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UNITED STATES INVESTMENT IN LATIN AMERICA

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The subject of United States investment in Latin America is a dominant theme in inter-American affairs. Conferences, symposia, institutes and congressional hearings have probed at depth the problems of the United States investor in Latin America and yet, the subject continues to present a perplexing economic problem with significant social and political overtones. If not resolved it can precipitate another hemispheric crisis and leave in its wake a negative and lasting impact on the economic, social and political future of this hemisphere.

The concern of the U. S. investor in Latin America is primarily economic. This is understandable, but it should not be overlooked that more than business and personal interests are at play. The fundamental challenge is to democratic economic and political institutions and in issue, therefore, is not only the future of United States enterprises in Latin America, but basic economic and political orders which—in spite of their imperfections—offer the greatest hope to the peoples of this hemisphere.

A brief review of the scope and impact of United States investment in Latin America is in order. The present book value of U. S. direct investments in Latin America exceeds \$14 billion dollars. U.S. business reputedly pays one fifth of all taxes, produces one third of all exports, and employs directly over one and a half million persons in Latin America. One billion dollars is often cited as the profit repatriated yearly to the United States. These indicators reflect the magnitude of the forces at play, and it is obvious that economic factors of such scope can influence—positively or negatively—the future of Latin America. And, the United States cannot ignore the future of Latin America in spite of serious domestic preoccupations with social conflicts, urban growth, and law and order, nor, in spite of other grave international concerns such as Vietnam,

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the Middle East, and its relations with Soviet Russia. Mr. Nelson Rockefeller expressed it this way:

Our national interest requires the maintenance of our special relationship which should have as its goal the creation of a community of self-reliant, independent nations linked in a mutually beneficial regional system, and seeking to improve the efficiency of their societies and the quality of life of their peoples.

It is a fact that in recent times the U.S. investor has done his share to accomplish the above objective. Leaving aside the unscrupulous promoter—found in every society—the U.S. businessman has been conscious of his social responsibilities when entering into a Latin American venture. His recent record can stand scrutiny provided such scrutiny is carried out objectively, dispassionately and by the fair minded. American business habits abroad have undergone a marked change, and it serves little purpose—at this state—to inquire why the change came about. The undisputed fact is that American companies today are generally sensitive to local conditions, and have become responsible citizens of those states which have granted them operating privileges.

This responsible citizenship, taken together with the obvious benefits of foreign investment such as increased employment, purchasing power, tax revenues and improved standards of living should have resulted in an improved climate for U. S. investment in Latin America. Regrettably, such has not been the case. On the contrary, recent events known to all manifest a deterioration in the investment climate which—in the long run—could dash the hopes for successful economic and social development in Latin America.

Beginning with the Cuban confiscations in the early 1960s, the U.S. investor has experienced—directly or indirectly—an undeserved hostility not in tune with his willingness to behave responsibly and to abide by the conditions under which he undertook his Latin American operation. Subsequent events in Peru, Bolivia and Chile, among others, are of serious concern to U.S. investors in all Latin American countries. The ultimate objective of these nations—social justice and the improvement in the quality of the lives of their peoples—cannot be challenged, but is the manner of achieving the objective proper, i.e., are the means being used to gain a most laudable and humanitarian objective in the best interests of Latin America?

Developments in Latin America affecting the U. S. investor reflect the mood for change and the desire to transform, in a very short period of time, the economic structure of Latin America. In some of the countries the change is deep and radical and the ultimate goal is transformation into a socialist society in which the State will predominate—overwhelmingly—in the economy of the country concerned. This position is at one end of the spectrum; the other positions reveal more muted shadings but their hues are sufficiently discordant to upset and repel the foreign investor. What is the meaning of the changes taking place? What, in essence, is Latin America no longer whispering but shouting to the foreign investor? The message is unmistakably clear—Latin America wishes to shake off economic dependence and to control its own economic destiny.

A point often made bears repeating. It has been stated, to the point of boredom, that Latin America is not a homogenous unit, i.e., that in spite of the fact that all but a few of the countries share a common language, history and culture, there are fundamental differences between the individual countries, and even between regions in the Hemisphere. Thus, different countries are following different policies in the area of foreign investments, e.g., Chile vis-à-vis Brazil and yet, even in countries still “friendly” to the foreign investor disquieting signs are beginning to appear. These, of course, concern the foreign investors but of immediate and more acute preoccupation is the philosophy of those countries which attempt—through the revolutionary process—to resolve overnight the many contradictions which exist in their societies. These contradictions should be resolved, but the solution to the grave social problems faced by the Latin American governments should not be one which will inevitably lead to the destruction of a vital segment of their societies, nor put to flight those who have a key role to play in the attainment of true social justice in this hemisphere. The sector threatened is the private sector, and consequently so is the foreign investor who has a key role to play in the process of economic development.

