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FOREIGN TRADE POTENTIAL

LATIN AMERICA

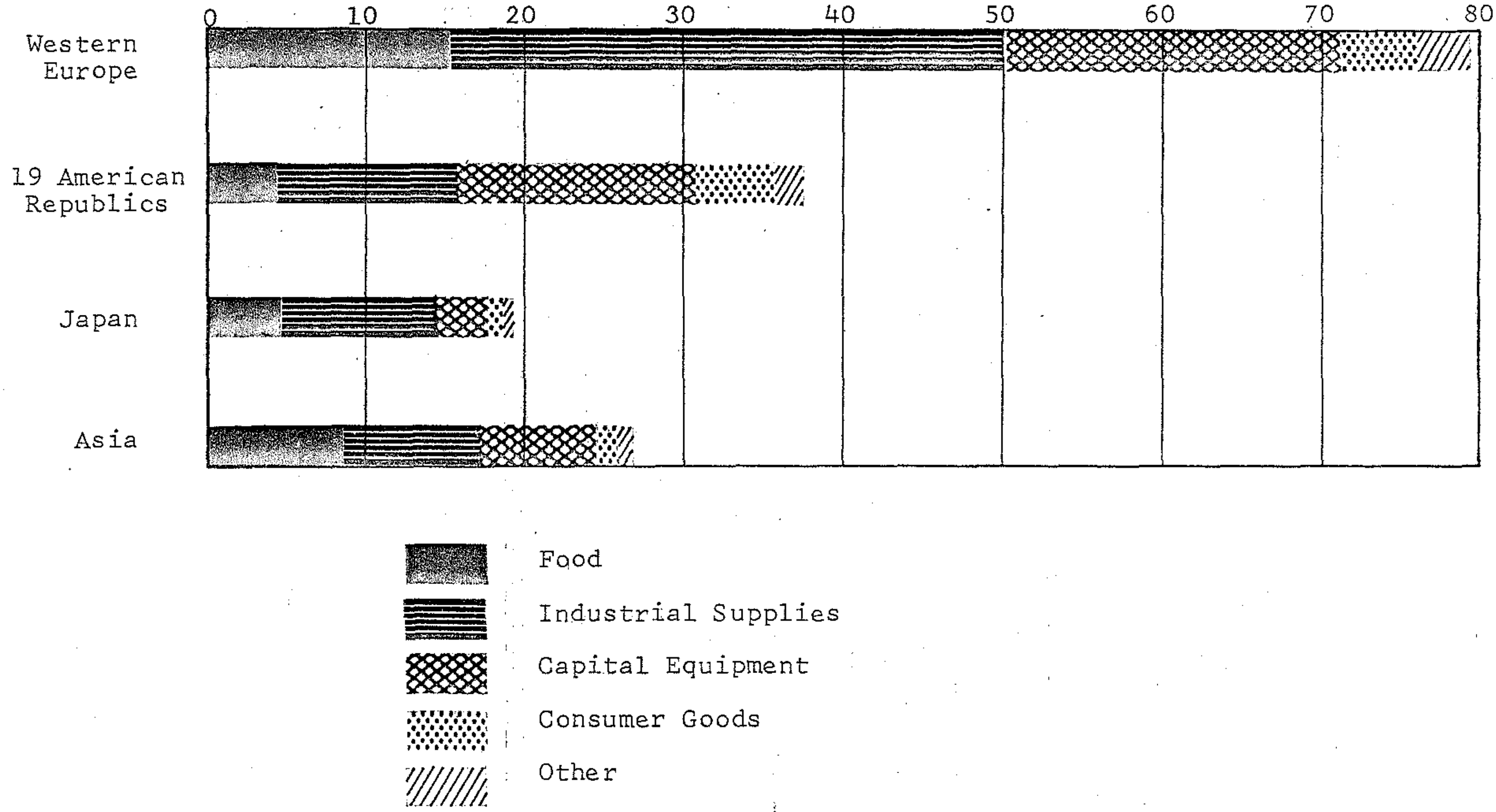
A Preliminary Report

August 6, 1965

