The Economics of Neutral Countries during World War II
Argentine Perspectives

Carlos WINOGRAD

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Abstract

Argentina has had an extremely rich and turbulent monetary history. Its endless experiments in economic policy and its very erratic performance have frequently attracted the interest of historians. A study of the monetary and financial history of Argentina during the 20th century provides an excellent opportunity to contribute to the analysis of monetary and financial economics. This paper will discuss the development of Argentina’s economy and its capital and interactions with Germany’s global economic strategy and actions. Argentina was one of the ten most developed economies in the world at this time. It had a sophisticated financial market and, despite its long-standing strong economic and financial relationship with the United Kingdom, remained neutral until the very last months of the war.

We discuss the relations between Argentina and the United Kingdom, the United States and Germany. The analysis will strongly focus on the multifaceted relationship between Argentina and Germany: trade relations, the role of foreign direct investment, the financial institutions, the impact of immigration, and political interactions between the two countries.

The world crisis of 1930 led to a long lasting period of political and economic instability starting with the first military coup of modern Argentina. The increasing role and influence of the Armed Forces in the political life of the country will have an important impact on the international relations of Argentina. The traditional closeness of the political elite with Britain will be perturbed by the contagion of the ideological divisions of the military establishment.

The influence of the German military in the training of the new professional Argentine Army since the beginning of the century will extend in the thirties to the rise of a strong pro-Axis faction in the Armed Forces leading to the coup of 1943. This trend of events will have a
Introduction

Argentina has had an extremely rich and turbulent monetary history. Its endless experiments in economic policy and its very erratic performance have frequently attracted the interest of historians. A study of the monetary and financial history of Argentina during the 20th century provides an excellent opportunity to contribute to the analysis of monetary and financial economics. This paper will discuss the development of Argentina’s economy and its capital market in the first half of the 20th century with a particular focus on the World War II period and interactions with Germany’s global economic strategy and actions. Argentina was one of the ten most developed economies in the world at this time. It had a sophisticated financial market and, despite its long-standing strong economic and financial relationship with the United Kingdom, remained neutral until the very last months of the war. The fact that Argentina remained neutral during this period of international economic history is particularly interesting.

This paper contains five sections including a conclusion. The first section discusses the economic and financial development of Argentina from the beginning of the 20th century until the late 1940s. The second section briefly discusses the relations between Argentina, the United Kingdom and the United States. The focus of the third section is the multifaceted...
Long-term growth and the financial system

From the early 20th century to the crisis of 1930

At the beginning of the 20th century Argentina had a well-developed financial system, and enjoyed a growing and comparatively stable economy. However, the regime change of the 1930s and the outbreak of World War II opened a long period of "financial repression" and rising macroeconomic instability (chronic inflation, recurrent balance of payment crises, stop financial intermediation reached very low levels. The development of the Argentinean financial system was led to the second part of the 10th century, a period characterized by unprecedented effervescence. GDP growth rates were high (around 6% per year between 1880 and 1930, if we exclude the Baring crisis of 1890 and the First World War, figure 1) and investment opportunities were widespread. This extraordinary dynamism highlights the level of development reached by the country by 1930. Per capita GDP was higher than in the countries of Southern Europe and on a par with northern European standards. Whereas Argentina’s per capita GDP is currently a quarter of the US’s, back then it was two-thirds of the American figure. The country’s agro export model entailed a high degree of openness and there were intensive flows of capital, goods and labor. In 1914, 20% of the total population migrated abroad.
correlation. In the years of the First world War the balance of payments had a significant surplus due to the sharp reduction in imports of consumption and capital goods, whereas the early 20s will result in a phase of deficits, that will tend to decrease in the second half of this decade. The collapse of the world market of commodities and the sharp fall in prices will lead in the early thirties to a period of growing deficits. World War Two will be a period of significant surpluses and international reserves accumulation that will extend to 1946 where a new phase of deficits will follow (figure 2.4).

Consequently, financial development was important during this period, and foreign participation was even higher than domestic savings (not more than 10% of GDP before 1930). Foreign capital was invested in infrastructure, but state spending also relied on foreign loans. The rationale of the successive governments of the time was to use selective state intervention to contribute to the country’s development (education, infrastructure, health). Public indebtedness showed strong changes through time, varying between 40% and 145% of GDP.

Financial activity was essentially confined to the banking sector, and the state maintained a strong presence in this sector from the very beginning. At the end of the 19th century five main state-owned banks were in operation; of these the ‘Banco Nación’ would remain one of the most important in the country. However, the level of both private and foreign participation was remarkable. During the 1920s, foreign banks held 20% of total bank deposits, and the Banco Nación 45%, while the remaining 35% was divided among other public and private institutions. Argentina adopted the gold standard in 1866 and retained it with some lengthy interruptions until 1930; the convertibility of the currency was established in 1899, and the ‘Caja de Conversión’ issued money in exchange for gold flows. The gold standard ruled between 1875 and 1876, 1884 and 1890, 1899 and 1914 and finally between 1927 and 1930. It was definitively abandoned after that year. In the absence of a central bank, the Banco Nación acted as the lender of last resort.

This growth dynamics continued without major changes until the 1930s, apart from during the 1890 financial crisis that severely disturbed London stock markets. However, the way out of the economic crisis was found relatively quickly. Financial development during this period was remarkable. The M3/GDP ratio was 50% before the First World War and went beyond...

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9 The ratio of public debt to GDP rose from 60% to 145% between 1884 and 1900. Public debt interest payments went from 20% to 35% of the total state budget over the same period. The Baring crisis burst, in part, as a result of these figures.
10 This policy was part of the “Tornquist” reforms, which separated central bank responsibilities for banking control and money printing. Previously, all banks sold and bought gold for a fixed exchange rate during the gold standard years, or at market rates otherwise.
12 The economy resumed rapid growth in 1893–1894, while the 1930 crisis was followed by a lasting growth slowdown; Williams (1920), Peters (1934), Cortes Conde (1979), Della Paolera (1988), Veganzones and Winograd (1996). However, financial intermediation was not hit as hard as the M3/GDP ratio, which fell from 55% in 1889 to 35% in 1900.
60% during the 1920s (figure 3.1), whereas the United Kingdom and the United States showed levels of around 50% in 1913. As financial savings increased, the ratio M₁/GDP dropped slightly from 30% to 25% over the same period. Per capita non-monetary financial savings (M₃ − M₁) and per capita deposits rose fourfold and threefold respectively (figure 3.2). The impressive development of financial intermediation helps to explain the exceptional growth rates both of the banking sector and of the economy as a whole.

Indeed the financial sector played an important role in the mobilization of savings and in financing the development process. However, it also seems that it efficiently facilitated the allocation of savings to investment. Capital was very mobile, and the country showed a high level of integration with the international financial markets. National interest rates (and prices) were very close to world levels. Additionally, the increase in the number of banks (and the geographical expansion of the network) may have stimulated competition, thus contributing to a relative improvement in the efficiency of the financial system, as shown by the rise in the real value of deposits.

Figure 1.1: GDP per capita, a comparative view: United States, Canada, Argentina, Australia (1990 international dollars)

Source: Maddison (1995)

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13 Della Paolera and Taylor (1997) and Nakamura and Zarazaga (2001).

14 Williams (1920), Homer and Sylla (1991).
Table 1: Comparative Development

<table>
<thead>
<tr>
<th></th>
<th>1900</th>
<th>1913</th>
<th>1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>2.756</td>
<td>3.797</td>
<td>4.987</td>
</tr>
<tr>
<td>Latin America</td>
<td>1.311</td>
<td>1.733</td>
<td>3.478</td>
</tr>
<tr>
<td>Western Europe</td>
<td>2.899</td>
<td>3.482</td>
<td>5.513</td>
</tr>
<tr>
<td>Western Outposts</td>
<td>3.868</td>
<td>5.051</td>
<td>8.083</td>
</tr>
<tr>
<td>Southern Europe</td>
<td>1.676</td>
<td>1.788</td>
<td>2.259</td>
</tr>
<tr>
<td>United States</td>
<td>4.096</td>
<td>5.307</td>
<td>9.573</td>
</tr>
<tr>
<td>Great Britain</td>
<td>4.583</td>
<td>5.033</td>
<td>6.047</td>
</tr>
</tbody>
</table>

**Latin America:** Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela.
**Western Europe:** Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Italy, Netherlands, Norway, Sweden, Switzerland.
**Western Outposts:** Australia, Canada, New Zealand and United States.
**Southern Europe:** Greece, Ireland, Portugal, Spain and Turkey.

