flows on and off is lessened as it carries on trade and aid on a large scale and with many countries. This is ordinarily so because important operations of one's own economy come to be dependent on foreign trade. But granting even that the Soviet Bloc will avoid such dependence and will trade strictly on the basis of more or less temporary shortages and surpluses, it will still have to take account of reactions of third countries to sudden shifts once it is seriously committed in a number of different countries. Something of this kind is perhaps already apparent in the present Soviet position in the Middle East where recent political shifts have not been followed immediately by adjustment in trade and aid.

Certainly, the United States, which is involved in many countries, is well aware of the difficulty of adjusting its position more than marginally in any one country: Punitive actions against one country incur the hostility of others, and favors have a way of being invoked as
precedents. Furthermore, a favor to X may be a blow to Y (e.g., donating of surplus stocks to Brazil may spoil a market for Argentina) when it isn't an affront (the India-Pakistan situation).

The preceding argument applies already to the Soviet Union (as distinct from the Soviet Bloc as a whole), which has to watch out for any inter-Bloc friction or jealousies that may result from trade or aid deals with non-Bloc countries.
III. EVALUATION OF POTENTIAL SOVIET BLOC-LATIN AMERICAN TRADE:
    COMPOSITION, BALANCE, ORGANIZATION

The foregoing remarks do not add up to a US policy on Soviet Bloc-Latin American relations. But they can help orient us in considering specific policy issues.

US policies relating to economic competition with the Soviet Bloc in Latin America can be divided into two groups:

1. Policies consisting of specific countermeasures and reactions to Soviet advances

2. US policies that are carried on irrespective of Soviet policies as part of the United States' deep involvement in Latin American economic life

It is likely that the ability of the United States to compete successfully with the Soviet Bloc in Latin America rests primarily on the second group of policies. Nevertheless, we shall address ourselves first to the narrower subject of US attitudes toward, and reactions to, possible Soviet Bloc moves.

So far we have viewed without alarm and perhaps even hopefully an expansion of Soviet Bloc-Latin American trade from its present low level. This basic attitude permits us to focus on certain specific policy problems and to differentiate between desirable and more or less perilous forms that such expansion might take. The United States should consider this question, not only because of the influence that we may have on the economic policy of Latin American governments, but also because the US government can exert a direct influence on those US corporations in Latin America that carry on much of the foreign trade in that area.
Composition

Soviet Bloc-Latin American trade can typically take the following forms:

1. Exchange of Latin American primary products for Soviet Bloc primary products

2. Exchange of Latin American primary products for Soviet Bloc manufactures (primarily machinery and equipment)

3. Exchange of Latin American manufactures (consumer goods) for Soviet Bloc manufactures (capital goods) and/or primary products

It may be to our advantage that the Soviet Bloc become a customer for some of Latin America’s principal exports (see below). In this instance we would want to reduce the present dependence of Latin America on the United States market. Many of the economic difficulties between Latin America and the United States have their origin in this dependence on, and in the short-run fluctuations of, the US market. While we should explore ways and means of making ourselves into a more reliable trading partner, some decline in our relative participation in Latin America’s export trade and a corresponding increase in Soviet Bloc-Latin American trade may be desirable because it would tend to lessen irritation between Latin America and us while increasing it in Soviet Bloc-Latin American relations. In this respect, there is little difference between commodities that are produced in the Soviet Bloc but occasionally in insufficient quantities (meat, hides, sugar, some minerals) and commodities that are not produced there but for which a potential demand exists or could be easily developed (coffee, cocoa, bananas).
Two specific problems require detailed study here:

1. The extent to which Latin America exports commodities that have at one time or other been classified as strategic (e.g., Chilean copper, Brazilian quartz crystals) and the allied question of any Soviet Bloc-Latin American trade in such commodities

2. The extent to which the production or transportation of the commodities that the Soviet Bloc would want to buy in Latin America is in the hands of US corporations (e.g., bananas, copper) and the role that these companies might or should be induced to play in any development of Soviet Bloc-Latin American trade

If one looks at the other side of the trade picture, e.g., to Latin America's imports from the Soviet Bloc, the recent record indicates real difficulties for Latin American countries in finding sufficient and satisfactory supplies from the Bloc. But since Soviet Bloc exports do not consist of standardized primary products to the same extent as Latin American exports, such difficulties are perhaps to be expected as the more differentiated Soviet Bloc products become known and accepted.

Machinery and equipment and other finished manufactures have amounted to only about one-third of total Soviet Bloc exports to such principal trading partners as Argentina and Brazil. The remainder has consisted of primary products such as petroleum, of various semi-manufactures such as iron and steel, and of chemical materials.¹ From the point of view of

¹ Sources are indicated in Section VI.
the United States, this composition of Soviet Bloc exports would ordi-
narily be considered to be less harmful than concentration on highly dif-
ferentiated machines, transportation equipment, and the like. The latter
products bring with them a dependence on spare parts and technicians that
is usually held to be one of the real dangers of increased Soviet Bloc-
Latin American trade.

