2015

Shares of the Great War Effort: Brazil’s Returns from the Second World War

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Introduction

The first half of the twentieth century was a period so fraught with political, military, and economic tumult that it is easy to see why several of the world’s most powerful (and some not so powerful) nations turned to totalitarian forms of governance. Indeed, nations like the United Kingdom, the United States, and (temporarily) the Republic of France, where democratic rule of law had been maintained after the 1929 Stock Market Crash, were usually the exception and not the rule. Regimes such as Nazi Germany, Fascist Italy, and the Estado Novo in Brazil were often established in reaction to the perceived instabilities and often deemed necessary for progress and peace. In the period leading up to the Second World War, however, the dichotomy between the ideologies of governance created two bases of international power, which provided the original basis for the Axis and Allied powers. This bipolar distribution was not written in stone (with the Soviet Union changing sides and the United States abandoning its official neutrality), but this view by and large provides a description for international political developments throughout this time period.

The regime of Getulio Vargas in the previously mentioned Estado Novo movement, however, provides something of a counter to this point. While the mechanisms of Vargas’ government resembled the totalitarian forms of government in the new European Regimes, the international actions of his own regime did not fall squarely into one side of the developing bipolar world or the other. Throughout the early part of the Estado Novo, until the United States and Germany openly declared and carried out hostilities against one another, Brazil maintained strong economic and diplomatic relations with both sides. The two nations enjoyed the benefits of trade and political unity, but both nations also experienced their difficulties with the nascent government. While a booming trade partner for American goods, the United States perceived Brazil as a strong competitor in the international cotton market, and maintained strong reservations about Vargas’ style of rule. Likewise, while the Germans enjoyed the benefits of Brazilian cotton and rubber, they held reservations at Vargas’ attempts to “de-Germanize” Brazil’s German population by enforcing Portuguese as the lingua franca and curtailing the efforts of the Brazilian-German Nazi Party. Ultimately, Vargas’ cooperation with the United States took precedence, culminating in Brazil joining the Allied War Effort and the deployment of Brazilian troops in
the Brazilian Expeditionary Force (FEB) to Northern Italy.¹ Several other projects resulted from the close cooperation between the two nations, such as the construction of military installations in Brazil, the founding of the steel magnate Companhia Siderurgica Nacional, and several American missions purposed with strengthening the effectiveness of the Brazilian Military.

The choice of Brazil to side with a democratic nation is puzzling in this instance. It is necessary to explain the behavior on Vargas’ part throughout this period, and why he ultimately chose to throw in his lot with the United States as opposed to with Germany, which was a more-than-willing partner in trade and far more ideologically attuned to the style of government to the Estado Novo.² This critique will analyze the foreign policy and choices of both the United States and Brazil throughout the founding of the Vargas regime and during the war, as well as examining the political-economic atmosphere in which these choices were made. This will constitute a review of diplomatic correspondence between the two actors; international economic, trade, and military agreements made before and throughout the Second World War; and contemporary commentary from diplomats and academics knowledgeable of the related events and situations. The scope of this paper will primarily focus on the economic collaborations that occurred, but an understanding of the general military and strategic agreements will help to inform the economic analysis. With a general understanding of the martial collaboration, the majority of this paper will focus on the trade agreements and how these agreements benefited the two actors. An analysis of this should demonstrate why an economic alliance between the United States and Brazil was seen as a beneficial arrangement for both parties in the context of changing global distributions of power. Moreover, it will demonstrate that such collaboration was perceived as beneficial for the future livelihood of the Estado Novo, and sought to bring several economic and industrial benefits to Brazil, which fell in line with the technocratic and interventionist mechanisms that typified the Vargas rule. Whether or not Brazil joined the war on moralist grounds, or if it had only desired to latch itself onto the coattails of American hegemony, the outcomes of economic involvement were designed to help lift the country to great economic and industrial heights.