Figure 1.2: GDP per capita, a comparative view: Argentina, France, Germany
Figure 1.4: GDP per capita, a comparative view: Argentina, Japan, Taiwan, Korea (1990 international dollars)

Source: Maddison (1995)

Figure 2.1: Trade openness (% of GDP)
Figure 2.2: Trade openness 1929
Figure 2.4: The Balance of Payments and the Current Account

Figure 3.1: Evolution of Monetary Aggregates

Source: Elaborated using data from the Central Bank, Della Paolera and Vázquez-Pérez.
Figure 3.2: Financial Development

- \( (M3-M1)/\text{Pop} \)
- \( M1/\text{Pop} \)
In terms of stabilizing the economy, this new regime of ‘restrained’ public intervention was successful and it reduced the adjustment costs of the crisis.\textsuperscript{17} Argentina did not default on its public debt, while debt rescheduling was an extended policy response to the economic crisis in the international arena. The international capital markets became open to debt restructuring schemes, and it has been argued that countries that resorted to this strategy showed relatively better economic performances in the post crisis period.\textsuperscript{18} However, despite the rapid reaction of the national administration, the sudden halt in capital inflows and the fall in the local saving rate had a negative effect on financial savings in the long term. The $M_3/GDP$ ratio reached its low of 40\% at the beginning of the 1940s (figure 3.1). Financial savings as measured by the $(M_3 - M_1)/GDP$ ratio diminished by 50\%, as did per capita deposits. The drop in per branch deposits marked the beginning of a long process of decline in the banking system.\textsuperscript{19}

The Argentine economy started its rebound from the contraction of the great depression in 1934. Between this year and the beginning of World War Two the average GDP growth rate
\begin{itemize}
\item The average GDP growth rate in the period 1920-1945 is 2.8\% per year.
\end{itemize}
Post World War II and the ‘massive state intervention policy’

More radical changes were made after the Second World War. The new economic situation is fundamental to an understanding of the reforms and policy trends of the period, which paved the way for thirty years of severe financial repression. A regime of massive public intervention was put into practice. The agro export model was not favored by the ruling political leadership and the new government advocated rapid industrialization of the country through intensive import substitution policies based on prohibitive import tariffs, generalized quotas and heavy taxes on agricultural exports. The degree of integration into international goods markets would reach very low levels of around 10% of GDP (exports + imports, figure 2.1), and by contrast to the pre-war years when the country was one of the most open in the world with regard to trade, after the war its openness was low relative to other economies (figure 2.3).

At the end of the war, Argentina’s international financial position was strong, and in 1945–1946 foreign reserves reached high levels of three to four times the value of annual imports. This situation was not to last. The country faced a balance of payments crisis in 1951 and 1952, and a sharp increase in inflation starting in 1945. The rate of inflation of 1–8% in the years 1935–1944 would rise to 14–40% in the period 1945–1951.

In 1946 bank deposits were nationalized. Minimum reserve requirements were increased to 100% and all commercial institution’s deposits were managed on behalf of the central bank in exchange for a commission. Additionally, a policy of massive credit expansion and negative
income participation of social groups with lower savings rates. The ratio \((M_3 - M_1)/GDP\) went down from 40% before the crisis of 1930 to under 10% in 1950s (Figure 3.2). This monetary substitution, biased against non-monetary financial assets, stopped as soon as high and chronic inflation began to have a significant negative impact on holdings of monetary financial assets. Finally, the per capita ratio \((M_3 - M_1)\) reached its lowest point at the end of 1950s, when it fell to a half of the 1900 level and an eighth of the 1920 level. Per branch deposits and per capita deposits were down to a quarter of 1920 values (Figure 3.3). Over-expansive monetary policy led to severe distortions in the exchange markets, with differentials in the black market reaching 400% in the late 1940s (official exchange rate (free – black) / exchange rate ratio; Figure 4).

![Figure 4: Exchange rate (free - black) / Exchange rate for exports](image)

To conclude, even if exogenous forces (i.e. the crisis of 1930 and the Second World War, which generated a reversal of capital flows and a slowdown in economic activity) had triggered a reduction in financial savings, by the fact that it did not attain its past levels after the Second World War was an endogenous matter. Financial repression, political uncertainty and macroeconomic instability with persistent high inflation (which was to become a chronic feature, leading in the 1980s to hyperinflation) discouraged financial savings and had a
Financial Markets of Neutral Countries During World War II

Case Study Argentina (Carlos Winograd)

considerably reduced and credit policy was decentralized.\textsuperscript{24} The central bank’s main goals did not differ much from those of previous years, but the new administration stressed savings allocation and investment growth. This was linked to the desire to re-integrate into the international capital markets. In 1958 Argentina became a member of IMF, having frequently rejected this option previously. The implicit ideas of the reforms were centered on the reduction of ‘financial repression’.\textsuperscript{25}

Argentina, the United Kingdom and the United States: Trade, Investment and Finance

Trade

Trade relations between Argentina and the United Kingdom started in colonial times. Liberalization of agricultural trade in England, particularly the elimination of the Corn Laws in the mid-19th century, strongly contributed to the specialization of the United Kingdom, but also to the international integration of Argentina as a competitive producer and exporter of agricultural goods. Complementary in the trade relations between the two countries thus emerged. Argentina exported to the United Kingdom wheat, corn, linen, wool, leather and frozen meat, while importing railway materials, iron, steel and other manufactured goods.

the financial sector, where Argentina needed foreign savings while the United Kingdom was a net exporter of capital: London operated as the main financial center during the first wave of globalization under the gold standard rules of the second half of the 19th century.

The beef trade played an important role in the history of trade relations between the two countries, and the United States competed with Argentina in the British market, as well as with UK firms in the Argentinean meat-processing sector for exports. Until the end of the 19th century, the United States was the main supplier of beef to the United Kingdom, but in the early 20th century Argentina became the primary exporter. Numerous meatpacking firms started operating in Argentina and the trend of business development was reinforced during World War I, when profits in the beef exporting sector rose significantly.\textsuperscript{26}

In the 1920s a new international trade relationship took shape between Argentina, the United Kingdom and the United States. Argentina continued to buy coal and railroad equipment from the United Kingdom, but the British lagged behind the United States in the most dynamic sectors, such as cars, trucks and new capital goods. A triangle of trade thus emerged, with Argentina increasing imports of manufactured goods from the United States, but unable to

\textsuperscript{24} The unions’ representation on the Central Bank board was also eliminated.

\textsuperscript{25} The degree of distortion in exchange rate markets diminished markedly. See figure 4.

\textsuperscript{26} Between 1914 and 1921 the stock of cattle in Argentina increased by almost 50%. In the latter year the UK government eliminated quotas and controls in the meat market and started liquidating its stocks. Argentina’s
diversify its exports, which were concentrated in the British market. The protectionist policies of the United States in the agricultural sector prevented the development of exports from Argentina, where this country could have a competitive advantage.\textsuperscript{27} On the whole the 1920s was a period of export growth and gradual diversification for the Argentinean economy, with the manufacturing sector developing rapidly from its previous low base.

The Great Depression of 1929 started a long period of disintermediation in the international capital markets, where protectionism and bilateral (preferential) agreements became the new rules of the game for international trade. The policy response to the crisis of the 1930s by the United States and Britain was strongly tainted by protectionism and preferential trade agreements. This reaction of both governments was more the result of urgency than of well-reasoned choice and debate. By contrast with previous rules of free trade and multilateral relations in times of peace, bilateralism and trade restrictions would thus govern trade between Argentina and its major partners. In 1932 the United Kingdom moved from a multilateral free trade regime to \textit{Imperial Preference} where Britain negotiated preferential market access in the economies of the empire in exchange for a policy of \textit{most favored country} for exports coming from the empire.\textsuperscript{28}

Trade, financial and investment relations between the United Kingdom and Argentina were very important, and a drastic disengagement of Britain from the Argentinean markets entailed sizeable costs. The loss of the British market was a massive adverse shock for the Argentinean economy and its government reacted to the UK policy of Imperial Preference with a swift economic and political offensive. In 1933 the Roca-Runciman agreement between Argentina and Britain was signed; this softened the trade restrictions brought by Imperial Preference. It was agreed that imports of Argentinean beef would not be reduced from the levels reached in 1932, and meatpacking firms under Argentinean property control would supply 15% of total beef exports from Argentina.\textsuperscript{29} In exchange Argentina agreed to reduce import tariffs to 1930 levels on more than 300 goods exported by the United Kingdom, as well as committing to maintain untrammelled access for goods that remained free of import taxes, such as coal. Argentina also agreed to follow \textit{fair rules} for British firms established in the country.\textsuperscript{30} The Roca-Runciman bilateral agreement between Argentina and the United Kingdom was set to last for three years. In 1936 it was extended by the Eden-Malbran agreement, the British administration obtaining the option to apply custom duties to beef exports from Argentina, in exchange for the British railroads concession of reduced freight rates for agricultural export goods.\textsuperscript{31} The Roca-Runciman treaty and its extensions were the subject of intense political debate at the time and have been a source of controversy for historians in the following decades. It has been argued that Argentina made excessive

\textsuperscript{27} Fodor and O'Connell (1973).

\textsuperscript{28} Britain accepted demands by Australia and South Africa to impose severe quotas and restrictions on imports of beef from Argentina. The agreement set a plan for monthly reductions of 5% per month in the first 12 months (Phelps, 1938).

\textsuperscript{29} These measures came in response to a high voltage economic issue that turned into a national political debate when a buying cartel of foreign meat-packers tried to reduce the market prices received by local ranchers.