If Latin American exports to the Soviet Bloc increase, however,
larger reliance may well have to be placed on this kind of imports unless
a sufficient need for Soviet Bloc materials and semi-manufactures can be
generated. Here again it may be useful to explore whether US firms might
play a role in importing certain Bloc materials (directly or through in-
termediaries, if necessary). To be prepared for such an eventuality may
be desirable if the accumulation of credit balances by a Latin American
country makes it likely that these balances would otherwise be used to
promote the purchase, say, of steel mill equipment or airplanes.¹ What
is suggested here for exploration is the idea of committing Latin American
clearing balances to other imports so as to avoid their being used to
promote purposes that are undesirable from our point of view (see below).

On the other hand, our previous argument leads us not to be too
concerned about some Soviet Bloc exports of industrial machinery and

¹That US-owned or US-managed businesses in Latin America could play
a considerable role in any developing Soviet Bloc-Latin American trade and
could well impart to it a certain commodity character if they were to par-
ticipate actively in it as indicated by a Commerce Department study accord-
ing to which branches and subsidiaries of US corporations in Latin America
were responsible for $700 million, i.e., for about 10 per cent of the total
imports of the area in 1955. $150 million of these $700 million were
imported into Latin America from outside the United States. See "The
Role of United States Investments in the Latin America Economy," Survey
equipment to Latin America. Not only is this kind of trade a frequent
source of irritation, but, even in the absence of Soviet blunders or other
annoyances, importing such goods from the Soviet Bloc would permit Latin
Americans to make comparisons that should not be uniformly to the dis-
advantage of the West.

Some attention should be given to the possibility that Soviet Bloc-
Latin American trade may develop on the basis of Latin American exports
of manufactures. The pattern of industrialization in Latin America is
sufficiently different from that of the Soviet Union so that the emergence
of a complementarity based on this difference is conceivable. In such
countries as Brazil, Mexico, Colombia, Argentina, and Chile, the industries
that have grown up first and fastest are those serving the consumer. Heavy,
basic, and capital goods industries have been and are being built up
subsequently but with a considerable time-lag. In the Soviet Bloc, on the
contrary, priority has been given to the last-named industrial sectors,
and consumer goods output has lagged. This situation may therefore provide
a basis for interchange: Underutilization of capacity in Latin American
consumer-goods industries such as textiles, shoes, pharmaceuticals and
others has frequently occurred. Whether the Soviet Union will perceive
this opportunity and will want to take advantage of it remains to be seen.
One well-publicized example is the Soviet purchase of shoes in India.
From the Soviet point of view, a possible argument in favor of such trade
is that the quality of consumer goods turned out in Latin America is more
in line with Soviet quality and therefore more acceptable than the better
products of the United States and Western Europe.
To develop trade of this kind would be a shrewd move for the Soviet Bloc to make. It would be a great psychological satisfaction and a real economic gain for the countries of Latin America suddenly to become exporters of manufactures on a substantial scale. In spite of a sustained process of industrialization, Latin American countries have not thus far become so. Actually they have not really tried, as most of their efforts have gone into developing industries serving the domestic market. At a comparable stage of development, the Western industrial leaders were already large-scale exporters of manufactures. The inability of the Latin American countries to export a portion of the output of their fastest growing economic sectors accounts in good part for their foreign exchange difficulties. If the Soviet Bloc were to solve this problem for Latin America, it would provide a service that the industrial West with its protectionist policies and its own market-hungry consumer goods industries would be hard put to match.

It is possible and even likely that because of doctrinal bias and recent commitments to buy consumer goods in Eastern Europe, the Soviet Union will not in fact take advantage of this trading opportunity. Nevertheless, since the fuller utilization of manufacturing capacity of consumer goods would benefit Latin America considerably, we should examine how it might be stimulated in ways other than by Soviet Bloc purchases. In the absence of any substantial purchases by the United States or Western Europe, two such ways may perhaps be singled out:

1. Acceleration of the buildup of capital goods and basic industries in Latin America so as to provide the consumer goods industries with more local customers
2. An increase in inter-Latin American trade as a result of customs preferences (see below)

Trade Balance

Having speculated on the composition of future Soviet Bloc-Latin American trade, we turn now to the question of the trade balance. It has been mentioned that thus far the principal Latin American trade partners of the Soviet Bloc have frequently found themselves in the position of net exporters, i.e., of creditors. It may be surmised that tendencies toward export surpluses of Latin American countries with the Soviet Bloc will recur if trade expands in the coming years. As a transfer of real resources from Latin America to the Bloc, such export surpluses would provide the United States with an opportunity to oppose its own performance in economic relations with Latin America to that of the Bloc.

But such a situation lends itself to more intensive exploitation. In the first place, it may be possible to organize a multi-lateral clearing scheme between Latin America and the Soviet Bloc. The UN Economic Commission for Latin America (ECLA), under whose direction a limited inter-Latin-American clearing mechanism is already operating (on a purely voluntary basis), could organize, just as the Economic Commission for Europe has done, a clearing agreement between the various Latin American and Soviet Bloc countries. While such a clearing would obviously not do away with any net creditor position of Latin America vis-à-vis the Soviet Bloc, it would at least help to reduce the sum of the creditor positions of the individual Latin American countries to the consolidated net position of the area. Should the Bloc refuse to cancel a credit balance they might
own against the debits they owe, then this again would expose them as exploiters in the eyes of the Latin Americans.

