

Developing American Markets in South America

How War Affects Them and How a New Opportunity Presents Itself, Shown by Expert Investigator, Charles M. Pepper

BY CHARLES M. PEPPER.
TWO billion dollars and upward measures the foreign trade of South America. No international prize court exists to adjudicate and apportion it during the war and afterward. The United States, not being involved in the European imbroglio, is in a splendid strategic position as regards these \$2,000,000,000 of interchangeable commodities. It cannot only hold fast what it has, but it should also make permanent gains.

The exact figures of the South American commerce are not of consequence except to statisticians, but the total for last year most likely would show more than \$2,100,000,000. Between \$75,000,000 and \$100,000,000 of this amount may be credited to the trade of the countries with one another and the Oriental and Australian traffic of the west coast. The balance—somewhere in the neighborhood of \$2,000,000,000—is for Europe and the United States to divide.

Taking the whole field, in most years it will be found that the balance of trade is in favor of South America. It is safe to say that Europe and the United States sell to the South American countries under normal conditions \$40,000,000 or \$50,000,000, less than \$1,000,000,000, and take from them \$1,000,000,000 plus \$40,000,000 to \$50,000,000. Americans are in the habit of thinking in big figures and by keeping these approximate totals in mind they will have before them a mental picture of what the trade of South America means to Europe and the United States.

The European war therefore upsets the equilibrium of South America's \$2,000,000,000 foreign trade. The equilibrium, when normal times come again, of course, will be restored, but the proportions of the respective nations will not be the same. Some of the commerce will have shifted for good. Coal is an example of a commodity that was affected overnight by the war. South America is an enormous consumer of coal. On the west coast the demand has been largely supplied by Australia with a little help from Japan. On the east coast England is the source of supply. Rio de Janeiro, Montevideo and Buenos Aires all have great coaling stations. These are not only to meet the demands for domestic consumption, but to serve the needs of a vast steamship traffic.

American exporters, probably much to their surprise, were in a state of something like preparedness to meet this South American demand. The various departments of the Government had investigated for them and made full reports. Several of the coal companies had sent their own special representatives to study the situation.

Brazil, which needs 3,000,000 tons a year, was already taking considerable quantities of American coal. At Montevideo the Uruguayan government had made a test of Virginia coal based on the American navy test, and the trial shipment had proved satisfactory, so that Uruguay was convinced as to the suitability of American coal for its needs. Argentina, which has no coal of its own, was also ready for American shipments to Buenos Aires. Argentine burns 4,000,000 tons a year.

In these circumstances it is not surprising that some of the larger companies in the United States were ready to meet the immediate wants of the east coast by taking emergency orders and that other dealers are preparing to follow them.

England may succeed in keeping the lanes of ocean travel between Buenos Aires, Montevideo and Rio as open as between New York and Liverpool, but this is not certain, and the uncertainty is bound to influence South American consumers, who must have coal, and who can take no chances.

Moreover, no one can calculate how much the British navy will need, if the war continues long. Cardiff coal will be supplied in diminishing quantities to the eastern ports of South America, and the United States is the only country which can make up the deficiency. In peace times, the Panama Canal might have aided the English coal trade, since the Cardiff cargoes which now go around the Horn, and as far up at Callao, would be able to stand the canal tolls, but there would be the same danger of hostile ships to cargoes of British coal through the canal as to cargoes on the Atlantic route to Rio de Janeiro and Montevideo.

Since the bulk of the coal imported on the west coast comes from Australia, it might be assumed that there will be little interruption to this traffic, but with the war spreading to the Orient, and with the possibility of a German cruiser turning up somewhere in the Pacific, coal importers on the west coast are not likely to depend on Australia, especially as most of the Australia coal is shipped in sailing vessels.

The opening of the canal will enable them to turn to a certain source of supply through Newport News and Norfolk, and through some of the gulf ports. Chile requires 3,000,000 tons annually, of which the native mines can supply only half.