Prepared by the Research Division
Iowa Development Commission

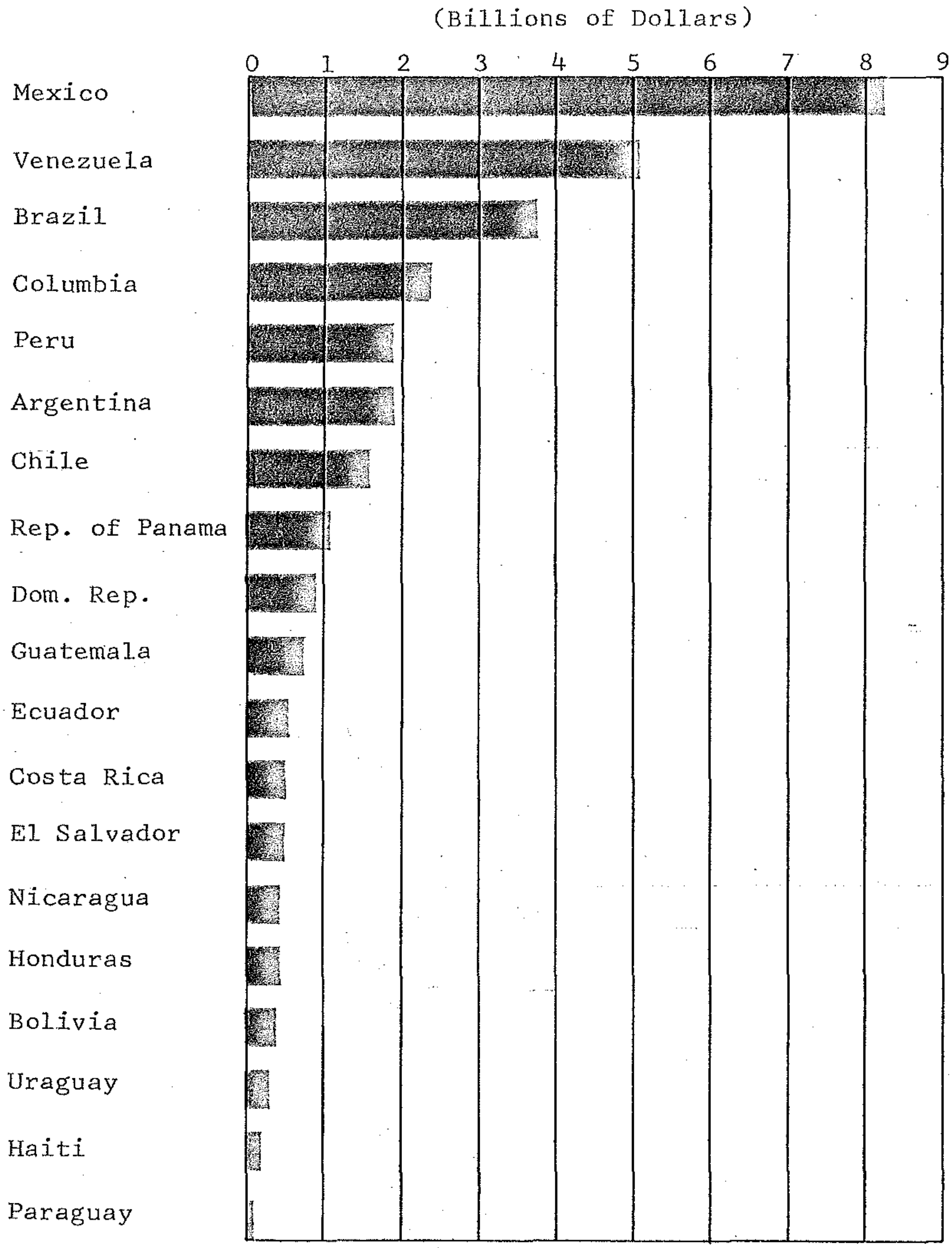
U.S. EXPORTS TO SELECTED REGIONS
BY COMMODITY GROUP, 1963

(Billions of Dollars)



