

### III

## THE STORY OF BRAZILIAN COMMERCE

#### I. TIME AND SITUATION

**W**HEN the Portuguese navigators discovered Brazil, in 1500 (so the story runs), Portugal was already in her third cycle of geographical discoveries; the first had been the Azorian cycle in the earlier half of the fifteenth century, the second, the South African cycle up to the Cape of Good Hope turning-point, the third was the Brazilian cycle—the starting of a new era. Pressed hard by Spain on her eastern boundaries, Portugal, the balcony of Europe, providentially turned to the open seas, lured by the Atlantic islands, Azores, Madeira, and Cape Verde; Portugal was predestinated to find Brazil, but not at the proper time nor in the proper situation and position.

Time and situation appear as the two main factors that carry the possibilities, the opportunities, the necessities out of which history is made. When we say “time,” it is not only pure chronology, it is “social time,” the moment or epoch of a certain knowledge, advancement, and equipment; by “situation,” we mean the possible contacts, physical and social, the interdependence in human affairs.

Under these conditions it might be said that Brazil was discovered at the wrong moment for Portugal, in untimely situation and position, for it was out of the way to India, it was too far to the southwest in the “Tenebrous Sea.” The Portuguese of King Manuel were far more interested in Asia,

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they needed Indian products far more; besides they were not in demographic conditions to start a settlement; yet they feared competition in the New World. Thus they were led to postpone "the discovery" as long as possible and therefore kept their mysterious knowledge of the Overseas in absolute secret; a decree of King Manuel forbade the reproduction on historical maps of certain details held as secrets of State. The discovery of Cabral in 1500 was just the official discovery, when mystery could not be kept any longer without danger of being outwitted.

These facts explain why the occupation of the Terra de Santa Cruz, the Land of the Holy Cross, did not thrill the Portuguese or modify in any way their commercial activities. For some time Brazil was to be "forgotten." Yet something did interest them in their new possession: the dye-wood, called Brazil wood, a tincturing substance imported from the Orient and known in Florence since the twelfth century as *verzino*. It was so much more important than anything else that the Christian faith was put aside, says a historian of the time, "by diabolic arts that changed the name of Holy Cross, so pious and devout, for the name of a tincture for dyeing cloth."

It was, however, a great moment in the history of mankind: the Revival of Learning and the Great Discoveries. It brought also the compass, the printing press, and a commercial revolution started by capitalism. Still, Portugal was busy elsewhere; if not scientifically, at least politically unprepared, and not sufficiently equipped for so great a task in the New World as the colonization and future exploration of Brazil. That is why the exclusive trade of Brazil wood was at once leased by the Crown to a rich Jewish merchant of Lisbon, Don Fernando de Noronha, on fair and profitable terms for the Royal Treasury.

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It was under such unfavorable conditions that the story of Brazilian commerce had to begin. It seemed as if Brazil had been allotted by Fate to the wrong metropolis; that time and situation were working against us. No doubt private expeditions were fitted by Portuguese nobles of broader views; most of them, however, came to grief. The stories of Diogo Alvares, the *Caramurú*, of João Ramalho, and of the so-called Bachelor of Cananea are semi-legendary episodes that only underline the official indifference of Lisbon.

But the French of Dieppe and Honfleur under King Francis, the Spaniards under Charles V of Germany, and the English pirates became interested and interfered with the Portuguese monopoly, and determined King John III to start in 1531 the real occupation of the country.

### II. COMMERCE UNDER THE COLONIAL REGIME

Two different phases may be discerned in the colonial regime that was enforced in Brazil by the Portuguese metropolis: one before the Spanish Domination and the other after the Restoration, that is to say, after 1640. In the first phase, the main features to be emphasized are the liberal spirit in which monopoly was applied and the real efforts of Portugal to devote all her care to the American Colony, spending money, lives, and energy for its sake. During the second phase, the Kings of the House of Braganza had learned the Spanish lesson, and everything in the Colony was to be sacrificed to the interests of the mother-country.

Unfortunately the first phase, 1531-1580, did not last more than half a century. Portugal started considering Brazil as a settlement colony and not as a mere trade factory like her African and Asiatic possessions.

