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Economic Intelligence Memorandum

LIMITED EFFECTIVENESS
OF INTERNATIONAL TRADE
AS A MEANS OF EXPANDING
SINO-SOVIET BLOC INFLUENCE IN BRAZIL



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CENTRAL INTELLIGENCE AGENCY
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LIMITED EFFECTIVENESS OF INTERNATIONAL TRADE
AS A MEANS OF EXPANDING SINO-SOVIET BLOC INFLUENCE
IN BRAZIL

Summary and Conclusions

Economic ties between Brazil and the Sino-Soviet Bloc have never reached significant proportions. The Bloc has made little effort to extend either credits or technical assistance, and trade has remained the chief economic means by which the Bloc has sought to expand its influence in Brazil. Nevertheless, because it is only a small share of Brazil's total trade and because of its commodity composition, Bloc trade is of little economic importance to Brazil and therefore provides a poor instrument for the accomplishment of Bloc objectives. A considerable expansion of the level of Bloc trade and a shift in its composition toward substantially larger imports of coffee by the Bloc would be necessary to establish Bloc trade as an important element in the Brazilian economy. Thus far the Bloc has shown little desire to bring these changes about. It therefore seems likely that future Bloc efforts to expand its economic influence in Brazil will place greater emphasis on financial and technical assistance.

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In its campaign to obtain a foothold in the Western Hemisphere, the Sino-Soviet Bloc has concentrated its main attention on Cuba. Meanwhile, however, it has continued to seek positions of influence in other Latin American countries. In the decade ahead, Brazil -- the first of these countries in size and mineral wealth -- can be expected to emerge as a target of major importance.

Bloc economic approaches to Brazil so far have consisted primarily of sporadic efforts to expand commercial ties. Credits extended by the Bloc have amounted to only a few million dollars and have been of the medium-term commercial type. Although a number of Brazilian students have gone to countries of the Bloc to continue their academic and technical studies, very few Bloc technical experts have been sent to Brazil. Thus an analysis of the scope and potential significance to Brazil of trade with the Bloc should suggest the possibilities for expanding Bloc influence in the Brazilian economy through this channel.

Brazilian trade with the Bloc, although small, has increased both in absolute and in relative terms over the past several years (see Table 1). Until recently the European Satellites accounted for almost all of Brazil's trade with the Bloc. During 1960, however, the USSR increased its share of this trade to almost 20 percent.

Table 1
Brazilian Trade with the Bloc
1958-60

	<u>1958</u>	<u>1959</u>	<u>1960 a/</u>
	<u>Million Current US \$</u>		
Exports to Bloc	45.8	55.3	73.0
Imports from Bloc	29.0	49.3	77.0
	<u>Percent</u>		
Trade turnover with Bloc as a percent of Brazil's total trade turnover	3	4	6

a. Preliminary estimate.

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The data presented in Table 1 suggest that Brazil has only a very modest economic stake in its commerce with the Bloc. Furthermore, the economic advantage that Brazil derives from this trade is considerably less than the statistics themselves suggest.

During 1959 and the first half of 1960, Brazilian exports to the Bloc were dominated by five products -- coffee, cacao, iron ore, sisal and other natural fibers, and hides and skins (see Table 2).

Table 2

Commodity Composition of Brazilian Exports to the Bloc
1959 and January-June 1960

Commodity	Percent	
	1959	January-June 1960
Coffee	32	29
Cacao	25	25
Iron ore	15	12
Sisal and other natural fibers	7	12
Hides and skins	8	5
Other	13	17

Of these commodities, coffee presents a unique problem and will be considered separately. The rest of the groups listed above are all basic commodities sold on well-organized international markets with standardized grades and prices. In such markets, because of the fact of a single price, the seller is indifferent as to which buyer may take his product. The seller is concerned only with the number of buyers in the market and the aggregate demand for the product. Because it is Bloc practice to trade at world market prices for both its exports and its imports, it does not matter to Brazil whether the four products under consideration are sold to the Bloc or to a Western purchaser. The Bloc market is important to Brazil only to the extent that it contributes to the total demand of the market and thus helps to maintain or increase the price at which Brazil's total exports of the commodity may be sold. More specifically the significance to Brazil of the Bloc market depends on (1) the size of Bloc purchases from Brazil relative to the size of the total world market and on (2) the degree to which a possible reduction in Bloc purchases from Brazil would represent a complete withdrawal from the market rather than a shift to other Western suppliers.