Everything that South America sells is affected by the war. Some of those who think that as a consequence of Europe's armed struggle the whole trade of South America is going to fall at once into the lap of the United States, overlook that, temporarily, some of the South American countries will suffer almost as much as the continental countries. This will not be through the impairment of their productive resources, but through the curtailment of their markets. The fundamental question is how much of South American products this country can absorb both for its own consumption and for distribution to other markets.

The Ecuador cacao crop furnishes an illustration. Ecuador produces about one-fifth of the world's cacao, of chocolate bean. Heretofore Hamburg has been the chief source of distribution to the European market, although some

of the crop has been handled at Havre and at London.

Shipments to Havre and Hamburg are not likely to be attempted while the ninety-day draft on London, which has been the favorite method of financing the movement of the cacao crop, is not now practicable. The Guayaquil merchants will prefer drafts on New York. Moreover the Panama canal is open and the cargoes can be shipped directly through the canal. New York, therefore, would seem to have an excellent opportunity to replace Hamburg in the cacao trade.

Another Ecuadorian product that is directly affected is the tagua, or vegetable ivory, which is the basis of the button industry. Notwithstanding that the bulk of the ivory nuts are consumed in the United States, up to this time the raw product has been shipped to Germany and then reshipped to the United States. Since Germany will not be able to receive Ecuador's crop of ivory nuts, and since the American manufacturers must have the raw material, they ought to be able to get it direct from Ecuador.

Peru finds the market for some of its products shut off by the war. Others will not be affected, while one crop will be benefited. Wool and cotton, which heretofore have gone to England, cannot now look to that market, since the United States can absorb the surplus wool, but with its own cotton crop unmarketable. It is not likely to absorb the fine silk cotton of Peru.

The copper output of the Cerro de Pasco and other Peruvian mines has heretofore been taken by the United States, and will not be affected, except incidentally, by the closing of the Hamburg market.

Sugar, which is Peru's most valuable agricultural crop, will be directly benefited. Part of the Peruvian sugar goes to Chile, but the larger part seeks other markets. With the best sugar of Europe shut off, with the European market practically closed, with prices advanced to 140,000 tons, Peru will find compensation for other losses in the promptness with which this country can absorb all the sugar it has to spare. Bolivia has tin mines. The price of tin had been climbing up steadily for several months past because the demand outran the supply. Out of a world production ranging from 130,000 to 140,000 tons, Bolivia is able to supply between 25,000 and 30,000 tons.

No one can yet guess to what extent the Malay Straits Settlements, which produce nearly half the world's tin, will be affected by the war, but there is certain to be some interruption to commerce. Heretofore, American manufacturers have been content to get all their tin through England. The Bolivian output in the form of concentrates has gone there and to Hamburg American smelters on the Atlantic coast will not be alive to their opportunities unless within a year they are getting Bolivian tin concentrates direct, and smelting them for the benefit of American manufacturers.

Chilean nitrates are hard hit by the war. Practically the whole of the war area is a buyer of these fertilizers. The annual production is approximately three million tons, and of this quantity two million tons may be credited

to Europe. England and Germany being the chief consumers, England takes about double the quantity that Germany takes. France and Belgium are also good customers. It is not assumed that England will cease to receive nitrates cargoes, but for at least a year the traffic is bound to be diminished. Germany is shut out entirely.

The United States has been a good buyer of the nitrates, and probably can absorb much larger quantities, especially if the partial closing of the European market causes prices to be lowered. The bulk of the nitrates will pass through the canal, since the toll is not too heavy for the traffic to bear.

It is not unlikely that the Chilean nitrate trust, which has the sanction of the government, and which controls production, will limit the output for the coming season, but there still will be vast quantities to be absorbed, and the more of this that the United States can absorb the better off will Chile be and the more disposed to buy American products.

Coming around to the Atlantic coast Argentina is likely to be the least affected by the war. Europe will want her grain and beef, and the only question will be whether the cargoes can be safely transported. England is likely to make extraordinary efforts to safeguard the ocean routes, yet the task is more difficult than with the United States.