The kings of the great dynasty of Aviz adopted towards

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their colony a wise policy of liberty. Agriculture and industry were free: a decree of 1591 restricted commerce to the Portuguese merchants, with the royal approval, but there were no vexatious measures, duties were small, taxes moderate; there was great freedom of movement for individuals. The system was well in advance of the general ideas of the time.

It has been repeated by historians that the granting of captaincies or royal concessions with considerable political power to captains-general or donatarios, was a feudal regime applied to Brazil. Roberto Simonsen, however, has a different point of view: instead of being based on a social class division, it was an economic process of exploitation in a modern society, with perhaps rather capitalistic features, though the hereditary clause of the concession might have been misleading.

Brazil had started her commercial life by sending to Europe dye-wood, Indian slaves, and parrots. After 1520, the sugar cycle of her history began, and by the end of the century there were already 120 sugar mills in Brazil. Besides the 40,000 tons of sugar of her annual exportation, she used to send to Portugal tobacco, and import slaves from Africa.

By becoming a Spanish colony she provoked the hostility of the Dutch. The monopoly system was implanted according to its Spanish interpretation of *mare clausum* and gave to the Dutch attempts the aspect of a fight for liberty and *mare liberum*. For the year 1649 saw the establishment of commercial exclusivism in favor of a private corporation chartered in Lisbon, the Companhia de Commercio do Brasil, which lasted until 1720.

### III. ENGLISH TRADE WITH BRAZIL

Though England never insisted on breaking the monopoly rule and having a direct trade with Brazil, for her merchants

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in Portugal already shared Brazilian trade, the great Portuguese colony soon became one of the chief factors in Anglo-Portuguese commercial relations, and its importance can be traced by the increasing part Brazil took in the Portuguese Empire.

Before 1580, that is to say, before Spanish annexation, there were no special interests for England in Brazil; during the domination, the Armada episode transpired. But after 1640, commercial and political ties secured the predominance of England, and from about 1756 onward, Brazil became the chief factor in the commercial relations of the two European powers.

Let us have a closer view of the details of those commercial exchanges. During the first period of colonial rivalry, to 1580, Portugal used to get sugar from her new colony, after having previously brought it from the Indies and Barbary. Yet William Hawkins sailed to Brazil in 1530 apparently without arousing the jealousy of Portugal. Tobacco was later freely imported from Brazil and smuggled into England; raw sugar was obtained in the same way by London sugar dealers. Spanish annexation did not affect the growing trade with Brazil, though Mendoza advised in 1582 that English ships should be sent to the bottom. In 1587, however, fifteen ships sailed to Brazil with woollen goods, glass, and hardware; the returns were coarse sugar, molasses, and dye-wood.

Had not the attention and activities of England been drawn to their own North American colonies, it might have greatly affected the situation of the new Spanish colony at this time. What the English did not attempt seriously—for the capture of São Vicente was just a temporary aggressive measure against Spain—the Dutch did, and to a certain extent were successful, for they occupied an important part of the northeastern coast up to 1654.

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### BRAZILIAN EXPORTS UNDER THE IMPERIAL REGIME

1840	1850	1860	1870	1880	1884	1903
Coffee	Coffee	Coffee	Coffee	Coffee	Coffee	Coffee
Sugar	Sugar	Sugar	Cotton	Sugar	Sugar	Rubber
Cotton	Cotton	Hides	Sugar	Rubber	Cotton	Hides
Hides	Hides	Cotton	Hides	Hides	Rubber	Cotton
						Cocoa
						Tobacco
						Maté
						Sugar

When political independence was restored, and we recovered our Portuguese nationality, in 1640, there was already in Lisbon a large community of English merchants who became and long remained the real agents of Brazilian trade with England. The powerful company, established in Lisbon in 1649, as we saw, soon became the instrument of English interests. Difficulties had arisen between the Portuguese Monarchy and the English Commonwealth, but were settled by the Treaty of 1654. English ships sailing in the Portuguese fleet were to pay us more than the ordinary duties for their goods; English merchants were allowed to trade freely with Brazil in all goods except fish, wine, oil, and dye-wood; extra ships for the fleet were to be hired in England. The treaty was undoubtedly a fine deduction from the "Navigation Acts" and exhibited, for the first time, England's ascendancy over her old ally.