The likelihood of Latin American countries accumulating clearing credits against the Soviet Bloc suggests another possibility: that the United States might on occasion offer to buy such balances from the Latin American countries either for dollars or for export commodities. Naturally, this would be an extraordinary and exceptional operation, to be considered only after the Latin American countries had acquired a full understanding of the nuisances attached to bilateral trading with the Soviet Bloc. It is clear that such a deal would have to have the approval of the Soviet Bloc because of the strictly bilateral framework in which the balances arise. Any such proposal by the United States would confront the Soviet Bloc with a difficult decision: To reject it would mean to deprive its Latin American trading partners of a profitable transaction, while to approve of it would allow the United States to claim credit for rescuing the Latin American country from difficulties in which it had become involved through trading with the Bloc.

Naturally, the whole transaction is unthinkable within the present context of United States-Soviet Bloc trade relations. For the United States to be able to acquire and use clearing balances accumulated by Latin America, our own trade with the Soviet Bloc would have to be considerably expanded. We have here an illustration of what may well be a general principle: To maneuver intelligently in the context of the Soviet Bloc economic offensive in underdeveloped countries, the United States must have first-hand knowledge of Bloc trading practices, availabilities, and needs, and it may best acquire this knowledge by carrying
on itself a variety of trade transactions with the Bloc. For as a result, the United States will be better able to appraise correctly Bloc capabilities, to provide useful information to free world trading partners of the Soviet Bloc, and to engage in counter-offensive transactions of the kind just indicated.

I propose that the whole East-West trade problem be looked at from the following point of view: To what extent would an expansion in East-West trade improve the West's ability to deal with the East's economic offensive in the underdeveloped countries?

Organization

We have discussed US attitudes toward, or possible US reactions to, several aspects of Soviet Bloc-Latin American economic relations. In this connection, a few words remain to be said about the organization of such relations on the Latin American side.

One of the principal costs, in terms of US interests, of Latin American trade with the Bloc is the opportunity for penetration, corruption, and espionage opened to the Bloc as a result of increased commercial contacts. The problem is how to minimize this cost.

In this connection, the manner in which trade is carried on is of importance. To deal with the Soviet Bloc, a country with a predominantly private enterprise economy can proceed in principle in two opposite ways. Either it may try to keep Soviet Bloc trade as much as possible in private channels, or it may establish a governmental agency or an autonomous trading corporation that, in view of the special character of trade with the Soviet Bloc, is entrusted with centralizing all operations on the Latin American side. An intermediate solution would be to require special
licenses for firms or individuals trading with the Bloc.

It is not easy to say which method is conducive to a minimum of "penetration." Experience in Western European and Asian countries may be helpful as a guide, but the special conditions of Latin America (e.g., difficulties in organizing public administration on an efficient and honest basis) must be taken into account in applying findings from other areas. Sometimes the best solution may take an apparently illogical form: for example, tacking on a state-trading company to an established institution of proven honesty, efficiency, and loyalty to the West, even though that institution does not appear to have any special competence or responsibility in trade.²

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¹ Illogical from the point of view of "established principles of public administration."

² I am thinking here, for example, of some of the Latin American Central Banks.
IV. THE US POSITION AND US ECONOMIC POLICIES IN LATIN AMERICA

It is no doubt useful to have an approximate idea of the form that Soviet Bloc-Latin American relations may take. But resistance of Latin America to Bloc penetration rests far less on specific countermeasures and on our successful influencing of developing Soviet Bloc-Latin American economic relations than on Latin America's determination to preserve its independence and the general performance of the United States in its trade and other relations with Latin America. The whole range of Latin American economic policies and of US policy toward Latin America thus becomes intimately relevant to our inquiry, and it is necessary to select for examination a few problems and policies that are of particular importance in our context.

Some of the points made in Section II are useful in an appraisal of the US position in Latin America. It has been argued that a zero or near-zero level of Soviet Bloc participation in Latin America's external economic relations does not necessarily mean zero Soviet influence. We are, therefore, predisposed to question whether the very high degree of US involvement in the Latin American economy automatically assures the United States of an overwhelming influence on Latin American policies and politics. That it does not is shown by cursory inspection of the present state of affairs in the Hemisphere. In view of the abundant means we have for exerting power, why then is our influence so meager?

A first reason is that our objectives in the Latin American countries are rather limited: We wish to be able to trade with them in peace and
war and we wish to prevent the Soviets from gaining political footholds there. Primarily our aims are therefore of a negative kind: We wish to prevent certain definite dangers from materializing, but we have no very clear idea of what we would like to see happen in any individual Latin American country from day to day or even from year to year. We have ordinarily assumed that we need not exert this kind of day-to-day influence in order to achieve our fundamental objectives.

A second and powerful explanation is that our close and important trade and investment relations with Latin America are carried on by private corporations over whose actions the United States Government has only a very limited and above all a highly intermittent control, and then mostly during emergencies. In the ordinary course of affairs, it is institutionally impracticable for the US Government to turn the economic relations existing between its citizens and Latin America to political use.¹

Third, it is the very extent of our dominant position -- in which trade is only one of many elements -- that gives us trouble. The analogy here is to the weapon too powerful for the purpose at hand. Even if we were potentially to have a strangle hold on another country's life, we would hesitate to use it, both because the damage inflicted might be disproportionate to our purpose, and because the use of our power would serve to brand us as imperialists. Our present relations with Cuba are an example

¹Cases in which the government has a direct control over the volume of trade, as in the case of the Cuban sugar quota, are exceptional and even in this case, control cannot be exercised at will, but only at specified dates.
of a situation where excessive power makes it extraordinarily difficult for us to bargain effectively. The fact that trade weapons can be graduated, i.e., that we could threaten a reduction in Cuba's sugar quota by 30, 20, or 10 per cent, is not much help, for any such action would still be interpreted as crude intervention and would make many enemies for us not only in Cuba but in the rest of Latin America and elsewhere.