Argentine wheat growers are in a less favorable position than American wheat growers, because there is a much longer route necessary to be protected in Europe, and also that in the future it will become more of a distributing center for these products. At present it would be idle to estimate the exact measure of this shifted commerce. The point to be kept in mind is that for every dollar of South American products which the United States can absorb there ought to be the sale of an additional dollar's worth of American commodities.

At the present time the leading European neutrals who are in a position to benefit from the war are Spain and Italy. Spain has a well established commerce in certain sections, where the Spanish immigration has been large, but there is not likely to be a great expansion of business, because Spain does not appreciably supply the articles which England, Germany, France and Belgium have supplied. The Barcelona cotton mills may get some additional trade at the expense of England and Germany, but it will be a small item in the grand total.

Italy will reap some advantages provided she can maintain her neutrality. Her chief gain will come from her splendid commercial fleet. If she can keep out of the struggle, Italy will get some of the carrying trade that is now held by England and Germany. The South American markets, and the South American carrying trade, are a potent reason for Italy to keep out, aside from questions affecting the European continent.

Great Britain's trade with South America is so vast and varied that the use of a goodly section of her war fleet to protect it is a national necessity. Cotton textiles, steel rails, miscellaneous iron and steel products and ma-

chinery are for her an immensely valuable market. Even with unusual efforts it does not seem possible that all of this trade will remain in her hands. Nevertheless what is happening to the English coal market in South America may happen to other commodities, to the legitimate gain of the United States.

France will suffer in her commerce with South America chiefly in the line of fine dry goods and similar articles of the parcel trade. Possibly mail order houses in the United States will see this opening and take advantage of it.

Belgian trade in South America has been something like Belgium herself on the map of Europe, that is, a neutral quantity, but its neutrality is no respected in the war of the markets. Belgium will lose materially in the supply of railway material, certain iron and steel products, and a variety of minor articles.

Germany's trade in South America is the real point of attack. The circumstances do not admit of a siege. If taken at all, it must be taken by bombardment. The various South American countries have been taking from Germany about \$175,000,000 a year. Brazil has been a customer to the amount of \$50,000,000 to \$55,000,000. The Argentine Republic to the same extent, and Chile to the amount of \$30,000,000.

Germany's commercial conquests in South America have been the result of marvelous organization, backed by the home government. The great Hamburg firms are partners in numerous South American importing houses. A chain of German banks has been established. The German merchant marine, however, has been the leading factor in building up the trade. This marine is now crippled and German trade with South America is suffering an interruption that it will take years to recover from.

Germany has been a close competitor of the United States and England in supplying Brazil and Chile with iron and steel products. She has had less success with these articles in Argentina. In both Brazil and Argentina she has competed in the supply of automobiles and in electrical apparatus. Leather goods also have been an important commodity. American manufacturers who were

getting into the Brazilian market for cement had a very sharp competition from Germany. They ought now to be able to absorb that market without trouble. Germany's best market for textiles, chiefly cottons, has been in Chile, although she has had a fair market in Brazil and Argentina.

American cotton mills have shown so little ability to get into the South American market that in ordinary commercial situations they might be eliminated, but in the war situation they should at least be able to fill the void caused by Germany's temporary elimination and should not allow this trade to drift to England.

Pharmaceutical products and chemicals also have been German specialties in South America. The United States may not be able to supply the deficiency as to chemicals and dyes, but it can meet the requirements as to drugs.

It is not practicable to give in detail all the commodities which Germany has been in the habit of supplying South America any more than those of Great Britain, nor is it wise to make sweeping assumption that the United States is in a position to absorb the whole trade. Yet there are very few commodities which Europe has been in the habit of supplying that cannot be supplied by this country.