Wallis Chapman in his book on *Commercial Relations of England with Portugal* shows that the Anglo-Dutch rivalry was still alive in Brazil when the English pledged themselves to protect Portuguese colonies against Holland. It was already clear that the important sugar trade through Lisbon was the only way for Portugal to make returns to England, as the imports to Portugal were twice the amount of Portuguese exports to England.

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The Methuen Treaty of 1703 was another step in English ascendancy over Portugal. It did not affect us directly, but the great increase in Anglo-Portuguese commercial relations which followed was chiefly due to the development of Brazil.

A few years before, Brazil had entered the gold cycle of her economic history. The Peninsular trade of England increased rapidly, but the balance was largely made by profits from Brazil. On the other hand, the proportion of English goods sent to Brazil was considerable, and constituted the bulk of the trade between Portugal and her great colony. "It was calculated," says Wallis Chapman, "that on every £100 worth of goods passing from England to Brazil, 68 were paid to the Portuguese government before the returns were made to England, as the imports to Portugal were twice the amount of Portuguese exports to England."

References are made by English authors to the concession by which four English families might reside in Bahia, Pernambuco, and Rio. It was a privilege and a great help for merchants, though never fully applied. The English Protestants were not subject to the authority of the Inquisition as the Portuguese Jews were at the time. After the discovery of minerals in their colony, the Portuguese grew still more jealous. Direct trade was absolutely forbidden; transport of bullion was severely punished; the privilege of residence was difficult to obtain from Portuguese authorities; the mining district of Tejuco was forbidden to foreigners. Negotiations were started to persuade the English merchant to give up the residence privilege already granted to him, and force the French and the Dutch out of the country in order to stop the contraband traffic they were carrying on.

The mines and the plantations of Brazil required workers, and the degrading slave traffic between English merchants of the African coast and Brazilian landowners went on for years.

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In the middle of the eighteenth century Portugal was no longer economically independent, and the Marquis of Pombal, the great minister of King Joseph I, described the situation in the following words: "The English had conquered Portugal without the inconveniences of conquest. In 1754 Portugal scarcely produced anything for her own support: two-thirds of her necessities were supplied by England; all the trade of the country was carried on by her agents. The English monopolized even the commerce of Brazil." The English cloth trade appeared to him as ruinous to Portugal as the fictitious value of Brazilian gold.

From 1760 onwards, the new policy of Pombal tries to alter the situation; Brazilian trade becomes more important though a decrease is registered in Portuguese commerce with England. The development of cotton manufacture in England corresponds to the growing production of cotton in Brazil. But the creation by Pombal of two new chartered corporations for exclusive trade—the *Companhia Geral do Pará e Maranhão*, and the *Companhia Geral do Pernambuco e Parahyba*—prevented the English from controlling Brazilian trade and limited their share as members of the companies. Trade of Portuguese goods was favored, export of bullion prohibited; the private trader was left in a poor situation to carry on business with Brazilian merchants.

At the end of the eighteenth century there was an increasing demand for Brazilian products, chiefly sugar and cotton; the balance of exchange was reversed in favor of Lisbon, but as Portugal was growing weaker and more dependent, the development of the American colony did not greatly improve the situation. The boom of 1791 in Brazilian products was due to the failure of the French Antilles to supply tropical goods, a consequence of French revolutionary affairs at the time.



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### IV. THE BRAZILIAN KINGDOM

The European entanglement in which Portugal was helping England provoked the Napoleonic invasion and the flight of the Portuguese Court to Brazil in 1807.

A great date in the history of Brazilian commerce is 1808: soon after landing, King John, then Regent of the Kingdom, opened our ports to international trade. The monopoly system was over, and a Royal decree established also industrial liberty, of which Brazil had been deprived since 1785 in order not to compete with Portuguese industry.

Great Britain derived great benefit from this act, for she was the only power with a large commercial merchant fleet. The next year import duties were removed for raw material and machinery: another advantage for the British.