\textsuperscript{30} The Argentine government also undertook to allow favorable conditions for the remittances of the British
concessions to the British (Rock, 1985), whereas it is also argued that the position of the country was weak in the face of *Imperial Preference* and competitors such as Australia and Canada (Díaz Alejandro, 1970), and thus that the outcome of the negotiations was rather favorable given the lack of alternative trade options.32

In the 1930s, which were years of severe disruption for international markets plagued by protectionist policies worldwide, Argentina also went further down the route of bilateralism with 60% of its trade falling under this new regime. But, despite repeated initiatives by the authorities to develop a bilateral trade agreement with the United States, the latter refused to open its market to Argentina’s agricultural exports; high import duties and unfavorable exchange conditions were thus placed on US exports. In response to the Great Depression and the sharp decrease in agricultural prices, the United States enacted the protectionist Hawley-Smoot Act in 1930 reinforcing trade barriers against Argentinean exports. In subsequent years, the US administration regularly resorted to health and safety reasons to reinforce import barriers against Argentinean goods.33

**Figure 5.1: Trade with the United Kingdom**

![Graph showing trade with the United Kingdom](image)

Source: Llorens de Azar (1980)

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32 See also Fodor and O’Connell (1985) and Alhadeff (1985, 1986).

33 The severe output contraction in the US along with its protectionist policies led to a reduction of more than 50% in the exports of Argentina (figure 5.2).
During World War II the United Kingdom could not export to Argentina, and the United States was considered an alternative option for trade, in particular for the supply of the manufactured goods that the country required. In 1941 a trade agreement between Argentina and the United States was finally signed, the first such treaty in hundred years. But the results of this agreement did not bring a real breakthrough in trade relations between the two countries. Agricultural exports from Argentina continued to be excluded from the American market.

The collapse of the export flows from the UK to Argentina while imports increase, will result in the accumulation of credits in favour of the latter. The result of this trade imbalance shows in the “blocked sterling assets” that will reach over 80 million pounds by the end of 1944.\(^{34}\) Britain refused the exchange of the sterling balances into dollars or the reduction of existing foreign debt, neither a swap for British infrastructure assets such as the railroads. After the war the UK authorities were willing to foster their exports and wanted to constrain the use of the _sterling balances_ for Argentine imports from Britain. In 1946 General Peron wins the Presidential elections on a nationalistic rhetoric that will be fostered by the direct intervention in the electoral campaign by the anti-Peron stand of the US Ambassador in Buenos Aires Spruille Braden. In the first years of the new Administration, the government will nationalise infrastructure firms\(^{35}\) such as railroads, drawing partly on the sterling balances\(^{36}\).

\(^{34}\) Fodor (1986).

\(^{35}\) We should recall that direct intervention of the state in the infrastructure and natural monopolies sectors was in the _air du temps_ of the postwar welfare state model of the time, in particular in the European political environment and extending to the prevalent views for economic development.

\(^{36}\) Fodor and O’Connell (1973) and Díaz Alejandro (1970).
3.2. Investment: British and American firms.

British firms played an important role in Argentina since the mid 19th century. Investment in infrastructure, such as railroads, were a component of the model of rapid development of Argentina and its close integration to world markets reaching its height in the *Belle Époque* preceding the Great War of 1914. By then Argentina was the major recipient of foreign investment of Latin America – one third of total foreign investment in the region- and a competing destination of British FDI with Australia and Canada (table 5), accounting for 10% of UK investment abroad.37 Total foreign investment in the country was estimated at 3150 millions of current dollars for 191338 from public bonds, railroads, ports, meatpacking firms and banks. Britain represented 80% of total foreign investment in 1900, its share dropping to 65% in the wake of the First World War in favour of the rapid increase of French and German investments, as well as US in the 1920s. In the first decade of the 20th century, American investments in Argentina represented 1% of the total stock of foreign capital (table 3), whereas 80% of the exports of the country were directed to the UK. World War I led to a halt in the flows of foreign direct investments (FDI), but a new phase in the development of foreign presence in the country will take place in the 1920s, with a rising conflict of influence between British and American capitals.

37 For a comparative analysis of the development of Argentina, Australia and Canada see Duncan and Fogarty (1984), and Platt and Di Tella (1985).
38 CEPAL (1958).
In the early 1920s the massive expansion of the heavy infrastructure firms is coming to an end as the agricultural frontier is reaching its limits for rapid growth, with such investments as railroads having developed a mature network. The 1920s will not show a significant growth of foreign investment, most of the moderate increase coming from the US firms, with levels of investment (stock) jumping from 40 million dollars in 1913 to 600 million dollars in 1930 (table 3). In the 1930s and throughout World War II until 1945 Argentina showed the same pattern concerning FDI of other major recipient countries. The Great Depression and later the Second World War led to an important decrease of foreign investment and a relative increase in the share of US capital (table 3). High import tariffs in Argentina, as well as exchange controls had a negative impact on American exports and pushed a number of US firms to substitute for local production.

In the immediate post war period of 1946 to 1948 under the Presidency of General Peron a sharp reduction, of more than 50%, in the stock of foreign capital will take place with a fall from 2650 million dollars to 1250 million dollars (table 2). This important change in the levels of foreign investment were the result of the state buy out of utilities (nationalization) with the high level of gold reserves accumulated during the war years, the favourable balance of payments position in the early post war years, as well as the use of the sterling balances.
**Investment and capital**

**Table 2: Foreign private investments in Argentina (millions of dollars)**

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<tr>
<th>Year</th>
<th>Great Britain</th>
<th>United States</th>
<th>Others</th>
<th>Total</th>
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<td>***</td>
<td>***</td>
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<td>1423</td>
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<td>856</td>
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<td>565</td>
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<td>1949</td>
<td>243</td>
<td>323</td>
<td>689</td>
<td>1255</td>
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Source: CEPAL, 1958

**Table 3: Structure of foreign investments**

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<th>% of total</th>
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<th>1953</th>
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<td>Public bonds</td>
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<tr>
<td>Railroads</td>
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</tr>
<tr>
<td>Public services</td>
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<td>Farm firms</td>
<td>6.7</td>
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<td>Oil activities</td>
<td>1.3</td>
<td>31.7</td>
</tr>
<tr>
<td>Commerce</td>
<td>8.9</td>
<td>14.6</td>
</tr>
<tr>
<td>Banks</td>
<td>1.7</td>
<td>6.4</td>
</tr>
<tr>
<td>Financial firms</td>
<td></td>
<td>8.8</td>
</tr>
<tr>
<td>Real estate companies</td>
<td>6.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Others</td>
<td>0.9</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: CEPAL (1958)
Table 4: Firms nationalized in 1946–1948, excluding railroads (millions of dollars)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephones</td>
<td>110.6</td>
</tr>
<tr>
<td>Transports</td>
<td>50</td>
</tr>
<tr>
<td>Gas</td>
<td>37.5</td>
</tr>
<tr>
<td>Ports</td>
<td>19.1</td>
</tr>
<tr>
<td>Municipal services</td>
<td>8.8</td>
</tr>
<tr>
<td>Electricity</td>
<td>14.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>240.6</strong></td>
</tr>
</tbody>
</table>

Source: CEPAL, 1958

Table 5: British overseas investment, 1907–1913

<table>
<thead>
<tr>
<th>Area</th>
<th>Amount (£ million)</th>
<th>Share of total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New World Empire</td>
<td>319</td>
<td>28%</td>
</tr>
<tr>
<td>Canada and Newfoundland</td>
<td>254</td>
<td>23%</td>
</tr>
<tr>
<td>Australasia</td>
<td>65</td>
<td>6%</td>
</tr>
<tr>
<td>United States</td>
<td>164</td>
<td>15%</td>
</tr>
<tr>
<td>Latin America</td>
<td>268</td>
<td>24%</td>
</tr>
<tr>
<td>Argentina</td>
<td><strong>118</strong></td>
<td>10%</td>
</tr>
<tr>
<td>Brazil</td>
<td>88</td>
<td>8%</td>
</tr>
<tr>
<td>Mexico</td>
<td>34</td>
<td>3%</td>
</tr>
<tr>
<td>Chile</td>
<td>28</td>
<td>2%</td>
</tr>
<tr>
<td>Other Empire</td>
<td>163</td>
<td>14%</td>
</tr>
<tr>
<td>China and Japan</td>
<td>50</td>
<td>4%</td>
</tr>
<tr>
<td>Europe</td>
<td>49</td>
<td>4%</td>
</tr>
<tr>
<td>Russia</td>
<td>46</td>
<td>4%</td>
</tr>
<tr>
<td>Miscellaneous foreign</td>
<td>68</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1127</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Taylor and Williamson (1994)

Argentina and Germany: Trade, investment, finance and politics

This section summarizes the fundamental features of economic relations between Argentina and Germany. We will look at the development of bilateral trade, the role of German investment and German firms in Argentina, as well as the presence of German institutions in the financial system. Finally we will briefly discuss German immigration and the political relations between the two countries.
Trade

Trade between Argentina and Germany was very important at the beginning of the 20th century: German goods accounted for 17% of total Argentinean imports. Nevertheless, the First World War disrupted bilateral trade, which fell to insignificant levels during the conflict. The German defeat and the Treaty of Versailles (with the reparations and territorial controls imposed by the Allies) worsened the situation. Between 1915 and 1919 trade between Argentina and Germany hardly existed; but during the 1920s it recovered to pre-war levels, turning Germany into the third biggest supplier of imports and the second most significant destination for exports.