It should be noted that the methodology of this paper will take a detailed look at the diplomatic correspondence between the United States State Department and the Brazilian Foreign Office throughout the period. This will be pri-

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² This is, admittedly, a generalization in for the purposes of posing the aim of this research. The Estado Novo was far less ideologically driven, or predisposed to state-sponsored violence, than the Nazi or Fascist regimes. However, the presence of official authoritarian tendencies in Vargas’ Brazil before 1946 cannot be denied.
arily found in the State Department volumes Foreign Relations of the United States and International Treaties and Other Agreements of the United States, which have been digitized online by the Universities of Wisconsin and Missouri, respectively. While Foreign Relations contains the diplomatic discourse of State Department staffers at the time, this research does not have access to similar documents which would have been used in the Brazilian Foreign Office. Problems with accessibility and knowledge of Brazilian Portuguese mainly precluded its inclusion in the body of this research. However, Foreign Relations often relates the various demands and intents made by members of the Brazilian diplomatic staff, and International Treaties often contain missives from the Brazilian side of the collaboration. As a result, this research will base the majority of its primary documentation on the rhetoric of the diplomatic exchanges between the United States and Brazil at this time.

Review of the Literature

As there has not been a single body of literature regarding US-Brazilian relations, there are two subgroups of historiographical literatures which relate to the subject: the general fields of US-Latin American economic and political collaborations during the mid-twentieth century, and the study of Brazilian export-led growth to the United States in the mid-twentieth century. My analysis tries to find a common ground between the two of these; thus, a look at both of the literatures will help to discern what gaps require filling in. The first group, which deals primarily with US-Latin American collaborations during the period of the 1920s to the 1940s, tends to have a very poor outlook on the relationship, and rightly so. The collaborations that contain scrutiny are often portrayed as out of balance and largely favorable to the United States alone. While this model comprised the majority of the cases within Latin America, the goal of this research will be to shed light on some nuances in the US-Brazilian relationship. Drake’s study of the Kemmerer missions is a little more balanced, as it demonstrates the intentions and desires of the Latin American parties involved, but Drake’s analysis was wedded to the concepts of dependency within those parties. Frank McCann’s account, which deals directly with the scope of US-Brazilian collaborations throughout the period of the Second World War, deals equally well with both sides of the relationship yet portrays the different collaborations as almost haphazard marriages of convenience which were lead primarily by the United States.

The second group is a small and dedicated body of writers who have written about the exploitation of natural resources in Brazil during the same period.


While the accounts may vary from pointed historical analyses of a single corporation within the collaboration to a widely spanning environmental history of an entire region, they allow for a good understanding of the forms and shapes which US-Brazilian resource-driven collaborations took during this period of time. Overall, the various collaborations are portrayed as driven by U.S. investments and the creation of corporations on the ground, which dealt specifically with the procurement, trade, and distribution of that single resource. The operations regarding the procurement of rubber, in particular, were considered to be total and encompassing operations. Warren Dean, in his comprehensive environmental history of rubber cultivation in the Amazon, argues that while the Rubber Reserve Company set up by the United States ultimately exceeded its costs and was not a success, the general funds brought in by the collaborating governments were able to greatly refine the process of rubber harvesting. Xenia Wilkinson similarly argues that the rubber project gave Brazil access to a newly developed Amazon while it may not have been the best outcome for the United States. Similarly, Oliver Dinius’ look at the creation of the Brazilian National Steel Company (Companhia Siderurgica Nacional) demonstrates how Brazil’s corporatist attitude and American expertise were able to create a vibrant steel industry where there had been none before. The goal of this research is to tie the various threads in this set of literature, create a consensus amongst them, and to place them all within the greater international and domestic contexts of the period.

Solidarity of Home and Hemisphere

With the analysis of major historiography regarding this topic concluded, it is now necessary to start explaining the relationship that existed between the two nations at this time. While this research is, primarily, an examination of the economic collaborations between the United States and Brazil during the period of the Second World War, an understanding of the geopolitical environment in which these collaborations took place is now required. The goals of state actors are, typically, driven and informed by the context of the time in which states make their decisions. While economic and strategic decisions may not be directly related, per se, an examination of one alongside the other may provide useful information. A brief overview of the military and strategic aims of a US-Brazil Alliance imparts context for all other decisions made by the two actors, which necessitates its conclusion in this research. To do so, it is necessary to explain the

7 Oliver J. Dinius, Brazil’s Steel City Developmentalism, Strategic Power, and Industrial Relations in Volta Redonda, 1941-1964, (Stanford: Stanford University Press, 2011).
relationship that existed between the United States and Brazil at this point in time, and what forms the relationship took.