Rio de Janeiro, replacing Lisbon politically, became also economically the center of the Dual Monarchy. "Portuguese trade with India and China," says Oliveira Lima, "was localized in Rio, where re-exportation to Lisbon and other European ports was organized. Exports to other parts of America were also, for some time, managed in Rio. On account of the difficulties that had arisen in the River Plate, all the traffic to Buenos Aires and Montevideo passed by the Brazilian capital."

At that time commerce with Asia was rather important: 20 to 40 per cent of the imports of Bahia were from Asia and especially China around the Cape of Good Hope. Brazil exported cloth, sugar, tobacco, and wines to African colonies. Our direct contact with Asia, especially by way of Macao, has left many vestiges among us: even today Oriental articles, china for instance, are much appreciated.

But the great event in commercial policy of the Kingdom was the Anglo-Portuguese treaty of 1810. A general tax of

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24 per cent ad valorem had been the import duty on foreign goods. In 1810 it was reduced to 16 per cent for Portugal and to 15 per cent only for Great Britain. It was a diplomatic victory for Lord Strangford, the British minister; Sumter, the American minister in Rio, who had hoped that the new economic liberty granted to Brazil could be the stepping-stone for closer commercial relations with the United States, was truly disappointed and explained in a report to the Department of State in Washington, September 30, 1810, the reasons for British pre-eminence in South America.

The Treaty of 1810, described in its preamble as a "liberal system of Commerce, based on reciprocity and mutual convenience" was "the most unfair and ruinous that has ever been passed between two independent nations," said the Portuguese statesman Palmella. As a matter of fact, it proved unsatisfactory to both sides, for, after all, Great Britain was never able to reap the advantages that were granted; on the other hand, Brazilian products similar to colonial British products were barred on the British market.

### V. IMPERIAL PHASE: AN EVOLUTION

Independence did not modify very considerably the economic status of the country; but the restoration of peace in Europe had determined other powerful nations of the Continent to obtain from the newly-recognized Imperial Government some of the privileges that had been granted to Great Britain.

One of Britain's competitors was France, which in 1816 had sent an agent, Luxembourg, to Rio, to negotiate a commercial treaty. Ten years later, in 1826, the first agreement was signed with her. French goods were much in favor, though freights were high, and as tropical Brazilian products were not admitted in competition with those of

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French colonies, sailing ships to France were loaded with the best Brazilian woods as ballast.

The French treaty was the first of a series of commercial agreements with the different European countries, the United States, and the River Plate Republics, 1826–1828. It was a sort of standardization of our trading regime, and its economic conditions proved satisfactory for about eighty years. It was only in 1907 that we started remodelling our commercial understandings.

The evolution of commerce during the Empire is illustrated mostly by successive tariff reforms. Brazil instituted her first tariff in 1828, under the initiative of Bernardo de Vasconcellos. Rates were made uniform, with a duty of 15 per cent for all; monopolies were suppressed, commercial liberty was established. It was a kind of free-trade regime under liberal principles that were still unknown on the European Continent.

But that free-trade experiment did not last more than sixteen years. Protectionism was enforced in 1844, though the tariff of Alves Branco of that year imposed duties of only 30 per cent. Two purposes as usual were then in view: financial help to the State and economic protection for industry.

It would take too long to describe the plans intended to be carried out by the half-dozen tariff reforms that followed 1844. There is no doubt that besides the considerations of revenue, the steady and progressive evolution towards protectionism, culminating in the 1887 tariff, encouraged the establishment of industries.

In the first decade of the Empire, importations exceeded exportations. During the fifties there were oscillations in the balance, but from 1861 onwards exports rose above imports with a few annual exceptions.

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On the whole, there was a general increase in Brazilian commerce. Compared to the period 1833-1843, the ten year period 1883-1893 shows foreign commerce increased in value to 600 per cent.

During these sixty years under consideration, the sources of imports were Great Britain, France, the United States, and Portugal. After 1862, there was a relative decline in North American imports in Brazil. On the other hand, the countries of destination of exports were, during the same period, Great Britain, the United States, France, and Germany.

The chief exports were coffee, sugar, cotton, hides, and rubber. In the early seventies, cotton took second place from sugar. This was due to the accidental circumstance of a temporary substitution of Brazilian cotton for American cotton during the Civil War between the States.