The United States ships to South America approximately \$150,000,000 merchandise. Some of this trade, already so completely in its control that a heavy increase cannot be expected. Mineral oils furnish one of the leading commodities, and this trade is so well in hand that the only benefit of the European war will be in restricting competition that was looming up.

The sale of agricultural implements is capable of increase, yet not much of this will be at the expense of European rivals. Germany is barely in the field at all, and England only with certain forms of heavy agricultural machinery.

Packing-house products and miscellaneous foodstuffs are also largely in the hands of Americans. The gain in this direction will come from the inability of Europe to supply the high-grade canned goods and delicacies. The main opportunity for enlarging the market of the United States will be

in machinery, in all forms of iron and steel products, in electrical apparatus and in railway material.

Lumber already is largely supplied from the United States, but there will be a wider market for furniture, since Austria is shut off, as well as Germany.

The great industrial organizations of the United States, such as the Standard Oil, the Singer Sewing Machine Company, the United States Steel Corporation, the typewriting and office appliance companies have their business so well organized that they are able to take immediate advantage of the war situation.

Advantage to the smaller manufacturers is that the big concerns have biased the path for them that they too, should be able to improve the opportunity to place their products. They will never do it, however, without informing themselves fully of the requirements and the local peculiarities of the different markets.

The State Department and the Department of Commerce have accumulated such ample information on all these subjects that there is no excuse for an American manufacturer starting out for South American trade not knowing all about what is necessary in order to get it.

American banks in South America is a problem now being solved by the establishment of branch banks. Some of the largest export concerns have been indifferent on this point, and have maintained that the banks were not necessary for the extension of American trade. But the smaller manufacturers and exporters are not of this opinion, and heretofore they will have the incentive which comes from the presence of financial institutions with which they can get in touch at home. American banks also may help in the matter of determining credit of prospective customers, although a leading American mercantile agency is already established in the principal South American cities. Mercantile agencies cannot, however, change one cardinal feature of South American trade. This is long-time credits. With better means of information and with greater facilities for intercourse, the American manufacturer can afford to compromise on this point.

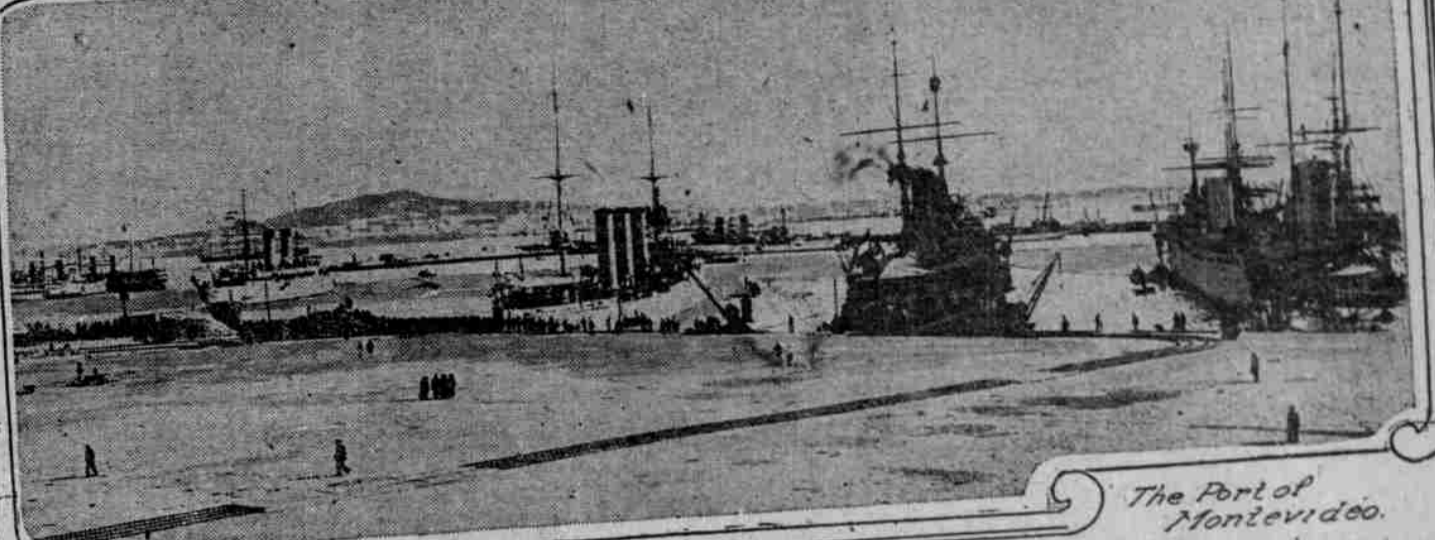
Most Americans want to see the existing trade of the United States with South America and the prospective trade carried on in American bottoms. In this matter it is necessary to correct an error which exists in many quarters. When provision was made in the last tariff bill for giving a drawback of 5 per cent on duties on goods imported in American bottoms some people thought that this would stimulate trade with South America.