A caveat is in order. Citizens of the developed nations are inclined to think that foreign investment *per se* is a good thing, and they may be right. It is often stated that foreign investment has played a significant role in the growth of modern society, and that its “commitment and imagination can be harnessed to formulate and implement programs dedicated to human progress.” This position can, without too much trouble, be defended with some very convincing arguments, but it is often overlooked that there are many who feel that foreign investment has been detrimental

to the developing nations. Weighty arguments are also advanced to support this point of view and the issue has been joined frequently on the relative merits of technology, managerial know-how, exports, substitute imports, controlling interest, monopolies, and marketing techniques, among others. It appears advisable, therefore, to undertake in-depth economic studies to determine the merits, or the lack thereof of foreign investment. Freed from political passions and nationalistic urgings, impartial economists—if necessary on an individual country basis—should be able to put to rest many of the misconceptions which now surround the subject. This appears essential if the interested parties are to reason together and establish the climate in which meaningful investment decisions can be reached. But, vital as the results of these studies may be to the future, they are not essential to the decision-making process of the present. The reason is that almost without exception the nations of Latin America have stated that they need substantial inputs of foreign capital to promote their economic development. The warmth with which foreign investment is received and the conditions under which it is allowed to come in vary, but it is well established that the Latin American nations—willingly or unwillingly—have all expressed the need for foreign investment.

Admitting the need for foreign investment on the part of the Latin American nations, is the U.S. investor willing to assume the risks inherent in a Latin American operation? In the past the answer was in the affirmative and the reasons given were not very different from those which prompted investment in the United States and other areas of the world. These reasons are still valid today, but the enthusiasm of the U.S. investor has been greatly dampened by the economic and social policies of some Latin American governments. In his search for an answer how best to proceed under present day circumstances, the U.S. investor has naturally sought the position of his own government. It is well to consider what that position is.

The euphoria generated by the Alliance for Progress has dissipated. It is not fair to strike off the Alliance as an exercise in futility as advocated by its detractors. Much was accomplished under this program and today the lot of many in the Americas is better because of it. The consensus is not of total failure, but of a failure to meet overoptimistic and unreal expectations in an unrealistic short period of time. It is said that the Alliance lost its way . . . that it is a shattered dream. This may or may not be the case, but there is no denying that the U.S. Government's involvement in Latin America contemplated under previous administrations is not the involvement of the present administration.

The present approach is one of low profile. The mood is one of disengagement based on the premise that the United States cannot undertake—in the measure once anticipated—the correction of the existing social and economic ills of Latin America. The new policy affects indirectly the U.S. investor because if the trend is to disengage he will also feel its effects. For this reason the United States businessman operating or intending to operate in Latin America will do well to face reality and accept the fact that in a large measure he is now on his own in Latin America. Yet, it is of interest to note that within the context of its official position the United States Government advocates a greater role for private investment in the development process. This is to be accomplished through the Overseas Private Investment Corporation which is charged under the Foreign Assistance Act of 1969 to expand previous AID incentive programs so as to stimulate United States private enterprise in development projects abroad.

But in spite of some encouragement to the private sector to invest abroad the U. S. Government's position of aloofness appears firm at this time. To the U.S. investor the message is clear—do not rely too much in the protection of the U.S. Government. This is not altogether bad.

Self reliance is a desirable trait and a strong point in the character of North Americans. Perhaps this new chill of loneliness may lead the U. S. businessman to face up to the new realities, to formulate new concepts and to advance new ideas on which to base the solutions to the problems which now face him in Latin America. This is intelligent realism because the good old days—if they ever existed—are gone and the regenerative process calls for the abandonment of old formulas in favor of new mixes whose ingredients must be found in the fertile and imaginative minds of the U.S. investor.

Thus, the issue is clear. So is the present attitude of the U. S. Government and of the Governments of Latin America. Accordingly, it would be naive on the part of the U. S. investor—in spite of an existing favorable investment climate in any country of Latin America—to venture forth believing that the situation could not change to his detriment. The winds of change are blowing too strongly for him to believe otherwise, and the question is not whether there will be more restrictions, but their timing and their extent. For the foreseeable future there appears to be an irreversible trend in favor of economic nationalism; a trend of varying strength and duration depending upon the degree of political maturity and economic independence of the countries of Latin America.

The risks are great, and the future, at best, cloudy. Whether in any particular instance the return is worth the risk must, of necessity, be a subjective decision reached by individual North American corporations. The decisions to be made are of major import, but perhaps not so difficult now that the elements entering into the decision-making process are—although unfavorable—at least clearer. And, unfavorable as the climate appears to be now and in the foreseeable future, the U. S. investor will undoubtedly continue to seek a *modus operandi* in Latin America. This conclusion is based on the character traits of the U. S. investor and on his investment history which is not one of timidity but of courage, not one of passivity but of resourcefulness, not one of pessimism but of optimism. His flexibility under trying conditions is already in evidence. In one country he has “associated” with the government’s Petroleum Corporation and other foreign oil companies for the exploration of oil in that country. The “association” is a far cry from the business ventures of the past, but it is a new way of doing business and of preserving a profitable economic interest. Similar associations or variants thereof, will be surfacing in the near future as the U. S. investor, aware of the business dangers which await him, sharpens his business and diplomatic skills to meet a challenge he can no longer ignore.