In a world in which we are competing for the goodwill of many uncommitted countries, this point is of some importance. Intervention in countries such as Cuba carries with it a high cost in goodwill outside of Cuba. And since this is well known, Castro can, in effect, dare us to intervene, convinced that our very position of strategic and economic dominance reduces us to impotence. Perhaps it is no accident that the most violent anti-US movements in Latin America have occurred in the Caribbean, i.e., in the zone of strongest US economic and military dominance.

One qualification to this point must be noted. A distinction exists between the actions of the executive branch of the US Government and the more volatile reactions by US citizens in response to hostile acts or sentiment. That our investors, our tourists, and even our Congressmen are less restrained by the considerations just noted than the Department of State serves to some extent as a deterrent to such acts, and thus brings US power to bear in some fashion -- an interesting result of the fragmentation of power and the lack of coordination among powerholders that characterizes US society.1

1 That lack of coordination can be an asset is frequently not recognized. Naturally, it can also be a liability. For example, reactions of US citizens, news media, and Congressmen may serve to inflame and deteriorate
In spite of this last qualification, the fact remains that the economic power we hold in most Latin American countries is conspicuous by its disuse. Unfortunately, our restraint does not earn us admiration and gratitude.

The man-in-the-street in Rio and Caracas, or the average Soviet politician, will note the contrast between the abundant means to exert power, which we clearly have at our disposal, on the one hand, and the surprisingly meager use of this power on the other. But, being untrained in the self-denying ways of Anglo-Saxon democracy, he will come to either of two conclusions:

1. In the absence of overt assertion of its preeminent position, the United States must be dominating Latin America by some subtle pulling of hidden strings.

2. The United States does not at present assert its power because it is inept or decadent or both.

Thus, in spite of all the restraint we exercise on the use of our power, the very fact of our dominance is likely to breed hostility. For example, our dominance is sufficient to assure that if anything goes wrong with the Latin American economies -- a decline or a slow growth in exports, fluctuations in prices of export commodities and concomitant worsening of terms of trade, balance-of-payment difficulties, in short any setbacks on the road to economic development -- the United States will get the blame.

One course we can take to escape from this uncomfortable position is to neutralize these sentiments and forces through a variety of policies.

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that will generate goodwill. Another possibility consists simply in reducing the degree of our involvement.

Although I have more faith in the former alternative, I shall briefly explore the latter.

Our preeminent position in Latin American foreign trade and investment is largely based on geographical and economic realities. Even if we wanted to reduce our percentage share in that trade, there is little we could do. But let us review some possibilities.

Western Europe has largely recovered the position it held in Latin American foreign trade between World Wars. The prospect is now not so much a further intensification of relations as some continuing diversion of European purchases to Africa as a result of the preferential system established under the European Common Market. The Latin American countries have already protested against the discrimination to which they are increasingly going to be subject.\(^1\) It is clearly in the interest of the United States that Western Europe continue to be a reliable customer of Latin America's primary commodities. But prospects for increasing Western Europe's participation in Latin American trade seem poor at present.

Some relief for the United States could derive from an intensification of inter-Latin American trade. This trade is still small, about 10 percent of total imports and exports. But the present efforts at forming one or several Latin American common markets, as well as the rapid industrialization of some of the Latin American countries, may lead to an intensification

\(^1\) Centro de Estudios Monetarios Latinoamericanos, Boletín Quincenal (July 10, 1959), p. 258.
of these trade currents. Moreover, if economic integration were successful in making Latin America think in terms of their continent rather than in terms of their individual countries, United States "domination" would suddenly at least weaken considerably if it did not disappear. The shares that Latin America as a continent holds in total US foreign trade (about 22 per cent of exports and about 30 per cent of imports) compare far more favorably with the corresponding shares the United States holds in total Latin American Trade (about 40 per cent and 50 per cent, respectively) than is the case for any of the individual Latin American countries. Moreover, given the nature of the commodities supplied, Latin America as a whole may be said to have almost as much of a "strangle hold" on the United States as we have on them. If we wish to cure the Latin Americans of their dependence, there is no better way than to promote the economic integration and unification of the area. Other arguments leading to the same conclusion will be presented below.

Finally, a decrease in Latin American dependence on the United States could also result from an increase in Soviet Bloc participation in Latin American trade. Our argument in favor of some increase in Latin American economic intercourse with the Soviet Bloc has been based on different grounds. But it is reassuring to know that no great harm, and perhaps some good, may come to the US position in Latin America if the United States loses a few percentage points in the trade totals of Latin American countries to the Soviet Bloc.