The world economic and financial crisis that started in October 1929 in the United States deeply affected both Argentina and Germany. Bilateral trade displayed a sharp decline but Argentinean exports were hit particularly hard. From a peak in 1927, exports dropped 82% by 1932. The sharp fall in the price of primary goods in world markets and the substantial contraction of output in Germany, which led to a reduction in wages and rising unemployment, contributed to a significant reduction in demand for Argentinean exports. Imports from Germany, mainly consumer and capital goods, fell rapidly due to the recession in Argentina, coupled with the deterioration in the terms of trade for the country and the disruption of international capital markets. This decline in trade hit two sectors in particular: frozen meat and crops. In 1927 Germany bought more than a quarter of total meat exports, but this fell to only 2% in 1932. Good harvests in Germany and an exportable surplus contributed to a sharp contraction of sales from Argentina.

In 1934, conditions began to change in both countries with the economic recovery in Germany contributing to a rise in Argentinean exports. With international capital markets severely disrupted and with many countries imposing protectionist policies in response to the constraints on the availability of foreign currency, the German government launched the “New Plan” aimed at reinforcing financial and economic autonomy. Germany and Argentina signed a trade and payments agreement on 28 September 1934. Germany’s main goal was to diversify its sources of raw materials and the agreement mentioned the objective of stockpiling goods from 1937 onwards, in the light of the increasing likelihood of war. This trade agreement between Argentina and Germany did not, however, produce a rapid recovery in bilateral trade. Between 1934 and 1936 both exports and imports diminished slightly. They began to increase in 1937 but never reached the levels observed in previous decades (figure 6.1). It has been argued that German industrial goods were not competitive when compared to


44 The Argentine consul in Hamburg, Bartolome Daneri, sent an exhaustive report in April on the new trends of German foreign trade and their importance for Argentina, where he detailed the results of many meetings with businessmen and statesmen. The new commercial guidelines were strongly tainted by the bilateralism in vogue and the “buy to our buyers” principle. Daneri argued that “given that Germany has serious problems with Anglo Saxon countries, they soon realized that they have to point towards Iberoamerica, and, in particular, to our country. Our continent begins again to enjoy a privileged position in propaganda and in German commercial expansive trends”. Karl Ritter, in charge of the Trade Policy of the German Foreign Relations Ministry, said “Out of Africa and the Commonwealth, let’s go to South America, the Balkans and the Middle East” (Rapoport and Musacchio, 1999).
American, British or Belgian goods, thus reducing the incentives for counter trade operations. Secondly, the sluggish timing of delivery by German companies exacerbated this lack of competitiveness. Thirdly, the intensification of the arms race and excess demand in the domestic market also hindered any increase in German exports, leading to a crowding out of potential exports.\(^\text{45}\) Finally, under the above circumstances, trade competition from Brazil may also have played an important role in the weak results of the Argentinean-German trade agreement. Brazil, with a significant German-origin population, seemed to be more receptive to German goods thus obtaining better deals for its own exports. Brazil supplied Germany with substitutes for Argentinean produce, such as cotton, wool, leather, wood, and, if sporadically, meat. No matter this rivalry, Argentinean exports of crops and linen were not affected.

By the end of 1936 Argentinean negotiators were disappointed. Nevertheless, in December the agreement was extended for another year, though bilateral trade did not show a significant increase. However, we should mention that a set of contracts between the Argentinean government and German construction firms stimulated German exports of iron and steel at the expense of imports from the United States. In 1938 Germany was the main supplier of these goods, whereas 31.5\% of Argentina’s imports of machinery came from the United States, 28.6\% from Germany and 16.3\% from the United Kingdom. Despite the Argentinean and German governments’ negative perception of the results of the 1934 agreement, it was extended once again in 1937 for two additional years.

In the absence of a flourishing trade between the two countries during the first half of 1930s, and the perception of failure of the 1934 agreement, we should recall the particular developments in the export market for meat. This was of particular importance in view of the difficulties arising with Britain, in the major market for exports, due to Imperial Preference. Frozen meat exports, a main component of trade in the 1920s, had stopped after the crisis of 1929. The world market for meat exports was suffering a significant contraction and Argentina tried, unsuccessfully, to launch an export drive into the German market. In 1936 the German authorities started to react to Argentina’s attempts to open the German meat market, leveraging better trade and business deals with the aim of improving their position in Argentina relative to that of the United Kingdom and the United States. Additionally, adverse climatic conditions in Germany led to a significant reduction in livestock, forcing the country to resort to imports.

In 1937 exports of frozen meat show a sharp increase, turning Germany into the main buyer, with a share of 50\% of the market.\(^\text{46}\) In fact, Berlin’s strategy of responding to the Argentinean export drive, allowed Germany to gain access to sectors previously dominated by

\(^{45}\) Rapoport and Mussachio (1999).

\(^{46}\) Germany also bought frozen meat from Brazil and Uruguay.
the British, such as railway equipment and locomotives. Additionally, German participation in Argentina’s public sector purchases increased threefold.

If the trade agreement of 1934 did not fulfill the expectations of the governments of Argentina and Germany, it still helped to reverse the deterioration in economic relationships between the two countries after the crisis of the 1930s. But from the facts observed, we cannot conclude that Argentina played a central role in Germany’s global strategy. Even if Latin America was relevant to the Reich’s strategy, it appears to have been a secondary strategic objective. It may be argued that the importance of Latin America in the German strategy should be considered in view of a long term objective, once the Reich had consolidated its control of Europe as a mean to push in regions of strong US influence. In the shorter run increasing the German influence in the region contributed to the economic warfare in view of countering the strategic use of production capacity of neutral countries in Latin America.

The role of the German fleet in Argentinean trade supports this view of the relationship between the two countries. Great Britain ranked first in overseas traffic, but German ships followed in terms of transported volumes. Between 1928 and 1939 there were no important changes in the relative weights of the two fleets, but the United Kingdom lost part of its tonnage while Germany exceeded its 1928 levels, reflecting the growing importance of Germany’s presence (table 6).

In the first half of 1939, Germany was Argentina’s third largest trade partner, but this situation was strongly affected by the outbreak of World War II in September, and bilateral exchange fell sharply until it was insignificant (figure 6.1 and table 7). On the other hand, part of the rapid growth in trade in previous years was due to the fact that Germany had been accumulating stocks of imports in preparation for the possibility of war. German firms in Argentina had been increasing imports of German supplies in anticipation of disruptions to the supply of such goods once the conflict had started. Hitler’s arms race constrained the surplus available for export markets, and the German government lacked the foreign currency liquidity required to finance a deficit in its external accounts. Bilateral trade between Argentina and Germany reached its limit: the former could not increase its exports and the strong trend towards import substitution in Argentina shifted demand towards goods where

47 By the beginning of 1938 Argentina and Germany entered in negotiations to increase countertrade beyond the terms of the treaty of 1934. The aim was to trade German railroad equipment in exchange for food and raw materials from Argentina. The beginning of World War II in September 1939 led to a sharp contraction in bilateral trade, jeopardizing the fulfillment of the latter countertrade agreement, which was finally cancelled by the end of 1939.

48 The Bureau of Navigation and Ports bought motorboats from a German shipyard between 1937 and 1938. Purchases of aeronautic material were also registered.

49 The beginning of the war found Europe divided into areas of German and the Soviet influence. But Hitler’s decision to expand into the Eastern territories of Europe was already a fundamental part of the Reich’s vision. Moving towards the Caucasus, via the Balkans’ minerals and Ukraine’s crops, to obtain food and raw materials by force from its neighbors could partly explain the progressive reduction of overseas suppliers. The Allies’ blockade would have reinforced this trend.
the United States had a competitive advantage.  

Last, but not least, trade felt the strong negative effect of the successful British maritime blockade, and the Allies’ blacklists sought to boycott German firms in Argentina as well as in other Latin American countries.  

But can we find any robust evidence of triangular trade among Argentina, Germany and other countries? While trade between Germany and Argentina reached extremely low levels, other neutral countries, such as Switzerland, Sweden and Spain, maintained or increased their role as a destination for Argentina’s exports. At the same time, these countries had intense trade relations with Germany. The suspicion arises that, despite the strong contraction, Argentina’s trade went on by means of arrangements with other neutral nations. Sweden appears as the most likely candidate to play the role of intermediary in German-Argentinean trade. On the one hand, exchange between Germany and Sweden had risen significantly as they became close commercial partners. In fact, the Scandinavian Peninsula offered an excellent means of avoiding the Allies’ blockade. Furthermore, the increase of Argentinean exports to Sweden was concentrated on goods that Germany had imported from Argentina in the interwar period. From a detailed analysis of Swedish exports and imports, it seems rather unlikely that triangular transactions actually did take place. The main products exported from Argentina to Sweden do not match Swedish sales to Germany; in fact it is not surprising to find sectors in which Sweden was a net importer both from Argentina and Germany. Similar results are found in the case of Switzerland. No matter how strong the financial relations during the war, it cannot be argued that the latter country played an important role as an intermediary in trade.
argues that Argentina secretly sent small quantities of certain materials that Germany needed for the war, but it states that they were not decisive for Germany. It is worth stressing other difficulties in determining the exact volume of trade between the two countries. Firstly, a portion of Argentinean exports which had Germany as their final destination arrived in Amsterdam and were registered as Dutch imports. This consideration does not change our general observations on the sharp reduction in bilateral trade. In particular, Argentina’s exports to Holland followed the same trend as sales to Germany: from
Figure 6.1: Exports, imports and trade balance with Germany