The Estado Novo regime was placed into power during a coup d’état in 1937 by the charismatic politician Getulio Vargas. While he had been elected to the office in 1930, Vargas led the coup in order to bring much-needed reforms to Brazil in the dire economic climate of the Great Depression. The Estado Novo saw the radical reorganization of the Brazilian government into a totalitarian-style regime that was able to enact sweeping reforms with little to no opposition. Civil order within Vargas’ Brazil was strongly enforced, though there were several inherent weaknesses that punctuated the fabric of the Estado Novo. Vargas, much like his counterpart Peron in Argentina, frequently quarreled with the interests of the military elite within Brazil and often had to appease their interests in order to maintain social harmony.8 New threats came from certain sectors of society, which rebelled against the new political and economic order. The Integralistas, a Brazilian group similar in ideology and organization to German National Socialism and Italian Fascism, had often opposed the Vargas regime and vied for power. Eventually, the conflict escalated to such a point that the movement was violently suppressed by the Brazilian government.9 The presence of foreign interests could not be discounted as well, owing to the fact that both pockets of culturally and ethnic German Brazilians as well as US-owned businesses were ubiquitous and exhibited strong influences on local Brazilian politics and economic conditions.10 Amidst such trying conditions, President Vargas and his government often found themselves making choices in order to best strengthen the position of Brazil. An alliance with the United States provided Brazil the means to accomplish this.

Strategic interests were a driving factor in this special relationship during this time period, which was visibly reflected in the cooperation. Of the total thirty official treaties and agreements made between the United States and Brazil during the years of 1930 and 1945, fourteen were expressly military agreements meant to strengthen the strategic cooperation of the two nations. Of those fourteen: nine of those agreements enacted military missions on behalf of the United States to help strengthen the military effectiveness of Brazil’s armed forces; two agreements enacted lend-lease cooperation in war materiel between the United States and Brazil; and three agreements dealt with the chartering of Brazilian merchant vessels for the American war effort.11 An analysis of these different

9 McCann, Brazilian-American Alliance, 77-105.
10 Ibid.
11 The Lend-Lease Agreements made during this period will be included here in the number of military agreements, but they will receive more scrutiny in the larger analysis of economic trends due to the two-fold nature of the interaction. U.S. State Department, “Brazil” in Treaties and
interactions show that there are two distinct phases of interaction between the United States and Brazil, with the end of the first phase and the beginning of the second phase coincided with America’s direct involvement in the Second World War.

Before America’s official declaration of hostilities against Germany, the major form of military cooperation between the two nations was a series of military missions designed to help bolster the effectiveness of the Brazilian military in the period immediately following the establishment of the Estado Novo. At this point in time, the aim of the collaboration was expressly designed as a means of modernizing the Brazilian military. Echoing the sentiments of the (relatively) hands-off approach to military matters, which typified America’s Good Neighbor Policy at the time, there was little in the sense of shaping strategic or military policy. The agreements, on the whole, usually comprised the dispensation of American officers to aid in either the effectiveness of specific branches of the Brazilian armed forces, or that the officers would be involved in the development of training schools of those same branches. The majority of the agreements dealt with the staffing of American officers to aid in the creation and development of schools such as Brazil’s Coast Artillery Instruction Center, Technical School of the Brazilian Army, and the Naval War College. The input of American officers was deemed important enough that, in some cases, experienced officers would be recommended to take on direct teaching roles under the auspices of these institutions.  