Obviously, this argument should not be pressed too far. The Soviet Union does not operate under the same restraints as the United States in its relation with other countries. While a dominant position in trade
yields to the United States much hostility with little political control or influence, such a position, if held by the Soviet Union, may hold serious dangers for the continued independence of the country that has been penetrated economically.

Let us now turn to some policies that we might pursue in Latin America to offset the liabilities we incur as a result of our position of "dominance." It is useful here to recall the distinction we have made between two kinds of influences.

As a result of the high degree of participation in Latin American external economic relations, the United States no doubt possesses considerable influence by threat of withdrawal. But it is precisely this influence that is difficult or impossible to use and causes resentment and hostility. It is therefore important that we supplement it by the influence of inducement, that is, a set of policies to convince Latin American leaders that in collaboration with the United States lies the best hope for their countries' economic growth and national independence.¹

One of the principal economic roles of the United States in Latin America is that of a purchaser of primary commodities. Unfortunately, the demand for these commodities is frequently either stagnant or highly unstable. An attempt to deal directly with this problem lands us in the much discussed commodity problem. The recognition that the United States has a responsibility is implicit in our recent decision to participate in

¹ The following paragraphs are exceedingly sketchy. They are meant only as an inventory of problems that might qualify for further study.
commodity study groups, but additional steps could be explored. For instance, serious problems possibly requiring some cooperative action may arise for Latin American producers from further displacement of natural products as a result of prospective technological advances in the field of synthetic and substitute materials. ¹

Another way to attack the same problem is for the United States to take an active interest in the export diversification of the Latin American economies. We are subsidizing private investment abroad in various ways, presumably because this serves US policy objectives. It could be argued that promoting new export lines in Latin American countries would stand an even better chance of achieving some of these objectives than an increase in foreign investment. If this is so, then ways and means of encouraging export diversification should be actively explored. ² It may be one of the few opportunities for providing useful technical assistance that we have neglected.

But both commodity price stabilization and export diversification are still only measures to repair the (actual or potential) damage and to reduce the uncertainty that the Latin American economies experience through their export dependence on a few primary products. Let us proceed -- just as briefly -- to policies by which the United States could identify

¹ I have dealt with these problems in a forthcoming (second) Kyklos Symposium on commodity problems.

² Of course, export diversification is sometimes the result of US foreign investment. Most of our investment, however, is designed either to increase the output of traditional export commodities or to turn out new products for domestic consumption.
itself more directly with economic growth in Latin America.

We are, of course, already doing a great deal to this effect: all of our technical assistance activities and development lending via the International Bank, the Export-Import Bank, the Development Loan Fund, the creation of the new Inter-American Bank, etc., must be cited here.

I shall not discuss here whether we are doing enough in the various areas in which we are now active. Rather, I shall comment briefly on a prevailing bias in our aid and technical assistance activities in order to suggest a partial redirection of efforts and a different emphasis.

US technical assistance and investment in Latin America have a long and, on the whole, honorable history. Why then have we not been better rewarded? Perhaps ingratitude is not the whole answer. I want to focus here on one aspect of our aid: it has been given primarily in those sectors of the Latin American economies that have shown the most conspicuous lag with respect to our own. Technical assistance is drawn almost automatically to those areas where our own achievements are comparatively greatest and where we therefore have the ability and excess manpower to export our superior knowledge and procedures. It is partly for this reason that our earliest technical assistance efforts in Latin America were heavily concentrated in the field of public health.

Concentration on the areas of maximum and most obvious Latin American lag has two consequences:

First, we are perenniually in the role of schoolmasters and thus make certain, willy-nilly, that the element of cooperative venture and search is at a minimum. Actually, we have found that even in public health our
knowledge could not be simply transferred, but had to be considerably adapted to local environments in so many ways that, in the end, a cooperative venture resulted. But such programs, at least in their beginnings, necessarily partake much of the master-pupil relationship.

Secondly, with the lag as large as it usually is in these sectors, the most one can hope is to reduce it a little. The possibility of catching up, let alone overtaking, is usually remote.

Thus, the concentration of our assistance activities on Latin America's most obviously lagging sectors underlines the backwardness and the permanent status of inferiority in which they are destined to dwell. Clearly the yield of such activities in terms of goodwill and influence for us and self-reliance on the part of Latin Americans is going to be scanty.¹

I would therefore suggest that we should be on the lookout for areas where we can help Latin Americans do something entirely new or where their lag can be rapidly overcome. These would include:

1. New product development with the help of Latin American primary materials

2. Development of products and processes suited specifically to Latin American geography and climate, factor proportions, and stage of development

3. Exploration of possible uses in Latin America of new technologies and of possible contributions by Latin America to their further development

¹ Similarly our emphasis on general development programming constantly calls attention to the constraints under which the developing countries labor. My point here is not that there are no lagging sectors or no constraints: but why should the United States wish to be so intimately associated with them?
To put one's finger on what is feasible and desirable requires an intimate acquaintance both with the Latin American scene and with current advances in technology.

Two objections may be voiced:

In the first place, what comparative advantage do Americans have in this kind of endeavor? We can teach Latin Americans a number of things that are already well established in the United States, but what special competence do we have where no US experience can be drawn upon? The answer is, of course, that we have comparatively more people trained in research and development, that we have made a specialty not so much of this or that innovation, but of innovation itself.