Source: Based on Llorens de Azar (1980)

Figure 6.2: Exports to Germany (tons)
Table 6: Foreign ships in Argentina

<table>
<thead>
<tr>
<th>Origin</th>
<th>1928 No. of ships</th>
<th>1928 Tons</th>
<th>1932 No. of ships</th>
<th>1932 Tons</th>
<th>1938 No. of ships</th>
<th>1938 Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>241</td>
<td>10939800</td>
<td>115</td>
<td>640453</td>
<td>255</td>
<td>1120444</td>
</tr>
<tr>
<td>England</td>
<td>1410</td>
<td>5110235</td>
<td>1175</td>
<td>4430012</td>
<td>674</td>
<td>3067262</td>
</tr>
<tr>
<td>USA</td>
<td>152</td>
<td>662536</td>
<td>134</td>
<td>561509</td>
<td>125</td>
<td>573799</td>
</tr>
<tr>
<td>Italy</td>
<td>199</td>
<td>967515</td>
<td>178</td>
<td>842654</td>
<td>90</td>
<td>685007</td>
</tr>
<tr>
<td>Greece</td>
<td>282</td>
<td>748449</td>
<td>278</td>
<td>788193</td>
<td>172</td>
<td>480417</td>
</tr>
<tr>
<td>Holland</td>
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<td>528972</td>
<td>130</td>
<td>423400</td>
<td>140</td>
<td>459875</td>
</tr>
<tr>
<td>France</td>
<td>135</td>
<td>605379</td>
<td>99</td>
<td>530814</td>
<td>96</td>
<td>428186</td>
</tr>
</tbody>
</table>

Source: Sommi (1945)

Table 7: Exports (in millions of current dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Germany</th>
<th>Spain</th>
<th>Sweden</th>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td>1933</td>
<td>36190</td>
<td>3760</td>
<td>7520</td>
<td>470</td>
</tr>
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<td>1934</td>
<td>39425</td>
<td>3800</td>
<td>4275</td>
<td>475</td>
</tr>
<tr>
<td>1935</td>
<td>34569</td>
<td>5010</td>
<td>4509</td>
<td>501</td>
</tr>
<tr>
<td>1936</td>
<td>31146</td>
<td>3759</td>
<td>5907</td>
<td>537</td>
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<td>1937</td>
<td>51544</td>
<td>1516</td>
<td>9854</td>
<td>758</td>
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<tr>
<td>1938</td>
<td>51246</td>
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<td>7446</td>
<td>876</td>
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<td>1939</td>
<td>26562</td>
<td>8854</td>
<td>9786</td>
<td>5592</td>
</tr>
<tr>
<td>1940</td>
<td>0</td>
<td>15815</td>
<td>5787</td>
<td>5472</td>
</tr>
<tr>
<td>1941</td>
<td>900</td>
<td>18819</td>
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<td>5120</td>
</tr>
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<td>1942</td>
<td>0</td>
<td>14603</td>
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</tr>
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<td>1943</td>
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<td>18091</td>
<td>17569</td>
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<td>1944</td>
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<td>40021</td>
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<td>37221</td>
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<td>1947</td>
<td>8725</td>
<td>92525</td>
<td>46380</td>
<td>57272</td>
</tr>
<tr>
<td>1948</td>
<td>39236</td>
<td>112270</td>
<td>12461</td>
<td>61087</td>
</tr>
<tr>
<td>1949</td>
<td>42775</td>
<td>50079</td>
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<td>14093</td>
</tr>
<tr>
<td>1950</td>
<td>57395</td>
<td>10766</td>
<td>42391</td>
<td>25512</td>
</tr>
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</table>

Source: Llorens de Azar (1980)
Table 8: Exports per country (percentage of total exports)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>31.3</td>
<td>25.3</td>
<td>28.1</td>
<td>37.3</td>
<td>33</td>
<td>36.2</td>
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</tr>
<tr>
<td>USA</td>
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<td>10.6</td>
<td>13</td>
<td>6.7</td>
<td>11.7</td>
<td>25.7</td>
<td>12.4</td>
</tr>
<tr>
<td>France</td>
<td>11.6</td>
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<td>8.1</td>
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<td>4.7</td>
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<td>9.8</td>
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</tr>
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<td>Holand</td>
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<td>4.1</td>
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<td>3.3</td>
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<td>2.6</td>
<td>2.5</td>
</tr>
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<td>0.8</td>
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<td>0.5</td>
<td>1.6</td>
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<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.7</td>
<td>1.4</td>
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</tr>
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<td>Japan</td>
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<td>0.3</td>
<td>1.1</td>
<td>0.7</td>
<td>0.2</td>
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<td>na</td>
<td>na</td>
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<td>0.2</td>
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<td>0.9</td>
</tr>
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<td>3.8</td>
<td>7.3</td>
<td>9.4</td>
<td>28.3</td>
</tr>
</tbody>
</table>

Source: Llorens de Azar (1980)
Table 9: Imports per country (percentage of total imports)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
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<td>25.2</td>
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Source: Llorens de Azar (1980)

**German capital and German firms**

The development of German investment in Argentina was influenced by the particular stages...
development process constrained foreign investment by German firms in the last quarter of the 19th century, thus preventing the participation of German capital in the early stages of the Argentinean economic take-off.

When German companies began their international expansion phase, the investment opportunities offered by Argentina had already shrunk considerably. The sectors that led the structural transformations, such as railways and ports, either had already been taken up by British capital or were subject to the growing rivalry between UK and US capital (e.g. cold storage plants). However, these were not the sectors in which Germany could show its technological and economic comparative advantage. Other activities of considerable potential played a dynamic role in the German investment-drive into Argentina: electricity, construction, telephones, textiles, chemicals, pharmaceuticals, metals and machinery. By the end of the 19th century, large German firms had launched their investments in Argentina. In 1887 the Compañía Telegráfica y Telefónica del Plata started operations. The Argentinean brewery Quilmes opened two years later while the Compañía Alemana Transatlántica de Electricidad was founded in 1898, originally as a branch of AEG. German firms sought first many of these firms engaged in productive activities, importing intermediate goods and raw materials.

Investment flows were interrupted by the First World War, when many firms sold their branches and left the Argentinean market. A few years after the war, a new phase of expansion started, with examples such as Siemens Schuckert (1921), Hugo Stinnes (1924)
domestic market were faring better and showing greater dynamism. These included automobiles, construction and chemistry. We observe that German investments were present in both sectors of the economy, the ones focused on world markets and the others directed to the domestic market. German firms were thus confronting different macroeconomic environments depending on the particular market where they were operating. Certain firms were active in markets showing higher growth rates: construction and metallurgy, driven by the government program of public infrastructure (renewal of roads and housing). Other German companies were operating in markets highly dependent on foreign trade (exports of primary goods and imports of consumer goods), and thus were negatively affected by the international conditions prevailing in the 1930s.\footnote{Germany’s vision and foreign policy at that time played a key role. As already mentioned, Germany aimed to forge a traditional relationship ‘primarily good for manufactured goods’ and consequently Great Britain was the natural rival, not the US, which was self-sufficient in the agricultural sectors where Argentina was a world player. Nonetheless, Britain was not going to give ground when it enjoyed a much stronger position with the local ruling class, making German capital expansion very difficult.}

A rigorous evaluation of German investments in Argentina must be subjected to additional considerations. What do we count as foreign capital? Statistical registration according to the "citizenship" of capital is not straightforward, so explicit criteria have to be outlined. In a country with massive immigration flows, such as Argentina during the first part of the 20th century, foreign individuals partially or completely own small, local firms without maintaining direct connections with their countries of origin. In these cases, capital should not be considered as foreign even if it may have an impact on international economic relations. On the other hand, foreign subsidiaries may develop locally partnerships with capital from different sources, making it very difficult to unequivocally identify a country of origin.\footnote{A leading case is the Compañía Argentina de Electricidad (CADE), owned by SOFINA Consortium and funded by capital from different sources.}

Finally, foreign investments often develop ventures and partnerships using domestic capital in order to benefit from commercial networking, market knowledge, political influence, etc.