The aspect of military cooperation changed in the period preceding and during the United States’ declaration of war on the Axis Powers in December of 1941. While the technical missions were still an important aspect of the collaboration, there were far more demands placed on Brazil throughout the escalation of global hostilities. These were mostly economic demands, as discussed in-depth later, but Brazil was also faced with becoming a far more comprehensive ally in providing strategic assistance to the United States than it had been in the previous phase of cooperation. More and more, Brazil agreed to provide direct aid in American military operations. For instance, the United States began to utilize Brazil’s ports of Bahia and Pernambuco as a location for repairing and overhauling American ships on patrol in the Atlantic. Similarly, the United States laid the groundwork for the establishment of air bases that would be vital in bringing


13 While still technically neutral until the bombing of Pearl Harbor, the United States had long postured itself against the rise in prominence of the Axis Powers and had undertaken foreign policy objectives to limit their actions.

resources (rubber) to the frontlines of the war.\textsuperscript{15} A joint Group of Staff Officers was eventually tasked with building up the military defense (ground, air, and naval) of Brazil in the face of “armed forces of non-American states,” cementing the direct cooperation against Axis aggression between the two states.\textsuperscript{16}

Correspondence between high-ranking generals and diplomats explains the sudden shift in attitudes towards Brazil in this latter half of Brazilian-American interaction. At the highest levels of America's diplomatic staff, there was an intense fear that Brazil (specifically an unregulated area in its northeast region) proved a serious threat to hemispheric security. The fear, brought to the fore by the noted General George Marshall, was that if Germany wished to launch a land, air, and sea invasion of the Americas (specifically the United States), then this region of Brazil would provide a beachhead and forward operating base for the Germans.\textsuperscript{17} With such a glaring strategic weakness exposed, drastic measures to obtain the cooperation of Brazil in closing the gap were immediately undertaken which resulted in the general escalation of military commitments. The United States kept up its pressure on Brazil until the latter expressed its full and unequivocal support of the Allied cause. While diplomatic relations between Brazil and Germany were officially cut off in January of 1942, the final stroke came when German U-Boats torpedoed five passenger ships carrying Brazilian citizens and troops, with victims numbering in the hundreds in August of that same year. On the 22nd of August, the Brazilian Government declared war against the Axis Powers. While the Brazilian army did pledge the BEF to combat operations in Europe, the largest role was played by the Brazilian navy, which was instrumental in disrupting U-Boat operations in the South Atlantic with airplanes and patrol boats obtained through lend-lease agreements.\textsuperscript{18}

Research projects far more ambitious than this can (and have) explore all of the nuances of Brazilian-American interaction throughout the war, but this is a sufficient approximation for the scope of this piece. Taking this series of interactions as a whole, there is a clear increase of the types and degrees of collaboration undertaken. As the threat of a World War approached the Americas, the United States increasingly took on more projects with Brazil in order to shore up its own defenses. Brazil, similarly, recognized an opportunity to shore up its own defenses as well, and used American technical expertise to modernize its own forces. However, what is also demonstrated in this trend is an affinity between the United States and Brazil regarding matters of hemispheric security and mili-

\textsuperscript{15} Jefferson Caffrey, June 4th, 1941, Foreign Relations, 1941, VI, 497.
\textsuperscript{17} General George C. Marshall, June 7th, 1941, Foreign Relations, 1941, VI, 498-501.
tary cooperation, which contrasts McCann’s notion that the Estado Novo’s international standing was ambivalent before the Brazilian declaration of hostilities. While expectations increased over time, there was a natural partnership, which guided the interactions, and an affinity existed between the two nations.

The American Demand for Resources

With the basic shape of Brazil’s domestic situation and of the military and strategic cooperation explained, it is now necessary to analyze the basic form of economic collaboration, which existed between the United States and Brazil. This sphere of interaction was an important venture, as it too dominated the number of official interactions between the two states. In 1937, the year of the establishment of Vargas’ Estado Novo Regime, Brazil accounted for 36.3% of goods the United States imported from Latin America, second only to Colombia. On a similar token, the United States accounted for nearly 37-45% of Brazil’s total exports throughout the same time with a clear margin ahead of any other nation including the United Kingdom. Given the relationship the United States had with Latin American countries prior to the Second World War, and the drastic need for supplies which the cost of the war had incurred, it is unsurprising that the primary form of economic collaboration which existed with Brazil was driven primarily by resource extraction and exports for the American war effort.