Each of these products would have an interesting story to tell. Let us consider, however, only coffee, the leading article of Brazilian export for over a century. Coffee had been an agricultural product of the country a hundred years before it had been exported, for it had been brought to Brazil in 1727, and from 1770 was cultivated in the gardens and orchards of Rio de Janeiro. In those days the markets of the world were supplied by Asia, Africa, Java, and the Antilles. With the development of the province of Rio de Janeiro, exports from its plantations began in the eighteen-twenties. By 1826 Brazilian coffee was already 20 per cent of the world's supply. In the fifties, the share was broadened to 40 per cent; the Parahyba Valley was then at the height of its prosperity. At the end of the Empire, Brazilian coffee reached 50 per cent of the total; but the adaptation of the paulista plateau with its red soil, the terra roxa, and the building of the port of Santos led Brazilian coffee to the

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golden phase of its history with 80 per cent of the world's production.

The last period, "the fifth period," as Roberto Simonsen puts it, started in 1897 with accelerated but uncoordinated culture in paulista districts, causing the over-production from which we are still suffering, with all its economic, social, and political consequences.

During that period of sixty years, among the incidents of interest in our commercial policy was intervention in the River Plate markets, an economic consequence of a political episode. As the imperial government had decided to interfere in Buenos Aires and Montevideo against the dictator Rosas and Oribe, his Uruguayan lieutenant, the Baron de Mauá, an important Brazilian capitalist, was entrusted with the financial part of the contract with Uruguayan liberals. Accordingly he became interested in the economic equipment and development of Montevideo and the Uruguayan trade between 1850 and 1868. This was considered a short episode of Brazilian economic imperialism in the River Plate Republic.

Curiously enough, liberal ideas had led Brazil to interfere in the South and claim the liberty of access to her interior province of Matto Grosso by way of the River Plate and the Paraguay. Conservative ideas, however, led that same imperial government to postpone any discussion of the free access of Peru, Bolivia, and Colombia by the Amazon River. Commander Mathew Maury, the well-known hydrographer and explorer, who died in Lexington, Virginia, in 1873, had written twenty years before his *Letters on the Amazon* in which he disclosed to the world the situation of commerce and navigation in that part of the Brazilian Empire. Under the pressure of world opinion and of American diplomacy, the imperial government opened the Amazon to international

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traffic in 1867. And once more appears in our commercial history the name of Baron de Mauá, who generously gave up the privileges he held by contract for the exclusive navigation of the Amazon.

### VI. COMMERCIAL DEVELOPMENT: PREWAR—AFTER WAR

It must be admitted that under the Republican regime, from 1889 onwards, the commercial progress of Brazil, aided by a number of favorable factors and circumstances, was considerably more rapid than before: in ten years the increase was comparable to that of the previous period of thirty years.

		<i>Annual Average Figures</i>		
		<i>Exports</i>	<i>Imports</i>	
		<i>Years</i>		
Empire	{	1861-70	14.9	13.1
		1871-80	19.9	16.4
		1881-90	22.0	19.2
Republic	{	1891-1900	29.1	25.2
		1901-10	47.6	31.8
		1911-20	68.8	54.6
		1921-30	80.5	67.4

(in million pounds sterling)

In the twentieth century, however, progress has been still more conspicuous; but figures ought to be given in pounds sterling, otherwise, if stated in national currency, the depreciation of the milreis distorts the economic phenomenon, giving the increase still larger proportions.

One of the most characteristic features of our foreign trade, after the establishment of the Republic, was the considerable advance of the United States as a country of origin of our imports, and chiefly as the country of destination of our exports. There was of course, in prewar times, a rapid in-

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crease of German trade on the Brazilian market, but commerce turned more and more to America. This was due to the fact that Brazilian trade was in coffee and raw materials that were needed in the United States and admitted free.