Source: U. S. Department of Commerce

VALUE OF U.S. EXPORTS TO NINETEEN
AMERICAN REPUBLICS, 1963, BY COUNTRY



Source: U. S. Department of Commerce

TRADE REVIEW - MEXICO

1964 Imports - Total $1,493 million
U. S. - $1,022 million, 68%

Principal imports from U. S. - Industrial and construction equipment, automotive vehicles and assembly parts, tractor, railway rolling stock.

Exports to U. S. - Sugar, coffee, tomatoes, corn, fruits, sulfur, fluorspar, lead, and zinc.

Population - 37 million
GNP - $7.5 billion, per capita, $186

Mexico's stable political and financial situations, large foreign exchange reserves, and a high level of industrial and agricultural activity contribute to an optimistic outlook for a continued high level of export opportunities.

Nearly every segment of Mexico's economy was active in early 1965. The only lag was in the public investment sector, taken up to some degree by the private sector. Mexico's gross national product reached a level of $7.5 billion in 1964, up 10% over 1963, or about $186 per capita. Informed sources suggest that 1965 GNP will not match the extraordinary high level of 1964, however. Sales of some products such as cotton are lagging this year and lower prices for many agricultural and mineral exports are expected to cut earnings in 1965.

Price control is one of the most serious problems confronting the Government as price rose by 4.7% in 1964.

Availability of public and private credit from abroad is adequate. Mexico's balance of trade has been favorable for three successive years due mainly to foreign exchange earnings through the tourist trade (1,234,000 tourists entered Mexico in 1964). At the end of 1964, the Bank of Mexico's net gold and foreign exchange reserves were a healthy $503.4 million.

Early reports indicate trade in 1965 to be leveling off slightly from the record imports of 1964. Despite slight prospective declines, opportunities for export remain high.

Categories offering the best trade opportunities are: construction machinery, or component parts for assembly; locomotives, rail and rail equipment; aircraft and parts; and agricultural tractors and equipment. Increased demand is expected for chemicals and pharmaceuticals, newsprint, rubber, metalworking equipment, iron and steel scrap, and refined petroleum products. Demand is expected to decline in scientific, technical and medical equipment; building materials; power, communication and electronic equipment, and office machinery.

TRADE REVIEW - VENEZUELA

1964 Imports - $572 million
U. S. $314 million, 55%

Principal imports from U. S. - Industrial raw materials, industrial machinery, consumer goods, transportation equipment, foodstuffs.

Exports to U. S. - Crude petroleum, refined petroleum products, coffee, cocoa.

Population - 8 million
GNP - $9.5 billion (1964), $1200 per capita

Venezuela is perhaps the most rapidly developing economy in Latin America, based largely on development of extensive petroleum and iron ore reserves. Exports of petroleum account for 90% of Venezuela's total exports and iron are about 5% of the total.

Venezuela's international reserves of gold and foreign exchange continued to rise in early 1965, reaching $850 million, highest in Latin America.

Gross national product increased by 7% in 1964, reaching about $9.5 billion, or about $1200 per capita which is also the highest in Latin America.

A Government program announced in April, 1965, calls for over $500 million in new private and public investment in the petrochemical and metallurgical industries during the next three years and will create a substantial increase in demand for machinery and equipment.

The generally high level of business confidence and healthy foreign exchange reserves point to a further increase in 1965 of imports - about 12% on top of the 15% gain registered for 1964.

The pattern of imports is generally expected to shift from light consumer goods toward heavy industrial equipment, semi-finished goods, heavy transport and cargo handling equipment. Special credit lines have been established for the use of farmers in purchasing agricultural machinery.

Some high import restrictions remain, however, usually in the form of high import duties or license requirements to encourage local production. Products recently affected include various cheeses, certain beans and dried milk.