Moreover, given Brazil’s abundant native resources, it is unsurprising that the main resources exported to the American War Machine primarily consisted of rubber, foodstuffs, and steel. However, this interaction was not as one-sided as similar collaborations have appeared throughout the history of Latin America, and actually brought many benefits to the developing Brazilian economy. The American demand for goods, and the willingness of the two partners to cooperate, allowed for several infrastructure improvements for these three industries. As a result, a large number of agreements were made in order to help Brazil’s contribution to the American war effort. The main thrust of driving production came in 1942, after Brazil had placed its bets squarely in the Allied and American sphere on the geopolitical stage. The first was the 1942 agreement, dealing with the “Mobilization of Strategic Resources.” This agreement did not deal specifically with any single one of the various resource goods that Brazil had in abundance, but instead provided the means through which the United States was able to stimulate the Brazilian economic, industrial, and agricultural infrastructure. This was accomplished through extending credit to the various sectors of the Brazilian economy deemed vital to American wartime production, as well as setting up a

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US-led purchasing commission in Brazil. The agreements made by the United States with Brazil and other countries throughout Latin America would be called the Washington Agreements (or Accords). Contrary to most expectations, it was the Brazilian government that first made the official diplomatic step in setting up the commission. It was, however, in the light of receiving a line of credit of $100 (in 1942 dollars) in order to help the Brazilian Government in stimulating the cultivation of various strategic resources. The representative of the Brazilian government, Arthur de Souza Costa, remarked that ventures along these lines would best “serve the interests of [Brazil] and of the other American Republics.”

The majority of the products purchased by this commission were resources which Brazil had usually dominated or at least contained a large share of the world supply. As a result, the sectors of export-led growth more or less experienced continuity with previous years, in regards to the only real change being the greater economic context of the Second World War. Coffee, historically a product with which Brazil had long serviced the world, was one of the main products purchased by the American purchasing commission and sent to the United States even if there was something of a decline in the total number of exports since previous years. The United States was not content with only coffee, and used the purchasing commission to obtain iron, steel, rubber, cotton, burlap, castor beans, ipecac, rotenone, and various foodstuffs. The purchase of these products allowed for Brazil to maintain its exports in these products, but did not do much to raise the amounts or to revitalize the industries within Brazil that had long felt the weight of developmental neglects. Of interest to this research is to examine the instances where both the United States and Brazil collaborated in the revitalization of these sectors.

A Pyrrhic Victory in the Battle for Rubber

Brazil’s rubber industry, before the war’s inception, had long been dominated by foreign (namely American) interests. Rubber plantations were the central loci of cultivation, and they were primarily owned and operated by American companies such as Ford, Goodyear, and Firestone. The tract of land owned by Ford at Boa Vista was given the name “Fordlandia” from its owners, and it was one of the largest rubber plantations in the country. The crops and resultant products of these and other Brazilian plantations had been sent to the U.S. in order to aid the American automobile industry, part of the American tire and car companies’ attempt to corner the market on the resource, but the productive de-

21 U.S. State Department, “Mobilization of Productive Resources,” in Treaties and Other International Agreements, 913-5.
22 The Brazilian Government Trade Bureau, Brazil at War, 25-6.
23 U.S. State Department, “Arrangements to Procure for the United States Strategic Materials from Brazil,” in Foreign Relations, 1942, 674-91.
mands of the coming war would change the trading interactions between the two countries. With the added pressures of the upcoming war production, there was a very real fear that the amount of rubber at the US’s disposal would not be able to sustain the projected demand. Indeed, most of the rubber coming into the U.S. was from Southeast Asia, which had become increasingly dominated by the Japanese Empire and therefore inaccessible. The U.S. government desired to hedge their bets against any shortages and looked to several nations around the world. The State Department and the Department of Agriculture recognized the potential Brazil presented to ending the effects of the shortage before it truly began, and drove Brazil to increase its cultivation and production.