Brazil afforded preferential rates to a number of American products. By a reciprocity agreement of 1891 certain articles of American origin were imported free into Brazil and others were granted a reduction of 25 per cent of the ordinary duty. After some years the preferential treatment of American imports was discontinued, but in 1904 it was renewed in favor of certain goods such as wheat, flour, India rubber, inks, colors, matches, etc. The idea was to keep up on the American market compensation for coffee.<sup>1</sup>

Brazil was very much affected by the Great War, not only because her chief purchasers were involved in the conflict and had to alter the nature of their trade, but also on account of the lack of shipping. Germany was lost for a time as a customer. On the other hand, the different imports and exports were affected in several ways. Many supplies were curtailed, such as coal, gasoline, iron, and codfish. Exports, especially coffee, declined, though rubber and hides consistently retained their importance. A special stimulus was given to manganese. Brazil became rapidly an exporter of staple food crops. Though artificial, that result showed that Brazil was self-sufficient, and could easily enter the world market as an exporter of foodstuffs.

After the war there was a boom in 1919-1920 and a corresponding increase in both exports and imports. In 1920 the balance of trade was clearly unfavorable to Brazil: the buying to replenish exhausted stocks made imports much higher, and the currency suffered a first depreciation, though

<sup>1</sup>Frank R. Rutter, *Tariff Systems of South American Countries* (Department of Commerce, Washington, D.C., 1916).

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in France and in England the Brazilian milreis appeared normal.

But the most interesting feature in Brazilian postwar commerce was the new classification of countries that shared her foreign trade. The United States became pre-eminent with imports into Brazil two and three times larger than those of Britain, and strengthened her position as purchaser of Brazilian exports at a rate of about three times those of France, the second customer.

After the boom, in 1921, there was a sudden drop and comparison with prewar conditions became unfavorable; and 1922 brought to Brazil a financial crisis from which recovery was slow. The years preceding 1930 witnessed a redistribution of origins and destinations. Great Britain recovered her prewar position in Brazilian imports. Germany joined again in the competition as buyer and seller; but the Argentine kept her newly-conquered position.

### VII. THE NEW TRADE CONDITIONS IN BRAZIL

In order to understand the present position of the United States in connection with the Brazilian market we shall have to summarize the recent changes that have occurred in Brazilian economy.

After the crisis which affected the country in the twenties, the government took certain emergency measures that influenced the commercial situation and trade relations. Four aspects at least must be examined:

1. The currency question, in which fluctuations in exchange, following the depreciation of the milreis, and speculative factors, were changing trade conditions. As our gold reserves had been exhausted without preventing the decline of our money, the government decreed the creation of an Exchange Control Office through which all exchange trans-



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actions had to pass. All foreign exchange had by law to be sold to this Office at closely fixed rates. Restrictions began to be relaxed in 1934-1935, and an open market was restored. But as a substantial backlog of commercial credit was accumulated or "frozen," some financial agreements had to be arranged with certain countries, including the United States. The result was that in many countries cash was demanded as long as control remained in force over remittances.

2. A revision of tariffs was found necessary to increase the government's revenues and to readjust the duties affected by the fluctuating values of the milreis in relation to gold. The new tariff was increased in 1934. The plan was carried out in order to grant additional protection to home industry, which, by the higher cost of imported goods, felt already some security.

3. The diversification of production, as the over-production of a few crops, constitutes a danger in foreign trade. On the other hand, improved production methods, marketing by classification, standardization, and better distribution were recognized as urgently needed measures for Brazilian exports. The government interfered to restrict new plantations of coffee and destroy surplus crops; the cocoa industry was given an intelligent direction by the establishment of an institute to assure uniform classification, reduced cost of transportation, warehousing, and marketing. A Sugar and Alcohol Institute functioned in a similar manner for sugar, and corresponding institutes for maté, meat, and rice have been created with the same object in view. The result was an increasing diversity of better-equipped sources of production. Cotton and fruits were the first great exports of that new policy.

4. Commercial agreements started in 1936—the industrial acknowledgment of our new economy. In some

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countries the autarchy policy or national sufficiency has determined quotas for products imported from foreign sources. Brazil had to negotiate larger quotas for her products in return for concessions. The willingness to grant larger quotas to Brazil was helped by the desire to release credits blocked in Brazil and also by the fact that Brazilian output is chiefly of raw materials and foodstuffs.