Given the necessity for foreign investments on the part of Latin America, and the desirability of continuing investments on the part of the U. S. investor—what should be done to bring opposing factions closer to each other? There is no pat answer, but if there is to be a future it lies in a change in the attitudes of all the interested parties. This change of attitudes is mandatory.

The attitude of the U. S. investor must, above all, be realistic. Want it or not he must accept the fact that the rules of the game have been radically changed. The intervention of the State in the economic area and its creeping incursion in areas long the province of the private sector are now firmly established. The basis for such intervention is the sovereign right of states to control their economic destinies and this right cannot be challenged as long as the nation state remains the cornerstone of our international order. This change of direction on the part of Latin American governments is at the root of the problem and the conflicting economic philosophies are self evident.

It is a fact, however, that conflicting points of view can be reconciled through compromise, and in relation to the particular problem being considered the parties involved must look upon compromise not as a sign of weakness but as a necessary accommodation to achieve an objective

which transcends individual gain. In this connection, the burden is more on foreign governments than on the U.S. investor because upon the former falls the choice of setting forth the conditions under which foreign investment will take place.

It is naive, of course, to ignore the political and social pressures upon governments but the foreign investor is not off base when he asks that foreign investment guidelines be clearly established, that obligations once undertaken be observed and that just compensation be given for property expropriated for public purposes. In this area, interesting proposals have been advanced. One of these urges the formation of an international body such as GATT to assure fair treatment of foreign investment. The proposal has merit and should not be ignored by those earnestly and sincerely seeking a solution to the foreign investment problem.

A sincere desire to reach compromise does not constitute any loss of sovereignty or diminution of the stature of governments, but a realization that in this highly interdependent world in which we live, nations should exercise their sovereign powers in a non-discriminatory manner so as to protect and encourage all the elements of their societies—domestic and foreign—to contribute effectively to the commonweal. And . . . isn't this what the foreign investor is really seeking, and is this too much to ask from responsible and full fledged members of the family of nations? The fulfillment of treaty obligations (*pacta sunt servanda*) is a basic principle of international law but its underlying philosophy of abiding by agreements made in good faith should be no less applicable between States and individuals. The principle of changed circumstances (*rebus sic stantibus*) is also recognized as a tenet of international law, but if in the history of a nation it becomes necessary in the interest of its people to modify agreements with other states or with individuals, impartial tribunals should be called upon to determine the equities absent a satisfactory understanding between the parties in conflict. Sovereign rights are not weakened, but strengthened by the rule of law. Thus the desirability of a hemispheric tribunal to settle investment disputes for which precedent already exists in the Center for the Settlement of International Investment Disputes of the World Bank.

The U. S. investor, in the difficult and tortuous path which lies ahead should not have to travel alone. In his quest for a new way of life in Latin America, he has a right to seek the understanding and aid of the Latin American businessman who, in many instances, has remained aloof to the plight of his brother investor. The winds of competition may be chilling, but the freeze imposed by a pervasive, omnipresent and powerful gov-

ernment more than chilling — deadly. The Latin American private investor should understand that his long range destiny is linked to that of the foreign investor, and that the fate of the latter today may well be his fate in the future.

The U.S. Government also has a responsibility towards its nationals investing in Latin America which may best be discharged, not by aloofness but by tactful and timely involvement as well as by positive contributions to the solution of a problem in which the national interest is involved. This calls for the most skillful diplomatic tight rope walking to avoid the charge of intervention, but the complexity of the issue should not bar the search for its solution. Obviously, a high exercise of statesmanship is in order, both at the business and governmental levels.

Not one, therefore, but all the parties concerned must seek the climate of understanding within which meaningful investment relations can be established in Latin America. Consequently, no opportunity can be missed to promote the interchange of ideas between governments, between investors, and between governments and the private sector. Multilateral conferences have often provided the forms in which major problems have been ventilated and compromises reached. Why not a hemispheric multilateral conference on foreign investment? Here the United States government could play an active part by proposing the conference whose success — if attainable — would eliminate a serious obstacle to the betterment of inter-American relations.

The process of education must be continuous in order to avoid the provincial thinking which has existed for so long in the field of foreign investment. In this area, educational institutions have a major role to play, and governments and private industry should support those educational efforts which seek to identify issues and find solutions to the problems resulting from investment in the developing nations. Raul Prebisch had this to say on the subject:

Complete mutual understanding has not been reached as yet in Latin America. To achieve it, dialogue is a pressing and indispensable requirement. A dialogue must be maintained with men concerned in politics, economics and trade union organizations, with men who move in other spheres of thought and action, especially those who belong to the new generations. Dialogue of this kind can and must lead to the discovery of a common ground, to a pragmatic consensus of opinion conducive to the action that will accept no further delay.

Understanding begets wisdom and wisdom of the highest order is called for in the troubled days that lie ahead for the U.S. investor in Latin America. But in spite of the troubled waters in which he must navigate, the U.S. investor should be able to reach port safely, battered and weather-beaten perhaps, but so much stronger for having sailed in a wild and stormy sea.