Another purely statistical difficulty arises when accounting for data on capital stock and investments. The older the investments, the more incomplete and uncertain the records appear. Existing estimates are rare and vary greatly in the recorded amount, but are useful for establishing potential ranges for the stock of German capital in Argentina. Sommi (1945) estimates that by 1938 German firms owned 1,800 million paper pesos (around 540 million current dollars). At the other end of the estimates, the Comisión Investigadora de Actividades Antiargentinas del Congreso de la Nación Argentina (CIAA) — Investigating Commission of Anti-Argentine Activities of the National Congress created in 1941\footnote{Investigating Commission for Anti-Argentine Activities of the National Congress of Argentina created in June 1941 and headed by the MP Raul Damonte Taborda. This parliamentary Comission was favored by the opposition to the government of Castillo, accused by the press and its opponents of facilitating the activities of the Axis and and the influence of the latter on the Armed Forces and other public institutions. See Potash (1969) and Newton (1995).} arrives at only 35.5 million (8.9 million dollars), which is close to figures from the US Office of Strategic Services (predecessor of the CIA). The report prepared by the German company IG Farben

\footnote{Germany’s vision and foreign policy at that time played a key role. As already mentioned, Germany aimed to forge a traditional relationship ‘primarily good for manufactured goods’ and consequently Great Britain was the natural rival, not the US, which was self-sufficient in the agricultural sectors where Argentina was a world player. Nonetheless, Britain was not going to give ground when it enjoyed a much stronger position with the local ruling class, making German capital expansion very difficult.}

\footnote{A leading case is the Compañía Argentina de Electricidad (CADE), owned by SOFINA Consortium and funded by capital from different sources.}

\footnote{Investigating Commission for Anti-Argentine Activities of the National Congress of Argentina created in June 1941 and headed by the MP Raul Damonte Taborda. This parliamentary Comission was favored by the opposition to the government of Castillo, accused by the press and its opponents of facilitating the activities of the Axis and and the influence of the latter on the Armed Forces and other public institutions. See Potash (1969) and Newton (1995).}
estimates 325 million dollars by 1934. Phelps (1938)\textsuperscript{60} claims that by 1934 German investments came to 315 million gold pesos, or 650 million paper pesos (180 million dollars).\textsuperscript{61} It is likely that the true figure lies somewhere between all these estimates.

The discrepancies among different authors extend to the relative importance of German firms in Argentina compared to other countries. While for Sommi they ranked third, after Great Britain and the United States, the report of the Comisión Investigadora de Actividades Antiargentinas puts German investments in seventh place. For both Phelps and IG Farben, they came after Great Britain, United States and France, whilst for Rapoport and Musacchio (1999) Germany was also third, but far below the British, closer to the American and competing with the French.

German firms in Argentina were market leaders in sectors of the economy with a high level of concentration: metallurgy, chemicals, and others (economies of scale) as well as telecommunications and electricity (natural monopolies). These companies were usually world leaders in their particular activities, enjoying dominant positions and entry barriers only contestable by firms of comparable size. If German capital was not particularly high, compared to British, it exerted a significant influence in certain sectors of the economy.\textsuperscript{62}

The outbreak of war had an adverse effect on German firms. They faced multiple problems. One of the most obvious, affecting mainly those operating in foreign trade, was the difficulty of developing their standard activities. On the one hand, firms trading directly with Germany were hit by the interruption of bilateral exchanges. On the other hand, those operating in other markets were threatened by the Allies’ boycotts blacklists. The disruption of commercial and financial relations also jeopardized business practices between the headquarters and the Latin American branches.\textsuperscript{63} The war also disrupted the investment programs of many companies, generally leading to delays in their execution. But an unexpected side effect was the

\textsuperscript{60} See Rapoport and Musacchio (1999).

\textsuperscript{61} Rapoport (1988) argues that they added up to 275 million dollars by 1923, and were reduced by 8 million by 1931.

\textsuperscript{62} German firms had a practice of close cooperation among managers, who very often worked for many companies. A good example is that of Siemens-Schuckert. Directly or indirectly, the consortium carried out activities in the electricity sector, trading, construction and finance. Moreover, its board members sat on the boards of 39 other firms active in manufacturing, communications, cattle breeding, housing and insurance.
increased capitalization of many firms that found it impossible to transfer profits abroad (to their headquarters). In certain cases this led to forced reinvestment.\textsuperscript{64}

With war underway, the operations of German firms were also affected by American pressure on Argentina to abandon neutrality, which eventually led to a relatively strict economic embargo.\textsuperscript{65} Argentina finally broke off diplomatic relations with Nazi Germany on January 26, 1944. The immediate interruption of all trade and financial relations further complicated the operations of the German firms.\textsuperscript{66} This culminated in the intervention and then liquidation of German assets in accordance with the Decree 10.935/45, which created the “Junta de Vigilancia y Disposición Final de la Propiedad Enemiga”, a public institution established to manage German property.

**Table 10: German capital in Argentina (millions)**

<table>
<thead>
<tr>
<th>Source</th>
<th>Year</th>
<th>Pesos MN</th>
<th>Dollars</th>
</tr>
</thead>
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<tr>
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<td>1938</td>
<td>1.800</td>
<td>540</td>
</tr>
<tr>
<td>C.I.A.A.</td>
<td>1938</td>
<td>39.5</td>
<td>8.9</td>
</tr>
<tr>
<td>IG Farben (1934)</td>
<td>1934</td>
<td>325</td>
<td></td>
</tr>
<tr>
<td>Rapoport (1988)</td>
<td>1931</td>
<td>267</td>
<td></td>
</tr>
<tr>
<td>V. Phelps</td>
<td>1934</td>
<td>650</td>
<td>180</td>
</tr>
</tbody>
</table>

Source: Rapoport y Musacchio (1999)

\textsuperscript{64} This was the case with investments in the electricity sector: the Compañía Argentina de Electricidad (CADE), mainly under control of Berlin banks, was the most important German overseas investment and the second largest foreign investment in Argentina after the British railways.

\textsuperscript{65} In the course of the conflict, government controls over German firms were progressively enhanced. They were forced to complete a sworn financial statement detailing their property; the right to transfer funds abroad was strictly limited; advertisements in newspapers of German origin or with pro-Nazi ideas had to be stopped and government managers were placed in several companies. The aim of these measures was to undermine the potential support of the German companies for pro-Nazi activities.

\textsuperscript{66} Telephone and telex communications were stopped.
Figure 7: Foreign Capital in Argentina (1926)

Source: Sommi (1945).

Figure 8: Growth of firms under German control
German institutions and the financial system

Germany participated in Argentina’s financial system through its commercial banks and

Transatlántico (created in 1893) and the Banco Germánico de la América del Sud (founded in
Officers and directors of “El Fénix Sudamericano Compañía de Reaseguros”, controlled by Munich Reinsurance Company, were known to be officers or directors of other twelve Argentinian insurance companies. Officers and directors of “La Internacional Compañía de Seguros” were at the same time officers and directors of seven other companies. The directors and officers of “La Protectora Compañía de Seguros” were parts of the management of six other companies. Eliminating duplications, the management of these companies served in similar capacities in twelve other companies. These twelve companies, in turn, were linked through their directorates and management with a number of other companies.

Finally, German or German-controlled interests were active in promoting Argentinian insurance by offering technical advice and the services of their scientific organizations. In scientific and quasi-scientific insurance organizations in Argentina, many of the supporting companies or personalities were directly or indirectly associated with German interests.73

 factories, their machinery, the turnover, the rural production, what our vessels transport, and where to they transport. It is easy to guess what advantage our enemy, with its own methodical spirit, can draw from those materials.” Ibid.

71 Of the world’s 43 reinsurance companies with premium income of more than $2 million each, 11 companies were German with a total of 45% of premium receipts of the 43 companies; 5 were Swiss with 22% of receipts; 11 were American with 14% of receipts; and 3 were British with 4% of total premium receipts. Ibid, p. 2.

72 The dominant position of German insurance companies in the world’s reinsurance trade was due to several factors. The reinsurance business requires arrangements with foreign companies as a regular business practice. The scope of the insurance business in Germany was less developed than in the United States or Great Britain. German reinsurance concerns found it desirable, for the sake of safety, to engage in international reinsurance on a large scale. In the first three decades of the 20th century German insurance companies developed a reinsurance mechanism which in its variety, adaptability, and attractiveness, particularly for young insurance companies and for those operating in young countries, such as in Latin America, met little competition.

German reinsurance offices had unique information and structures at their disposal, as well as card index systems covering risks throughout the world. It was a well-known practice for direct insurance companies to seek, in Berlin or Munich, information on the insurability of certain risks, even those situated in the inquiring company’s own country. These reinsurance companies furthered their operations by promoting insurance and reinsurance, by issuing publications, assembling statistics, organizing insurance congresses, sending delegates to conventions, advising foreign insurance officials. Ibid., 2-3.

73 The organizing committee of the Latin American Insurance Conference was included board members of Agrícroma. Similarly, the Argentina Insurance Society was run by managers of Germano Argentina. The membership of the Argentine Association of Insurance Companies included many German or German-controlled companies. Ibid.
Political and military relations

Relations between Germany and Argentina started in the 1860s. Germany was a participant of the Argentine market for armament, when the country bought cannons due to the border tensions with Chile. In the 1890s Argentina turned to German military equipment, and this trend was defended in the first years of the 20th century to face the military build-up of the region.
commercial and economic war. Great Britain, a dominant force in the seas, sought to protect its commercial ties and block the development of German influence, that was successfully entering the market for crops as a growing importer of Argentine goods.

After the US declaration of war to Germany in April 1917, the Americans tried to counteract German spying activities in Argentina. The Office of Naval Intelligence (ONI) organized a secret network of agents in the shores of Argentina and Uruguay to investigate German activities. Despite the embargoes implemented by Great Britain, France and the US against German firms during the war, the strong commercial and financial ties survived and obstructed the American competition both in terms of business and war espionage. We should recall that by the time there were 40,000 German and 4,000 American residents in Argentina, and German investments in the country were by then bigger than that of the US. In the 1920s and 30s the Argentine army and navy made purchases from German manufacturers. In Buenos Aires, the German Staudt & Co., with the participation of Krupp and Siemens-Schuckert, founded the Compañía Argentina de Comercio (Coaricó), with the aim of promoting the armament trade.