TRADE REVIEW - BRAZIL

1964 Imports - $1,263 million
U. S. - $436 million, 35%

Principal imports from U. S. - Wheat, machinery, aircraft and parts, chemicals, petroleum products, coal, printed matter, vegetable oils.

Exports to U. S. - Coffee, sugar, cocoa, manganese, iron ore, castor oil, sisal, Brazil nuts, carnauba wax.

Population - 75 million.
GNP - $9,166 million, $130 per capita

The Brazilian economy experienced a slight lag (down 3% from 1963) during 1964 despite a general improvement in the politico - economic situation following the installation of the Castello Branco administration in April, 1964. Economic stagnation of early 1964 continued to be experienced throughout the year.

Adverse weather conditions in 1964 resulted in the worst agricultural year since World War II following another generally unfavorable year in 1963. Industrial production was also down slightly but showed signs of recovery in the second half of 1964.

The Brazilian Government adopted several anti-inflationary measures which included the establishment of new minimum wage rates and encouraged certain price controls in the industrial sector. Recessionary trends have not yet responded to Government efforts and sales and industrial activity thus far in 1965 are still well below normal conditions. Unemployment is up. Consumer and industrial buying as a hedge against inflation is being reduced, however, and price cutting is becoming more common. Most business leaders feel that the difficult period of adjustment is being past and that a good foundation is being laid for more sound economic development in the near future.

As a result, U. S. exports to Brazil are expected to increase slightly in 1965 as the economy stabilizes. A decline in wheat and flour imports is anticipated.

Brazil's improved foreign exchange position and additional project loans by U. S. and international agencies are encouraging for increased imports of machinery and equipment as well as direct private investment.

Imports during 1964 increased greatly from Brazil to a lesser degree from France and Netherlands and slightly from the U. S. Rising need for fuel also resulted in increased oil imports from Venezuela and the West Indies.

Export prospects

The best sales opportunities for U. S. exporters will be in such lines as industrial raw and semiprocessed materials including chemicals, nonferrous metals, and iron and steel. Outlook for machinery sales is discouraging, however.

TRADE REVIEW - COLUMBIA

1964 Imports - Total $586 million
U. S. - $283 million, 48%

Principal imports from U. S. - Industrial machinery, automotive vechiles and parts, chemicals and related products.

Exports to U. S. - Coffee, petroleum, bananas, cotton, tobacco, sugar, shrimp, and platinum.

Population - 15 million
GNP - $4.5 billion, $305 per capita

Columbia's economic and political situation generally deteriorated in the first half of 1965. Prospects are for tight curbs on the importations for the remainder of 1965 and for some time thereafter.

Capital flight, falling exchange reserves, and an exchange rate which many believe has made the peso overvalued, have forced the government to reply on import-duty increases and extremely tight quantitative import restrictions.

Tight-money policies have made it difficult for firms to finance even the most essential imports. In addition, Columbia's compensation (barter-type) trade agreements and regional (Latin American Free Trade Association) arrangments are diverting trade from traditional sources of supply.

The political situation is in a state of considerable uncertainty. Acts of terrorism in the countryside and student demonstrations in various cities forced the Government in May to declare a state of siege. As a result a number of economic stabilization measures were implemented such as a 10% income tax surcharge, new stamp taxes, a tax on gambling pools, a tax on appreciation of property values resulting from public works, modification of the tax on ranching and issuance of development bonds.

Export earnings in 1965 generally declined from comparable periods in 1964. This was primarily due to reduced coffee exports.

Total imports in 1964 were $586.3 million c.i.f., highest since 1956. U. S. exporters have experienced a continued relative decline in the percentage of the total Columbian import market. U. S. share in 1964 was 48% compared to 74% of total imports in 1959. This decline is mainly attributable to increased imports from compensation countries and LAFTA members.

Columbian Resolution No. 7 of May 5 which subjects all imports from LAFTA to the requirement of a prior license from the Superintendency of Foreign Trade may help to reduce the competitive advantage which LAFTA imports have enjoyed previously.