The second objection is that what I am suggesting is gratuitous. Do not the branches and subsidiaries of our corporations established in Latin America frequently do exactly what I am advocating? Do they not constantly develop new products, frequently utilizing local raw materials or promoting their production by establishing an assured market for them?

There is no denying that much, indeed, is being done along these lines. But I suggest:

1. Much more can be done. After all, by far the largest part of the activity of US corporations in Latin America consists in producing there exactly the same articles that they are successfully marketing in the United States.

2. The contribution made by private capital is often vitiated by the tight control that the parent firm maintains over its subsidiary in Latin America. When this is the case, it may actually do more harm than good.
I have argued that the United States should identify itself with growth in Latin America. But this is a far cry from suggesting that we should appropriate for ourselves the fastest growing sectors of the economy. We should help the Latin American develop them, but we should not create the impression that, as soon as there is something good, we come in and get hold of it forevermore.

In other words, our attempts to stimulate private investment ought to be reexamined. While private capital should be encouraged to go into the Latin American countries, it should at the same time be provided with powerful incentives, through appropriately designed institutions, to ally itself with local capital and eventually to withdraw in order to initiate development elsewhere.
V. THE PROGRAM FOR ECONOMIC INTEGRATION OF LATIN AMERICA

In any discussion of a possible Soviet Bloc economic and political offensive in Latin America, special attention needs to be given to the current movement toward closer economic cooperation and integration on that continent. As has already been noted, economic integration would considerably lessen present feelings that the individual Latin American countries depend on the United States much more than the United States depends on them. With integration, a "Colossus of the South" would take its place next to the "Colossus of the North" and dependence would be recognized as a mutual, far more evenly balanced affair.

In relation to the Soviet Bloc, on the other hand, one or several "common markets" or preferential zones in Latin America would make it more difficult for the Bloc to deal with the Latin American countries along strictly bilateral lines. In general, the bargaining power of the Latin American countries would increase, and the Bloc's freedom of action would be restricted since it would have to take into account more than at present the interests of other Latin American countries when dealing with any one of them.¹

More generally, regional integration of Latin America, buttressed by some central institutions with real functions, might endow Latin America

¹ For example: it may be impossible for the Soviet Union to sell cotton to Uruguay in settlement of outstanding clearing balances once Uruguay has entered a common market arrangement with Brazil, an important cotton exporter. Also, pressure for multilateral clearing of bilateral balances would become much stronger than at present.
with a spirit of self-reliance and a sense of its own individuality and importance that could constitute a bulwark against any Communist penetration. In this connection, it does not matter whether the emergent Latin American institutions explicitly endorse or closely affiliate themselves with the West. Indeed, this can hardly be expected in the present state of public opinion and economic development in Latin America, given its considerable social tensions, its economic problems, and its opportunities to exploit East-West cleavages. The integration of Latin America can become a focal point for its own political and economic energies only if it is quite clearly a home-grown movement not too closely identified with the United States. Though such an organization might be far less pliable to our wishes than certain national governments, though it might stake some claims against us that strike us as wholly unreasonable, and though it would certainly have a strongly nationalistic flavor, we must consider the emergence of such an articulate and assertive organization as possibly the only alternative to increasing social and political disintegration, and hence increasing opportunities for penetration by the Soviet Bloc.

Moreover, such a development would relieve the United States of some of the handicaps under which it now labors. In dealing with an organization that speaks for Latin America as a whole, the United States might be able to make known, and to stand up for, its interests more vigorously than is now possible in dealing with, say, Uruguay or Ecuador, where the defense of our legitimate interests or just plain talk tends to be regarded as ruthless exploitation of a superior power position.

It is also in the light of such considerations that the US attitude toward ECLA and the OAS should be reviewed. On the whole, we have been
annoyed by ECLA's economic theories, by its occasional sniping at us, and by its anti-private-enterprise bias. Accordingly, we have frequently supported the rival organization OAS, with its headquarters in Washington, its more staid diplomatic procedures, without a Prebisch to provide leadership, and for all these reasons less given to assuming the role of a testy spokesman for Latin American interests. Work on economic and social development is carried on in both these organizations, and it would probably be unwise to attempt to cut out this duplication entirely. But I am not sure that we sufficiently appreciate the important service ECLA performs in providing Latin Americans with a platform of their own and in channeling their assorted resentments toward such positive tasks as promoting a Latin American common market.

Finally, the formation of active regional agencies in Latin America, with functions important enough so that sessions of their governing bodies must be attended by the top policy-making officials of the national government, would have another important consequence: It would act as a controlling and moderating influence on national economic policies. The need for such an influence can hardly be doubted when one considers the drastic setback that Peron's policies have caused Argentine development, the near ruin into which Colombia was plunged in 1954/6 by the willful policies of Rojas Pinilla and his finance minister, and the arbitrary and possibly economic-disaster-spelling edicts of Fidel Castro. The fact is that economic development in Latin America has proceeded far enough to be considerably damaged by the wrong economic policies. At the same time, economic development frequently brings into power representatives of the lower middle class who have long harbored resentments against the national
"oligarchy" and, of course, the foreigner. Any control or safeguard against such a movement's running amok is very hard to come by: National constitutions are easily overthrown or disregarded; "economic laws" no longer inspire awe and respect; creditor countries are mocked rather than listened to; and the international institutions that were intended to have some authority are already accused of grossly overstepping their assigned limits. I doubt very much that the United States follows a wise course in giving the International Monetary Fund the responsibility for deciding whether Colombia or Peru or Bolivia or Brazil has a satisfactory anti-inflation program. Such action betrays a misunderstanding of the extent of the Fund's authority and may well undermine the modicum of influence it has slowly built up.