_After 50 years of popular political aspirations under a constitution_ _written by the military,_
war machine, thus weakening the position of the pro-Allied fractions of the Army. The tensions between these two parties were chronic and led to permanent instability in the local political life. The tradition of neutrality in European wars followed by the Argentine establishment persisted, with the favourable perception of the benefits of this strategy adopted by the Radical Party during World War I. The defence of neutrality went beyond the clivage between nationalist Germanophiles and pro-allies, despite the sympathies of the latter for the liberal democracies attacked by the Nazi regime.

President Justo was succeeded by his Minister of Finance Roberto Ortiz, elected in 1937 in a fraudulent contest. The latter followed the neutralist tradition in international affairs but had clear sympathies for the allies shown in the days of the Nazi attack of France. Ortiz engaged its political efforts in the return to free and transparent elections, but health problems led him in July 1940 to delegate power in favour of his Vice-President Ramon Castillo, less committed to the political project of Ortiz. The process of full normalisation of the political life and open elections was stopped, and the administration was again in the road of electoral fraud for the elections of 1943. A coup d'état in 1943 with a strong representation of pro-Axis officers, stopped the fraudulent elections that were to take place, but also blocked any progression towards full constitutional rule and free elections, the objective of major democratic political forces. Two Generals were the highest ranking officials in the coup of 1943, Gen. Arturo Rawson and Gen. Pedro Ramirez, the former becoming the President the 4th of June. But the decision of Rawson to break relations with the countries of the Axis and the simultaneous designation of pro-German Ministers led to severe tensions between the GOU officials inspiring the new Administration. In the midst of confusion Rawson was forced to resign the 6th of June and Gen. Ramirez, former Minister of War of Castillo, became President. The cabinet was once again split between pro Allies and pro German or neutralist members, leading to strong instability in the course of international relations, but the influence of the officials of the GOU, in particular Juan Peron, increased. The latter was appointed Secretary of Labour and started to develop his long lasting relations with the unions.

The role played by Argentine officers in the pro-Axis coup d'Etat in Bolivia of December 1943 that deposed President Peñaranda led to a strong reaction of the US government and the serious concern of neighbouring countries that feared the intervention in their internal affairs. The aborted mission of Argentine emissaries to obtain German military equipment in November only reinforced the pressures and the instability of the Administration of President Ramirez that responded to the crisis breaking diplomatic relations with Germany and Japan in January 1944. The tensions between pro-Allies and pro-Axis officers were heightened once again and president Ramirez was deposed in February. General Edelmiro Farrell, the incumbent Vice-President became the new President and Peron a close friend and ally of Farrel will be appointed Minister of War. In July Peron became Vice-President retaining the

81 Ortiz was a civilian, the son of a basque immigrant, a former member of the Radical Party and MP as well as Minister of Public Works under President Alvear (1922-1928).

82 After the coup a group of high ranking nationalist officers part of the GOU had an increasing control of the new administration. Colonel Peron was one of the leaders of this military group (Potash, 1969).

83 All the military (Justo) and civilian (Alvear and Ortiz) key political figures of the 1930s died between 1941 and 1942, contributing to a political vacuum.

positions of Minister of War as well as Secretary of Labour. Constitutional elections will be held in February 1946 and General Juan Peron will be elected President. Only in March 1945, a few months before the end of the war, Argentina will declare the state of war with the countries of the Axis.

Under President Castillo (1940-1943) Argentina continued the policy of neutrality, but agreed on the terms set by the Havanna Conference of 1940 that stated that an attack on countries of the Western Hemisphere constituted an aggression on all American nations. In January 1942 Argentina accepted the terms of the Inter American Rio Conference leading to sever economic relations with the countries of the Axis. But the Argentine government continued its previous policies of intense official and unofficial relations with Germany. The demand for new military equipment of the Argentine Armed Forces was reinforced by the alignment with the Allies by the governments of Brazil and Uruguay. In exchange for decisive political support and compliance with the Inter American treaties the US engaged in a programme of sustained military assistance in favour of these countries.

After the outburst of World War Two, Argentina expected to obtain military equipment from the United States. This strategy of military procurement persisted after Pearl Harbour and the American declaration of war to Germany, despite the continued position of neutrality of Argentina. The Argentine government believed that it could obtain armament for the national forces through a bilateral agreement with the US. However, negotiations failed in July 1942 and other supplying source had to be figured out. The alternative strategy and response was the acquisition of German military equipment imported in Argentine ships anchoring is neutral ports, such as those of Spain and Sweden. Nonetheless, these transactions could not be carried out due to the logistic complexities at times of war as well as the supply restrictions of Nazi Germany due to the adverse turn of its war effort in Europe.

Later during Peron presidencies German arm experts were hired by Fabricaciones Militares, the state firm under armed Forces control, aimed at cooperating in the development of missile technology and the aeronautic projects. Nazi officers were military advisors, government employees and pilot trainers.

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85 Argentina argued that these terms did not collide with neutrality as any response or actions in the face of an attack were the resort of each country’s views.

86 In 1942 Juan Goyeneche, an Argentine nationalist of a hispanic phalangist blend believer in the alliance of the Cross and the Sword, travelled throughout war torn Europe as an envoy of the Argentine authorities. Goyeneche, in close relation with the Argentine Minister of Foreign Affairs Ruiz Guíñazu, visited Spain, Germany, Italy, Vichy France and the Vatican and had extensive meetings with a number of influential officials such as Vatican Secretary Cardinal Maglione, the President of the Government of Vichy Pierre Laval, German Foreign Minister Joachim von Ribbentrop, Heinrich Himmler and the chief of the SD (the international intelligence of the SS) Schellenberg (NARA, RG 59).

87 For the case of Uruguay see Nahum et al (1993), and for Brazil see Skidmore (1969) and Stepan (1975).

88 See Potash (1969) and Goñi (2002).
The end of the war and the US influence: breaking off with the Axis.

American actions to counteract the German influence in Argentina started during the First World War. Even if the war allowed for a marked rise of the US commercial and financial presence in Argentine markets, the Americans continued to fear an economic resurgence of German influence after the war. This concern was based on the strong German military influence and on the long run business relations established before the war. In fact, these elements were in the grounds of the German influence after 1919 and proved that American fears were not unfounded.

In the 1920s new German firms arrived in Argentina, investment flows were resumed and commercial relations gained new impulsion. However, the presence of German capital never reached levels ranking close to the British investments in Argentina, less so if we consider the property of the Allies all together. Furthermore, as previously mentioned the Second World War led to a total disruption of trade relations between Argentina and Germany. In fact, the level of German economic presence in Argentina cannot explain by itself the nazi influence in the local life and society, in particular the impact of its ideological visions and the penetration of the military institutions, as well as cultural elites close to certain “nationalistic” traditions.

The American government was worried by the Nazi threat in Argentina, while it was far from being an obsession either for the UK or for the Argentine administrations. However, in 1937 with the growing perception that the Nazi regime could become an effective threat, some individuals in the US administration believed the Nazis could subvert the Argentine ruling class to turn the country into a client state of the Third Reich (Newton, 1995). In view of the latter the US authorities engaged an open confrontation with the Argentine government. Influential political and economic circles of Argentina still believed that the country should be a counterweight in the south to the United States in the north.

What began as a competition for markets and broad economic influences in the 1920s and 30s became later a political and strategic issue.

Nazi Germany strongly favored Argentina’s neutrality. German-Argentine affinities arose from many sources, including historic military ties, an extensive network of German-owned businesses and banks in Argentina, and over a quarter of a million people of German descent. Nazi activities continued throughout the wartime period, even after Argentina severed relations with Germany in early 1944. Even if of limited impact on the course of the war (Eizenstad Report, 1998), Nazi activities in Argentina included smuggling of products useful to the war effort, such as platinum, industrial diamonds, and liver extract; subsidizing pro-Axis newspapers; cloaking of Nazi assets by German-owned firms; gathering commercial and military information about the Allies; and supporting pro-Axis Argentine military.

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90 This position could be shared by anglophiles and germanophiles with the nationalistic ideological circles.
92 The estimate of German speaking population was 100000 in 1914 (Diaz Alejandro (1970), Vazquez Presedo
After the US entered WW2, the position of neutrality of Argentina was in direct conflict with the American global strategy. Secretary of State Cordell Hull believed that Argentine policies left the region in a vulnerable geopolitical situation unless Nazi influence in the country could be contained and reversed. During the War, all the American Republics except Argentina followed, with varying degrees of involvement, the United States strategy towards Germany and the Axis. The American nations engaged in diplomatic, economic, and, in some cases, military co-ordination with the US. The collective actions included economic warfare cooperation with the United States to block supplies from the region to the Axis countries, as well as strict regulations and controls for financial operations between the latter and the Americas. These countries complied with the U.S. "Proclaimed List" preventing transactions with companies trading with the Axis, and committed to monitor and control clandestine trade in strategic commodities such as industrial diamonds and platinum. The American nations were also committed to identify German intelligence networks and prevent propaganda operations. Despite persistent US initiatives, Argentina did not stand by the US strategy of strict containment and until 1944 pursued its policy of neutrality.