5. Greater credit facilities, by extension of the rediscount and providing a broader field for internal securities, were other government initiatives that improved considerably the purchasing power of the country. Coal, iron, and cement were among the first privileged mining activities; but manufacturing increased also rapidly, thus influencing the internal market for foreign goods. For coffee production results were still more dramatic. It is said that large estates passed, in São Paulo, from 50 per cent of the cultivated land to 10 per cent only; it is "the transition from the large absentee ownership to small operating farmers," as Ralph H. Akerman, commercial attaché, states in his report of 1937.

The Brazilian commercial depression began in 1926; recovery started in 1935. If we examine exports in tons, we might follow the movement from 1,622,000 tons in 1932 to 3,933,000 tons in 1938. Values expressed in contos de reis also increase but values in dollars, owing to exchange conditions, show a decrease when compared with figures of 1926, for instance.

As consequences of these facts, we may mention: an increasing industrialization in the southern states, São Paulo, for example; a rapid progress in the self-supporting system of the country; the abandonment of a single crop economy and policy; and a resultant new economy that may alter the international trade relations of the country. Yet key industries are still missing.

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### VIII. THE AMERICAN CONTRIBUTION

The most interesting part of the dislocation of the world market can be traced to the contribution of the United States. Since coffee had reached paramount importance among Brazilian exports, the United States became a purchaser of this product on a large scale. A Brazilian writer, Nelson Sodré, has recently said:

The history of Brazilian commerce might be described in three decisive stages: the Lusitanian, the English, and the American. The first predominates in colonial times and during the Kingdom. The second involves the Empire down to 1870. The third starts in 1870 and comes down to us. Each one of them is marked by the pre-eminence of trade transactions, with Portugal, with England, and with the United States. To emphasize the importance of the pre-eminence in political and social events of the country, it is sufficient to study the period in which each of them predominates. The colonial institutions were essentially Portuguese. The imperial ones had living features marked with British (an experiment in parliamentary regime). With the cropping of democratic and liberal ideas at the end of the Empire, the increasing importance of the United States of America is revealed by their larger share in Brazilian Commerce. The transaction regime thus leads to imports of political ideas and state institutions.

As a general statement this may be a half-truth, but in the present case it does certainly explain also many non-commercial features of Brazilian social life in evolution.

Great Britain, France, Germany, Argentina, and Belgium are the most important purchasers and suppliers of Brazil. Yet until recently, 1934, the United States was the unchallenged leading supplier of Brazilian requirements. This position of pre-eminence emerged during the war and lasted over fifteen years. But in 1934, Germany started improving her position substantially, and overtook Great Britain in 1935. Two years later, in 1937, she succeeded in overtaking the United States as well. From 51 million pounds sterling sold to Brazil in 1920, American exports declined to 6,400,000

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in 1935. Happily the Brazilian exports to the United States did not suffer so much, yet they fell from 44 in 1920 to 13 in 1935.

*In Millions Sterling*

Brazilian Imports from

	<i>United States</i>	<i>Germany</i>	<i>Great Britain</i>	<i>France</i>	<i>Argentina</i>
1920	51.9	5.8	27.1	6.8	10.5
1925	20.7	11.7	18.7	4.9	9.8
1930	12.9	6.1	10.4	2.6	7.1
1935	6.4	5.6	3.4	0.9	3.5
1937	9.3	9.6	4.9	0.9	5.6

Brazilian Exports

1920	44.9	6.1	8.7	12.8	7.0
1925	46.4	6.8	5.1	12.9	5.5
1930	26.5	5.9	5.4	6.0	4.4
1935	13.0	5.4	3.0	2.6	1.6
1937	15.3	7.2	3.8	2.7	1.9

Certain commercial reports might be examined with interest in order to understand the present situation, and forecast future developments.

1. Agricultural equipment and machinery constitute a group of American imports greatly needed by Brazil, though tropical agriculture is still very unsatisfactorily equipped, plows, tractors, incubators, seeders, etc. This is not only because rudimentary methods prevail frequently, but also because the small farmer as a rule has very limited buying power. The lower-priced German equipment has thus reached the more modest farmer and supplanted American merchandise in many cases. On the other hand, the recent expansion of cotton culture has been beneficial to American ginning and baling machinery. As Brazil suffers from a

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shortage of rural labor, it is probable that labor-saving devices will be required very soon. The present campaign to promote production of wheat will certainly have similar consequences.