It cannot do so for a very simple reason. Substantially all the products of South American countries are admitted into the United States free of duty. This fraction of 1 per cent dutiable is so small that it might be said that 100 per cent of the articles are free. Since, therefore, there is practically no South American dutiable list in the United States tariff it is not possible to subtract 5 per cent from nothing.

The effect of the recent legislation of Congress in providing for the registry of foreign-built vessels, which have been bought by citizens of the United States, cannot yet be judged, but it ought to help in increasing trade with South America by providing American bottoms in which to carry the commodities which constitute the \$2,000,000,000 commerce that is dislocated by the war.



Ox Teams in Valparaiso Hauling Freight to Waterfront



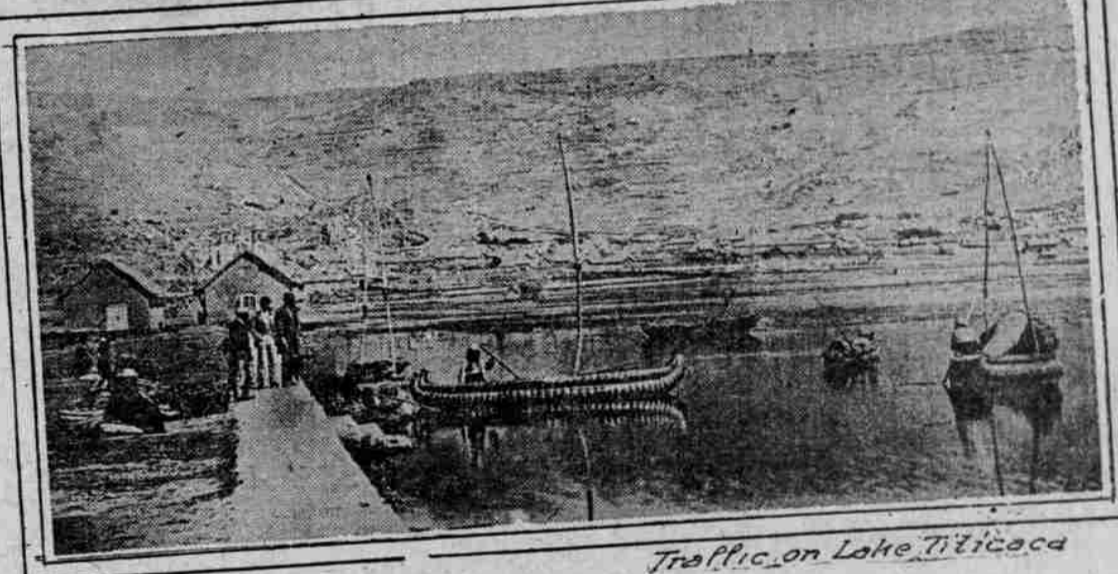
The Port of Montevideo.



The Wharf at Guayaquil, Where the Cacao is Shipped.



Rio de Janeiro's Leading Avenue, Rio Branco



Traffic on Lake Titicaca