Needed imports

Opportunities will continue to exist for capital machinery, raw materials and certain essential imports. GNP has been expanding at a moderate rate and implementation of development plans will require than the administration channel available exchange reserves to the following essential imports: petrochemical apparatus; oil and gas pipes; automotive vehicles, parts and components; various chemicals (including fertilizers; aircraft; railroad equipment; oil-drilling equipment; equipment for manufacturing copper wire, wood pulp and newsprint; disinfectants and insecticides; tallow; iron and steel sheets; tinplate; medical and optical equipment, and books.

TRADE REVIEW - PERU

1964 Imports - $580 million
U. S. - $237 million, 41%

Principal imports from U. S. - Non-electrical machinery and apparatus, motor vehicle and other transport equipment, chemicals and pharmaceuticals.

Exports to U. S. - Copper, fishmeal, coffee, sugar, lead, zinc, and iron.

Population - 12 million
GNP - $3,100 million, $200 per capita

Peru's history of relative economic and political stability, rates as one of the most stable among Latin American nations, continues to inspire business confidence and a high level of economic activity. In addition, Peru has experienced a favorable balance of trade in recent years and foreign exchange reserves are relatively high. A strong demand for capital goods has been created both by private industry and the Government's development program.

Gross national product rose by 5.2% in 1964 and is expected to continue a comparable increase during 1965.

On the negative side, the 11% rise in inflation during 1964 with a 7% rise (at an annual rate) experienced in the first quarter of 1965.

All categories of U.S. exports to Peru increased in 1964 with the exception of machinery and transport equipment, and beverages and tobacco. The largest incremental increases were in food, live animals, animal and vegetable fats and oils, and miscellaneous manufactured articles. A large part of U.S. shipment of foods involved sales under Public Law 480, which should continue through the near future.

Prospects for increased exports to Peru are promising, and should continue to increase by 5 to 7% in 1965.

Sales to Peruvian market are relatively unencumbered by trade restrictions other than import duties. Many consumer items are subject to high duties, while certain essential foods, machinery and equipment-for use in mining, agriculture and construction, and in plants producing essential goods - are exempted from payment of duties. Some raw materials and semi-processed goods not available in Peru enter duty-free.

In 1964, machinery and equipment, including electric and non-electric machinery, motor vehicles, and transport equipment accounted for 41% of Peru's imports. Second largest group was foodstuffs and beverages.

Pharmaceuticals, chemicals, metal and manufacturer, specialized paper items, scientific apparatus and medical instruments and equipment, plastic materials, and many other capital and intermediate goods are in strong demand.

TRADE REVIEW - ARGENTINA

1964 Imports - $1,077 million
U. S. - $255 million, 24%

Principal imports from U. S. - Machinery and transport equipment, chemicals, metal manufactures, synthetic rubber, coal, and scrap iron and steel.

Exports to U. S. - Wool, canned meat, casein, hides and skins, wire rods of iron and steel, and fixed vegetable oils.

Population - 21 million
GNP - $7,075 million (1959), $330 per capita

The Argentine economy has been experiencing a general recovery from the recession of 1963. In 1964 GNP rose by 8.4 percent and is expected to further rise by 5% in 1965 according to Government planners. The record level of economic prosperity which prevailed in 1961 has not yet been achieved, however.

A number of basic economic problems remain unsolved, however, a huge budget deficit, inflation, a burdensome foreign debt, and a critical foreign exchange situation. Because of these factors, the Argentine business community has been assuming a cautious attitude and postponed expansion and new investment decisions. There are some fears that a new recession is in the making. Most segments are awaiting the outcome of the Government's moves to refinance its external debt and obtain development assistance abroad as well as to see what new policies the Administration's economic team will institute.

Because of economic troubles, the Government instituted stringent financing regulations last November for imported capital goods and is likely to restrict imports of machinery.