Under the aegis of the Board of Economic Warfare, the U.S. government created the Rubber Reserve Corporation in 1942, later known as the Rubber Development Corporation, in order to cultivate Brazilian rubber and build up the infrastructure of the Amazon to make such a cultivation a far more easily achieved process. The project would, in theory, allow for Brazil to satisfy its own requirements while simultaneously shipping the remainder exclusively to production centers in the United States. The Reserve and the Bank of Brazil would be the only entities allowed to participate in the production and procurement of rubber within Brazil, which would limit the practices of Goodyear, Firestone, and other American companies operating in the country. Brazil would be able to process its share of the rubber into various rubber products and sell those products to other nations. Not only would several infrastructure developments be started to aid in the procurement of rubber, but the United States would also help with the overall health conditions which were found in the Amazon region (malaria, yellow fever, poor health coordination, lack of water supply, no sewage, and no garbage collection systems). The program, suggested by Ambassador Arthur de Souza Costa on behalf of the Brazilian government, was quickly acceded to by the United States and implemented into action. The baseline price would be 39 cents per pound. It was expected that the Rubber Reserve Company would be able to provide the United States with 25,000 tons in 1942 as an initial baseline, then to increase its yield every year throughout a five-year period.

While designed to be a beneficial tool for both sides of the interaction, the Amazonian rubber project had a difficult road ahead. From the beginning of its history, the Rubber Development Corporation had problems in maintaining its expenses and running within budget. In 1943, a mere year after the corporation was founded, there were complaints regarding the efficacy of the corporation in procuring the raw product. Ambassador Caffrey noted that the initial yields of the Corporation were not nearly as robust as one would have hoped, and that the modern airports deemed necessary in transporting rubber from the Amazon to the rest of the world had encountered several difficulties due to lack of equipment and willing labor. He later relayed the reports of an auditor which claimed that the only means of salvaging the first year of the RDC’s operation would be to reorganize the company, reduce the number of employees, curtail the airport construction project, work far more closely with Brazilian business firms in the sale of rubber to the Brazilians, and to forge stronger relations to Brazil’s Banco da Borracha as well as local merchants. This program was wholeheartedly accepted by the State Department and the RDC, which saw a drastic winding down of its expenditures during this period. While there initially were 20 airports built in order to facilitate supply, the number was then cut down to only eight. The deficit would be aided, in part, through a more extensive use of seaplanes to carry the product from Brazil to the United States. These problems were still persisting in 1944, however, as the duties of building roads in the Amazon and the payment of local laborers were given back to the Brazilian Government at the insistence of RDC president D. H. Allen due to the company’s chronic financial instability. The same insistence, in fact, called for an extreme extension of credit and other means to aid the RDC. As a diplomatic tool, the RDC was problematic in its implementation. In order to increase the amount of crude rubber exported to the United States, several overtures were made to the Brazilian government regarding the use of synthetic or partially synthetic rubbers in order to satisfy Brazilian domestic and export need. This proved highly difficult for members for both RDC and the State Department, as the Brazilians were not convinced of the direness of the American cause. While the Brazilians were eventually convinced of the importance of the initiative, it had been a long time after the initial plea for help.

When it was all said and done, the company was never truly able to move

See also: Institute of International Finance, “Effect of the War on Brazil’s Economy,” 13-4.
past the impediments that had plagued its run, despite its best efforts and those of the Brazilian and American governments. The problems associated with the costs of the RDC were never truly solved, as the organization did not end up satisfying its own budget and ended up operating at nearly nine to ten million dollars over its minimum operating requirements. They were also short on their initial goal of 55 thousand tons, as only 45 thousand tons were harvested throughout the wartime years. While this amount of rubber may have gone far to help the realities of the rubber shortage in the United States, and aid the war effort at the production line level, the other costs loom large and cast a shadow over the statistic. The benefits associated with the presence of the RDC were far too costly for their own good (in the American perspective of the cooperation). For all intents and purposes, it appears that RDC’s efforts in the Amazon were largely a failure for the United States.