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If the Bloc withdrew from Brazil's export market and did not transfer its purchases to other Western exporters, a decline in the total market demand would result and price declines would follow. In such circumstances, Brazil would suffer a decline in receipts from exports even if it were able to maintain the same export volume. The important factor here is that the four categories of commodities under consideration account for only about 10 percent of Brazil's total exports. Thus it would require average price declines of at least 10 percent in order to produce a decline of only 1 percent in Brazil's export earnings. Price changes of this size are not likely, however, because only a moderate increase in supplies on Western markets would be produced by such a shift in market destinations. For example, Brazilian exports of cacao to the Bloc in 1959 were the equivalent to only 2 percent of the total sold in Western markets by all producers. The corresponding percentages for the other products were 4 for sisal and other natural fibers and 1 each for hides and iron ore. Therefore, it appears that the possible price declines are not likely to be of such magnitude that they could have more than a very minor impact on Brazil's export earnings. Thus Brazil could lose its entire Bloc market for these commodities -- more than one-half of its total exports to the Bloc -- without significant damage to its economy.

Exports of coffee to the Bloc present a much different problem because they represent a net increase in Brazil's export receipts to the full value of the sales. This fact results from the peculiar nature of the coffee market. Exports of coffee from the major producers are regulated by a quota system under the International Coffee Agreement. Sales to the Bloc, however, are regarded as taking place outside the regular market and are not charged against the export quotas of the member countries. A reduction of Bloc purchases could not be compensated for by additional sales to Western markets, which come under the quota system. Consequently, a decline in (or loss of) the Bloc market would mean an accumulation of more surplus coffee stocks at the expense of export earnings. In terms of 1959 coffee sales, the loss to the Brazilian economy would be \$18 million, or 1.4 percent of the value of total exports.

Because the loss of Bloc markets for cacao, sisal and other natural fibers, hides, and iron ore would have little impact on total export receipts, Brazil's economic advantage in exporting to the Bloc is derived primarily from its coffee sales. In terms of 1959 trade it

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seems unlikely that Brazil would have suffered a loss of more than 2 percent of total exports even if the Bloc had withdrawn from its export markets completely. Inasmuch as trade with the Bloc increased in 1960, the above percentage would be somewhat, but not appreciably, higher.

The import side of the problem offers no difficulty, because imports from the Bloc are generated entirely by exports to the Bloc. In view of Brazilian preference for Western goods, imports from the Bloc result almost entirely from the need to utilize inconvertible clearing balances earned through exports. Therefore, Brazil's economic interest in its imports from the Bloc is confined to the potential loss in total capacity to import resulting from a decline of the Bloc export market. At the most, this loss would come to little more than the 2-percent decline in export income noted above.

If the Bloc is to make a serious effort to increase appreciably Brazil's economic stake in such commerce, the Bloc must increase its imports from Brazil substantially, and coffee must constitute a much larger share than it has up to now.

Bloc attempts to expand trade with Brazil have met with some success (see Table 1*). During the last 15 months, new commercial agreements providing for a considerable growth in trade have been signed. The most important of these was a trade agreement between the USSR and Brazil signed in December of 1959 which stipulated that more than half of Soviet purchases would consist of coffee. During the first half of 1960, Brazil also concluded new agreements with Poland and Czechoslovakia. If the goals of these agreements were realized, Brazilian exports to the Bloc would show an increase for 1960 to a level about double that of 1959 and by 1962 would expand to about two and one-half times the level of 1959.**

* P. 2, above.

** Trade agreements are entered into in order to promote trade between the signators. The text usually establishes quotas for the commodities to be exchanged as well as payment and other technical arrangements needed to facilitate commercial transactions. The quotas set forth in the agreements in no way bind the parties to buy or sell the full amount provided for, nor do they limit purchases or sales to the amount stated.

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In spite of the apparent interest reflected in the new trade accords, however, actual Bloc performance in 1960 was not particularly impressive. Preliminary estimates of total Bloc trade with Brazil for 1960 indicate that the goals set forth in the agreements probably were not achieved. Exports probably were less than \$75 million, or about 6 percent of Brazil's total exports. On the basis of data for the first half of 1960, it also appears that the share of coffee in exports to the Bloc declined in that year (see Table 2*). Perhaps most significant of all, the USSR actually contracted for only about half of the coffee quota set forth in the trade agreement. Thus Brazil's economic advantage in trade with the Bloc in 1960 probably increased only moderately compared with 1959, if it increased at all. Some increase may be expected in 1961, but it probably will be quite small.

The limited significance of Bloc trade to Brazil thus suggests that the scope of economic relations in the future will not necessarily be limited to commerce. Rather, once the Bloc concludes that the "independent" foreign policy of the new Brazilian administration affords an opportunity to wean Brazil from its heavy economic dependence on the United States and Western Europe, new efforts to establish a substantial program of financial and technical assistance for economic development can be anticipated.

* P. 3, above.

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