There is no doubt that Latin American policymakers need education and training. But the only instrument to this end that is acceptable to Latin Americans would be a wholly or predominantly Latin organization that, neither prescribing nor commanding, provides a forum where policymakers confer, learn from each other's experience, and have to defend their policies and reputations because their actions have repercussions on each other. The common market and other regional integration schemes now under discussion may produce such education and training as a by-product of their activities. If this turns out to be so, the by-product will be even more useful and important than the avowed, immediate purpose. To be successful in this sense, the regional agencies must be fairly ambitious in scope, and the decisions submitted to their governing bodies must be sufficiently important to make it necessary for the minister of finance or other top officials to attend regularly the meetings of any such organization.
VI. PRINCIPAL FEATURES OF SOVIET BLOC - LATIN AMERICAN TRADE, 1953-58

The salient features of Soviet Bloc economic relations with Latin America will be recapitulated here only briefly. For more detail, reference can be made to two recent and fairly detailed factual studies.\(^1\)

1. Soviet Bloc merchandise trade with Latin America, insignificant until 1953, rose considerably in 1954/5, then declined in 1956/7 and rose again in 1958, although not to the 1955 high. Table I shows the development of this trade for the area as a whole and for the four principal countries -- Argentina, Brazil, Uruguay, and Cuba -- that have participated in it on the Latin American side.

2. The importance of Soviet Bloc trade in percentage shares of total exports and imports of its principal trading partners in Latin America is not great. Only in two or three instances has Soviet Bloc trade approached or exceeded 10 per cent of total exports or imports. Typically, the percentages for the four countries just mentioned cluster from 3 to 5 per cent.

3. A fairly successful effort at bilateral balancing is evident for Argentina and Brazil. An unsuccessful effort is reflected in the figures for Uruguay, the Bloc apparently having had trouble in finding commodities for export. No effort was made in the case of Cuba, whose sugar sales to

\(^1\) Namely, the draft Economic Survey of Latin America for 1958, compiled by the United Nations Economic Commission for Latin America (ECLA), which contains an annex, "Preliminary Note on Latin American Trade with the Countries with Centrally Planned Economies" (United Nations Document E/ CN.12/498, 25 March 1959, mimeographed, pp. 133-151); and a booklet on Soviet Influence in Latin America, by Robert L. Allen to be published by the Public Affairs Press.
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<td>6541</td>
<td>7886</td>
<td>7408</td>
<td>7974</td>
<td>7553</td>
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<td>SB Million $</td>
<td>35.9</td>
<td>32.9</td>
<td>144.6</td>
<td>96.7</td>
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<td>.5</td>
<td>1.3</td>
<td>1.3</td>
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<td>1.2</td>
<td>1.6</td>
<td>1.6</td>
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<tr>
<td>Argentina-total</td>
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<td>876.8</td>
<td>1079.9</td>
<td>954.8</td>
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<td>1172.6</td>
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<tr>
<td>SB Million $</td>
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<td>17.1</td>
<td>97.7</td>
<td>71.3</td>
<td>81.6</td>
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<td>Trade % of total</td>
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<td>2.0</td>
<td>9.0</td>
<td>7.5</td>
<td>8.8</td>
<td>9.4</td>
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<tr>
<td>Brazil-total</td>
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<td>1318.6</td>
<td>1561.8</td>
<td>1633.5</td>
<td>1423.3</td>
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<td>SB Million $</td>
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<td>21.5</td>
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<td>Trade % of total</td>
<td>.7</td>
<td>.7</td>
<td>1.4</td>
<td>1.2</td>
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<td>Uruguay-total</td>
<td>269.8</td>
<td>195.2</td>
<td>249.0</td>
<td>274.5</td>
<td>183.7</td>
<td>226.0</td>
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<tr>
<td>SB Million $</td>
<td>.9</td>
<td>.3</td>
<td>22.6</td>
<td>1.3</td>
<td>10.5</td>
<td>2.5</td>
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<tr>
<td>Trade % of total</td>
<td>.3</td>
<td>.3</td>
<td>9.1</td>
<td>.5</td>
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<td>Cuba-total</td>
<td>640.3</td>
<td>489.7</td>
<td>539.0</td>
<td>487.9</td>
<td>594.1</td>
<td>575.1</td>
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<tr>
<td>SB Million $</td>
<td>.8</td>
<td>.7</td>
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<td>Trade % of total</td>
<td>.1</td>
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<td>Trade with SB(Mill.$)</td>
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<td>Four countries</td>
<td>35.5</td>
<td>27.8</td>
<td>142.6</td>
<td>92.2</td>
<td>171.2</td>
<td>152.2</td>
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<td>Other LA</td>
<td>.4</td>
<td>5.1</td>
<td>2.0</td>
<td>4.5</td>
<td>2.1</td>
<td>6.4</td>
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the Bloc were made against convertible currency. It is perhaps of some interest to notice that in its trading relations with the rest of Latin America, the Bloc is consistently a net exporter, just as it is a net importer (with the exception of 1956) with respect to the four countries previously mentioned. The exports to the rest of Latin America consist largely of sales of various manufactured goods by Eastern Europe.