While the American side of the collaboration ran afoul of some serious operational issues, the Brazilian government and economy benefitted greatly from the excess of rubber procured through the RDC. A marked increase in the production and exportation of rubber occurred after 1944 compared to the years previous. By 1946, the estimated value of rubber being exported from Brazil to the United States and the rest of the world was well over $41 million. This also contributed to the rise in production and exportation in rubber tires, which afforded the Brazilian government a profit of 146,037,000 Cruzeiros in 1943. At the same time, while the RDC itself was incapable of containing its costs, it was able to start off many infrastructural changes that could not have been begun otherwise due to costs. The infrastructure brought to the region through roads and airports would be useful long after the RDC’s operation, as they laid the initial steps of progress, which Brazil was able to utilize for its own ends. Similarly, As Dean points out in his history of rubber in the Amazon, the general influx of money into the region from the United States and Brazil granted some extra support to a rubber cultivating economy which had been faltering, and the production of at least 600,000 new seedlings in the Amazon by the time the war was over. Similarly, Wilkinson points out that the Health and Sanitation programs which the Brazilian government convinced the American government to enact allowed for vast improvements to be made in the quality of life in the Amazonian region. Combined with the other developments mentioned previously, the Brazilian government now had access to a newly modernized region ripe for

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31 The Brazilian Government Trade Bureau, Brazil at War, 20-1.

32 Dean, Brazil and the Struggle for Rubber, 104-5.
production. While the Battle for Rubber was a lackluster defeat for the United States, Brazil walked away from the engagement victorious.

**Forging the Iron City**

One of the most noticeable gains for the Brazilian economy in the period of American wartime collaboration was a major development in a market, which it had not enjoyed much success in beforehand: steel. Before 1941, only a handful of steel companies existed within Brazil and the effect which they had on the volume of steel within the country was negligible. The combined efforts of the Companhia Siderurgica Belgo-Mineira, Companhia Brasileira de Mineracao e Metalurgica, and the Companhia Brasileira de Usinas Metalurgicas contributed 141,076 tons in the year 1940, which was not nearly enough to satisfy the demand of Brazil’s own population. The process was also very outmoded, using charcoal instead of coal in an inefficient means of production. The vast majority of steel within Brazil, then, was supplied by Nazi Germany (until the formal cutting of ties), the United States, and the United Kingdom. Although the Vargas government had tried several times to develop steel as a vibrant and modern industry of the Estado Novo, it had failed in nearly every attempt. Several times, Vargas called together various experts and technicians in order to see noticeable gains in the industry with little to no real progress made up to that point. This was an admitted deficit on the part of Brazil, and it was made a specific aim of the Vargas regime. When the economic collaboration began to occur in earnest, one of the higher economic priorities was the establishment of a steel industry in Brazil to help satisfy the wartime demand of the United States.

The beginnings of the progress began in 1940 when the Brazilian government again made overtures to the United States requesting assistance in development. Under the rhetoric of the Good Neighbor Policy, Brazilian ambassador Carlos Martins met with the Secretary of State and noted the recent findings from a U.S. Steel Company commission of experts which approved the viability of Brazil for the creation of a steel industry and alluded that the United States was necessary in correcting this deficit. The Secretary pledged to look into the matter, and scheduled a number of pointed hearings, committees, and discussions around the idea of setting up a Brazilian steel company. A later meeting between the Brazilian Ambassador and several members of the U.S. Economic Bureaucracy brought the topic out of a wholly diplomatic sphere, but the rep-

33 Wilkinson, “Tapping the Amazon for Victory,” 244-7.
resentatives of the United States demonstrated an initial noncommittal attitude to the mission of the U.S. Steel Company while not precluding future action.\(^{37}\) After that point, much of the negotiations took on the goal far more realistically and with much more commitment to Brazil’s requests.\(^{38}\) While the overall process was amiable, there were a few minor diplomatic hiccups along the way as well as uncertainties cast over the process. Representatives of Krupp, the famous German manufacturing group, were apparently attempting to lobby the Vargas government for the contract through the military.\(^{39}\) To secure Vargas’ cooperation as an economic and strategic partner, the United States then moved to suggest a contract that would appear amenable to the Brazilian government. If the Brazilians were willing to contribute $25 million to the project, the United States would then contribute a total of $20 million via the Import-Export Bank with the explicit notion of using these funds to purchase and provide well-developed American tools, equipment, and engineering talent in order to aid in the construction of the steel mill. This was the plan that was ultimately and wholeheartedly accepted by the Brazilian government and immediately put into action.\(^{40}\)