Argentine exports in 1964 showed an encouraging expansion and should be at about the same level in 1965. Grain exports were up slightly in 1964, although somewhat disappointing in view of good grain supplies. Exports of livestock products were down sharply in 1964, despite an improved meat supply. It is expected that exports of these products will rise in 1965 because of the April devaluation.

Argentina's balance of trade in 1964 was favorable to the U. S. in 1964. The nation enjoyed a favorable balance of trade, however, with LAFTA, the EEC and the European Free Trade Association which indicate a probable rise in meat and grain exports to these regions in 1965.

TRADE REVIEW - CHILE

1964 Imports - $609 million
U. S. - $223 million, 37%

Principal imports from U. S. - Industrial machinery, chemical products, electrical machinery and apparatus, automotive parts and accessories, wheat.

Exports to U. S. - Copper, iron ore, nitrogenous fertilizer, fresh fruits.

Population - 8 million
GNP - $3,855 million, $480 per capita

Chile in 1964 produced her first trade surplus in years as exports rose by 15.5 percent over 1963 with a 4.5% drop in imports.

The Chilean imports are expected to decline slightly during 1965 while imports of U. S. goods should remain at about the same absolute level as in 1964. This is primarily due to the availability of substantial U. S. economic assistance. Nearly all imports are now eligible for financing under this year's $80 million Agency for International Development Program loan to Chile. Rescheduling of a major part of Chile's foreign debt coming due in the next two years has somewhat reduced pressures upon Chilean exchange resources.

The major addition to Chile's import and exchange restrictions is the Central Bank's authorization to reject entire categories of import-registration applications when total applications of all imports for a particular month exceed the 12-month average by more than 5%. Importers may resubmit rejected applications, since the same categories may not necessarily be rejected the following month. Some losses in both production and foreign-exchange earnings have resulted because of the unavailability of essential equipment and parts. Common replacement parts have been in short supply resulting in makeshift production methods.

Consumer goods and other nonessentials are almost completely shut off by import restrictions particularly those which can be satisfied by doemstic production.

The greatest opportunities for U. S. exporters are in goods fulfilling Chile's economic expansion objectives. These include machinery and equipment for agriculture, forestry, fishing, construction, transportation, metalworking, and chemicals. Other opportunities are in fertilizer, breeding animals, fuel oils and lubricants, non-electric power machinery, electric machinery and apparatus, chemical raw materials and pharmaceuticals.

TRADE REVIEW - CENTRAL AMERICA

The Central American Common Market, patterned after the EEC has scored some notable successes since its inception, exhibiting unusual political stability and economic growth. The CACM includes Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica.

These five nations and Panama imported $896 million in 1964, an increase of 10% over the previous year. The U. S. supplies about 45% of the total imports.

The U. S. traditionally supplies more than two-thirds of all agricultural machinery, implements, and equipment to the CACM. Domestic manufacture is limited to oxen-powered plows, some hand tools, and simple equipment for sugar fields. Since some 60 percent of the area's working population is engaged in agriculture, significant opportunities are apparent for continued growth of agriculturally-oriented equipment.

TABLE III

VALUE OF UNITED STATES EXPORTS TO LATIN AMERICA, 1960 - 1964

(in Millions of Dollars)

Region	1960	1961	1962	1963
Latin America				
Mexico	819	812	805	827
Guatemala	62	60	61	73
E. Salvador	42	35	40	49
Honduras	34	36	43	43
Nicaragua	29	32	46	45
Costa Rica	44	42	49	53
Republic of Panama	88	107	104	109
Haiti	25	25	24	21
Dom. Republic	41	29	70	91
Columbia	246	245	226	239
Venezuela	551	515	470	507
Ecuador	54	49	44	56
Peru	143	173	183	193
Bolivia	24	26	31	37
Chile	194	229	171	162
Brazil	430	494	424	377
Paraguay	8	13	7	10
Uruguay	61	48	44	30
Argentina	349	424	379	188
Total	3254	3400	3230	3117

Source: U. S. Department of Commerce Estimates