2. Automobiles, trucks, motor-car accessories, and motors form the most important of all groups of American imports into this country. Brazil has only 160,000 motor-cars, just about as many as Japan, fewer than Belgium, Sweden, or New Zealand. It may be stated that 95 per cent are of American make. The Brazilian market, had we a greater purchasing power, should be the most important in the world on account of the size of the territory, the distances, and the lack of transportation facilities. It has accordingly been considered advisable by several American firms to open in our principal centers assembly plants that today are supposed to supply 80 per cent of the total passenger-car sales. Then also we find since 1936 the competition of the cheap German motor-car.

3. Aircraft and accessories have been supplied to the Brazilian Army exclusively by the United States. But with the development of commercial and civil aviation, many competitors have entered the market: French, German, Italian, and British. Of course, European competition has been waved aside for the time being, but is still in the air.

4. Coal has a dramatic story in Brazil: formerly it was a sort of privilege of Great Britain to supply us from Cardiff. The Great War shifted the mission of coal-supply to the United States. Then Great Britain joined again, and from 1930 onwards took the commanding lead she had lost. Suddenly, Germany rose as a successful competitor, selling directly and indirectly through Holland. In 1937, the positions were, respectively:

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Germany: 711,000 tons  
Great Britain: 664,000 tons  
United States: 141,000 tons

Of course American coal is always preferred by American-owned public utilities, but state-owned railways and other business organizations purchase German coal in order to free the blocked credits accumulated in Germany from the exports of Brazilian products. That was the "compensating" system we could not avoid.

5. The wheat and flour story is another page of past Brazilian-American transactions. For years and years, the largest imports were from the United States and special rates were granted by Brazil. Slowly but consistently, the Argentine entered the market, first in the southern states, as being closer than North America, then in the central states. Today the Argentine sells more wheat and flour, in tons, than coal is bought from England and the United States, 940,000 tons in 1937. It was also here a question of lower prices, and with government measures to stimulate domestic flour milling and wheat production in the southern states, there is little possibility that the lost ground will ever be regained.

6. Electric machinery and equipment form a group of supplies of great variety. An American lamp factory emigrated to Brazil and further curtailed importations, till Japan came in with still cheaper lamps. Refrigerators, radios, and household appliances have had a large market opened by the installment system, very much used in Brazil. In many cases there is an assembly plant in the country that lowers the cost. Anyway, the income of the average middle-class family, though rapidly improving its standard of living, is still limited.

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Air-conditioning apparatus, though used in some public buildings and picture-palaces, is not favorably accepted on the whole. The resistance is perhaps due to very old habits of permanent apertures in houses, or to routine, or to the high cost of an improvement not yet quite adequate.

7. Iron and steel consumption is increasing rapidly, for Brazil is in her industrialization phase; but Germany was a powerful competitor. The same could perhaps be said about chemicals and dyes. In that case, however, the competitors and American firms have opened branches in Brazil, and the emigration of industries has turned most of them into perfectly acclimatized domestic industries, Palmolive, Barbasol, Pond's, etc.

8. Machinery, road building, and rolling stock show once more how German methods of lower prices, compensation, and long terms of payment have been successful in overcoming the reputation and quality of American equipment.

In conclusion, it may be said that the first phase of Brazilian-American relations is over: wheat flour, fruit, semi-manufactured products, and so on, are past. In the second phase, with the supply of other types of merchandise such as motor-cars, gasoline, iron, oils, electric equipment, films, and machines, these trade relations are still withstanding increasingly severe competition from industrialized European nations. The German case is significant and full of useful lessons.

Ralph Ackerman, commercial attaché, wrote advisedly in 1937: "Whenever Brazilian exports to Germany tend to exceed purchases from Germany, the proceeds of the export surplus are accumulated in Germany in the form of blocked credits which can be used only for the purchase of German merchandise. As it is not to the interest of the Brazilian Government to maintain a large credit of this kind, there has

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been a tendency for Government-controlled companies to divert their purchases to Germany in order to liquidate the outstanding credits.”

Now that the postwar experiment is over, and we have a chance of rewriting the whole story, what is going to happen in the next chapter of Brazilian-American commerce?