4. Latin America's principal suppliers in the Bloc are Czechoslovakia and Poland. Soviet sales come in third place and in 1958 accounted for only about 15 per cent of the total. As a customer, however, the Soviet Union occupies first place and is followed by Czechoslovakia, Poland, and Hungary. In Argentina, the Soviet Union started out in 1954 as the Bloc's principal supplier (42 per cent of total Bloc exports) and customer (47 per cent of total Bloc imports); but in 1958, as Bloc trade resumed some importance after a fading out in 1956/57, the Soviet Union was far surpassed by both Poland and Czechoslovakia. Brazil did not trade at all with the Soviet Union in 1957 and 1958. With no diplomatic relations between these two countries, Brazil's Bloc trade has been wholly with the satellites, Rumania being of some importance as a supplier of oil. For Uruguay the Soviet Union is the most important customer whenever sales reach any volume, but the USSR has difficulties in reciprocating with sales of its own products even though it is the principal supplier. Cuban sugar sales have been made principally to the Soviet Union.¹

5. Latin American exports have consisted mainly of typical primary products: skins and hides, wool, and meat from Argentina and Uruguay, coffee, cotton, and oilseeds from Brazil, sugar from Cuba. Exceptions of

¹ There also have been indirect sales of Cuban sugar and Uruguayan wool, etc., via West European intermediaries.
very limited importance are chemicals from Argentina (10 to 13 per cent of
total exports in 1956/7) and iron and steel for Brazil (11 per cent of
1957 sales). Latin American imports have been predominantly iron and
steel, chemicals, and machinery and equipment. Among primary products
Brazilian purchases of cereals and petroleum and Uruguayan purchases of
cotton deserve notice. In selling cotton to Uruguay, the Soviet Union
clearly competes with such cotton exporters as Brazil, Peru, Mexico, etc.

6. The importance to the Soviet Bloc of trade with Latin America has
been declining since 1954/5 since total Bloc trade has expanded while Bloc
trade with Latin America has stagnated or declined. At its high mark in
1955, trade with Latin America amounted to as much as 10 per cent of the
combined imports and to 8 per cent of the exports of the Soviet Union and
Eastern Europe. In 1957 these figures were down to 5 per cent for imports
and to 3 per cent for exports.

7. No credits of any importance have been granted by the Bloc. On the
contrary, Latin American countries have found themselves repeatedly in the
possession of clearing balances earned through export surpluses. The
accumulation of such balances is, of course, equivalent to an involuntary
extension of credit to the Soviet Bloc. Even the 100 million dollar
"credit" granted with great fanfare by the Soviet Union to Argentina in
October 1958 for petroleum industry equipment was apparently something
of a misnomer: the ECLA report says that deliveries under the agree-
ment will serve "partly to cover [the USSR's] deficit balance with
the country"¹ (i.e., Argentina).

8. The development of trade relations is not too difficult to account for. On the Latin American side, there is an eagerness to find new customers for commodities whose international markets have been weakening. This eagerness has been limited by two factors: the above-mentioned difficulty of finding suitable articles to import in exchange for exports and the occasional reluctance to incur the kind of "dependence" on the Soviet Bloc that would result from importing complicated machinery or industrial equipment that requires a continuing flow of technicians and spare parts.

On the Soviet side, both political and economic motives are evident. The sugar purchases in Cuba since 1955 must be traced to poor sugar beet harvests in the Bloc rather than to any political factors. Relations with Argentina, on the other hand, have had some political overtones. Peron's bilateral state-trading policies created of themselves a certain affinity with Soviet Bloc commercial practices, and the rather intensive trading of 1954/5 probably did not come about without the Soviet's considering the usefulness of the Peron regime to the USSR. Again, the 100 million "credit" line to the new president Frondizi was certainly an attempt to gain his favor.

9. The commodities the Bloc and particularly the USSR have been importing from Latin America are not predominantly those that cannot be produced in the Bloc (e.g., tropical products), but rather those that are now produced in considerable quantities and in which occasional and more or less fortuitous shortages have been appearing. Wool, wheat, hides, sugar are all commodities in this class and have been of far greater importance than coffee or bananas.
This kind of trade in marginal supplies can be turned on or off by domestic economic developments (e.g., by bad or good harvests or by lags or spurts in specific industrial outputs) as well as by political decisions. Even decisions to curtail trade may therefore have valid economic reasons. At least such reasons can often be adduced far more convincingly than if the Soviet Bloc imported primarily those commodities that it does not produce itself or in which it has a chronic deficit.

Of course, the occasional shortages of today sometimes turn into the permanent deficits of tomorrow; this, in fact, is the way international trade has often taken hold. In the Soviet Union, in particular, where performance depends so much on pressures to produce, a relaxation of pressure in one sector, because of a momentary availability of foreign supplies, may lead to a systematic falling short of the output goals set by the policy of autarky. On the other hand, any such lagging may in time induce new energetic efforts at self-sufficiency, so that the final outcome of the process is uncertain.