In January 1942 the Rio de Janeiro Meeting set the strategy for the breaking of relations with the countries of the Axis. Argentina opposed the decisions taken in this Meeting, maintained
Liquidation of Axis property, deportations and nazi migration to Argentina

The declaration of war to the Axis by Argentina implied the enforcement of the measures agreed in the Conferences of Rio de Janeiro (January 1942) and Chapultepec (February-March 1945). The recommendations included the supervision and control of financial and commercial activities that may result harmful to the well-being and security of the American nations. Later these policies urged each country to follow their own constitutional procedures to eliminate from the agricultural, industrial and financial sectors any influence coming from nations, governments or individuals that may act against the independence, the economic and political security of the Republics of the American continent. For this purpose, the suggested steps included blockades, intervention, occupation and compulsory transfer or total liquidation of business, properties and rights of natural persons and legal entities linked to the mentioned activities. Following the break off of relations with the Axis Argentina issued a series of decrees to put in practice these measures.  

About 300 to 400 firms of different sizes were potential candidates for the application of these measures. The same day of the war declaration to Germany and Japan a presidential decree withdrew legal status from German and Japanese firms operating in Argentina, their possessions being seized and hold under custody and control of a management council established in 1944 within the State Secretary for the Industry and Trade. Later on, all property belonging to the employees of those companies was frozen while that of the German and Japanese governments was confiscated. In May 1945 the Junta de Vigilancia y Disposición Final de la Propiedad Enemiga replaced the management council and in August everything was put under control of the Ministry of Foreign Affairs. Six insurance companies and the two German banks were easily liquidated, but for the rest the task was complex and cumbersome. By the beginning of 1946 two out of 76 Axis companies had been liquidated; 229 companies continued under investigation and the state controlled the accounts and property of 802 individuals.  

With this course of action the government regained some confidence from the allies and consequently, relations were normalized both with the US and other thirteen American countries. However important the progressive restoration of diplomatic relations may have been, the economic situation had been damaged by the coercing measures adopted by the US between 1942 and 1949, which included import restrictions, transport prohibitions, blockade of the gold deposits in American banks, purchase orders cancellations, fuel embargo and prohibition to pass any development project (Regalsky et al., 1999). The improvement of the international environment led to the normalization of the relations with the defeated powers. On August 28, 1951 the US invited Argentina to the San Francisco Conference set to establish a peace treaty with Japan. Finally, on August 30 1951, the Congress of Argentina passed the law 14.049, ending the state of war between Argentina and Germany.

countries without stopping the flow of critical materials to the United States and to supply Argentina only with the necessary to produce essential goods for the war effort (Blum, 1967).

But the US government regularly complained on the slowness of the investigations, which allowed firms to be profitably mismanaged before liquidation. Nevertheless, Rappoport and Musacchio (1999) highlight that confiscations reached considerable amounts and however important the magnitude of German capitals had been during the decade of 1930, their capability to influence the government of Argentina and to serve as pivot of the Nazi policy in Latin America were reduced to a minimum by the end of the Second War.

The Argentine government reluctance to accomplish in full the American demands was similar both in the case of deportations and the enemies properties. By June 1946, 38 individuals had been expelled and the number of candidates for deportation had diminished from 900 to 227. In May 1947, Hans Harnish and Wolf Franzok, two of the most important agents in Argentine, were expelled with other 6 Latin-Americans.

98 Additionally ambiguities and contradictions have been found in the treatment of the foreign property, and a lack of homogeneity criteria could be seen (Regalsky et al. 1999). Thus, some individuals and firms extensively known by their connections to the nasionalsocialist ideology or by their shares in business with German firms were hardly investigated.

99 The Business attaché of the American Embassy in Buenos Aires claimed that “Some members of the embassy believe that the Nazis are really behind the scene of the actual regime. There is also the general thought that this group is closely related to the Nazis. Now there are many active Nazis in Argentina. So far none of them have been deported, but we expect to expel some of them in the near future. The main Nazi companies, though under control of the state, have not been liquidated yet. The government still maintains relations with the firms in the proclaimed list and, in general, what have been said is far away from what have been done. However, I am afraid that despite these slips, we should recognize that many decisions do not match with what would be a government controlled by the Nazis. Argentina is in war, almost all German propaganda have been stopped; the Embassy has been closed and we have gained access to the archives; the German espionage circles have been dismantled; we have access to the German banks; some German agents are to be expelled and others will follow; the Axis schools have been closed; a high proportion of the Nazi members of the government have been removed (there are important exceptions, indeed...). If we compare the present situation with the description of Argentina during 1941 and 1942 we will be convinced of the progress done towards the elimination of the Nazi activities” in Rappoport and Musacchio (1999).

100 The American ambassador pointed out to Perón that any sign indicating that the Argentine government was abandoning its philo-German policy would produce a very positive effect in the American opinion (Newton, 1995).

101 In 1946 the Courts decided that the president was entitled, thanks to the Law of Residence, to deport undesirable foreigners, but the Supreme Court claimed that the defendants had the right to know the reason of the accusation. Between May and August 1946 many suspects of espionage were released under habeas corpus until on November 15 the presidential Decree 18.480/946 re-ordered their arrest and deportation. US pressures diminished for several months until a final solution was reached between President Perón and the US Administration with additional deportations. Out of 80 members of a Nazi espionage net affected by court processes or deportation decrees 7 individuals were condemned (all of them minor agents). Other 10 were
When France was liberated in 1944, many German and French collaborationist crossed borders to Spain, where an important German community resided. Nevertheless, the situation in Spain changed in May 2, 1944 when Franco put an end to the connection with the Axis and signed a series of agreements with London and Washington. The refugees had to move to other countries. By the end of the war many were guided to South America; however, this possibility was closed during the first postwar years. Another escaping route was through Italy. The dominant position of Italy among the Mediterranean sea lines to America (and in particular to the Southern Atlantic and the De La Plata River) explains the flow of migrants from Italy. The Italian route were reinforced by the Argentine window opened by the descendants of Genoese emigrants. Furthermore, the Italian government may have found beneficial the emigration of individuals connected to the Nazi regime, thus contributing to solve the emerging refugee problem. Consequently, the Argentine window could be functional to many parts. The Italian route permitted the flee not only of German but also of Hungarian, Croatian, Ukrainian, Romanian, Polish and other collaborationists, either of the Nazi regime or of the satellite governments.

In 1946 the Argentine government launched a programme to recruit Europeans of interest for the industrialization drive of the Administration. In December of that year prebyter José Silva was named as head of newly created Argentine Immigration Office in Europe, with the main office in Rome. The main operations were carried out in Italy.
workers or scientists; the overwhelming majority being intellectuals and businessmen bearing a collaborationist past.105

Conclusion

In this paper we have presented a brief overview of the fundamental features of the financial development of Argentina in the first half of the 20th century. We discussed in more detail the economic developments of the country during the years of the World War Two, the relations with the Allies and with the countries of the Axis highlighting the impact of the lasting neutrality of Argentina during the conflict.

In the second half of the nineteenth century Argentina was one of the outposts of rapid development along with Australia, Canada and the United States. It shared with these countries the benefits of the economies of temperate climate, receiving immigration flows from Europe, in its case with a strong predominance of population from Southern Europe. As in the cases of the two latter members of the British Commonwealth, Argentina was strongly integrated in the world trade and financial markets of the time in close connection with the British powerhouse of economic development in the capitalist system of the period.

Argentina showed a remarkable dynamism in the 50 years going from 1880 to the crisis of 1930 and the collapse of the rules of the game of the first long wave of international globalisation. GDP growth reached average levels of 6% per year, with per capita income higher than the average of Western Europe, two thirds of that of the US and Australia, and equivalent of Canada, France and Germany. The most dynamic sectors of the economy were based on the strong comparative advantage of the agricultural sector strongly integrated to the world markets. The country had a very high degree of international openness with intensive flows of capital, goods and labour. In 1913 British investment in Argentina accounted for 25% of total UK capital stock abroad, ranking close to Canada with equivalent levels of investment. In the 1920s British investment represented 50% of total foreign investment, the US 15%, whereas Germany and France accounted for 10% each. If German capital in Argentina was not high, compared to British investments, it had an important presence in certain sectors of the economy. German firms were market leaders in highly concentrated sectors such as metallurgy, chemicals as well as in telecommunications and electricity.
Trade openness, as measured by the ratio of imports plus exports to GDP was close to 50% in the period up to 1930. The Great Depression started a long period of decreasing integration to world markets deepened by intensive protectionism in the 1940s and 50s. Trade relations showed the central role of the United Kingdom as the main market for exports with over 25%...
and critique of the liberal democratic model, the impact of the generalised world economic depression and the rise of authoritarian ideas; fascism, nazism, phalangists and the emergence of stalinism. The intellectual minorities that fed the nationalist camp in Argentina were a blend of different ideological traditions with a strong representation of phalangists, the alliance of the sword and the cross, with a Hispanic nostalgia of the pre-liberal social order. We also find in the thirties an important political representation of democratic neutralists from the Radical Party as well as the Socialists, following the tradition expressed by Argentina in World War One.

In the global German strategy of the late 1930s and the early forties, Argentina seemed to have played a role as an option for a neutral bridge into the Americas, once the European phase of the Nazi campaign had been completed. The time never arrived given the military stalemate for the German offensive and then the turnaround of the war in favour of the Allies. In any case, the economic view of the German strategists of the bilateral relations was one of...
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