The problem of the Brazilian steel industry had never before rested with access to raw materials, as the nation had several sizable sources of iron at its disposal. The deposit at Itabira was of particular interest to the US, as it was one of the largest iron ore deposits in Brazil that contained a low phosphorous content. The obvious benefits of steel for a war industry present themselves, but the overabundance of iron ore and the absolute lack of a robust native steel industry for extraction and refinement necessitated the creation of a corporate framework.\(^{41}\) The eventual deal between the two nations gave birth to a corporation known as the Companhia Siderurgica Nacional (CSN), which is still one of the strongest leaders in Brazilian steel production to this very day. Itabira underwent the process of mining, and the CSN steel mill was placed in the city of Volta Redonda, which is now known as the “Iron City.” Above and beyond the amount granted to the Brazilian government earlier, the United States granted the CSN over $40 million due to the “recognition by the United States Government of the fundamental importance of President Vargas’ steel program to Brazil’s industrialization and its share in the great war effort.”\(^{42}\) The funding was hoped to not only help

\(^{37}\) U.S. State Department, “Memorandum of Conversation,” in Foreign Relations of the United States, 1940, 602-3.
\(^{38}\) Cordell Hull, February 24, 1940, Foreign Relations of the United States, 1940, 603-4.
\(^{39}\) Caffrey, July 8th, 1940, Foreign Relations of the United States, 1940, Volume V, 608.
\(^{42}\) “Press Release Issued at Rio de Janeiro, March 18, 1943,” in Foreign Relations, 1943, Vol-
to create steel for the American effort, but also help to also generally modernize industry throughout all sectors of Brazil’s economy.\textsuperscript{43}

The capital and expertise of Brazil’s northern ally had finally brought into motion a coherent plan for finally exploiting this oft-elusive resource. Once the facility was placed into order and production finally began, the CSN launched a very successful endeavor which would go on to do much to combat the dwindling steel imports into Brazil as well as go to help the American war machine. The volume of steel that the CSN was able to produce created a change in Brazil’s economic atmosphere in a short and unprecedented amount of time. By the time the war had ended, the Brazilian government reported a 39% increase in volume of exports as well as a 90% increase in value of the final product due to the presence of the CSN foundry. The production capacity of the Volta Redonda plant by the end of the war was nearly 350,000 tons. This total comprised of structural steel, flats and rounds, rails and accessories, billets, plates, tin plates, and pig iron. While the variations of steel were impressive for a new operation, the likes of which the nation had not had previously, the plant was designed with future expansion in mind, and made allowances for the installation of furnaces that would accommodate the output of one million tons per year.\textsuperscript{44}

The creation of the CSN was not the only benefit the Brazilian economy reaped change from passive to active voice throughout this collaboration. Before the creation of the company, Brazil had no means with which to accommodate this form of mass industry. This meant that there were many changes made at Volta Redonda itself. The construction of railroad yards, repair shops, machine shops, housing, water and sewage systems, hospital, drugstore, dental clinic, and other local necessities were constructed on site through a force of 4,500 employed men. An intricate network of dependencies was also put into place in order to insure that the mill was properly stocked and able to begin output. Resources flocked to Volta Redonda from all sorts of locations throughout Brazil: the iron and manganese deposits were drawn from Itabira, in the state of Minas Gerais to the north, and the company owned coal mines in the Turbarao region in the state of Santa Catarina. In order to accommodate the moving of these resources, the Brazilian government would undergo the electrification of train tracks and the modification of tunnels along the train route from Sao Paulo and Rio de Janeiro. The railways connecting these locations were also supplied with modern American equipment that would go far to improving the overall quality of the

\textsuperscript{43} Institute of International Finance, “War and Brazil’s Economy,” 18.

\textsuperscript{44} Brazilian Government Trade Bureau, Brazil at War, 38-40. See also, Institute of International Finance, “War and Brazil’s Economy,” 18. See also: Morris Llewellyn Cooke, Brazil on the March, a Study in International Cooperation: Reflections on the Report of the American Technical Mission to Brazil, (New York: Whittlessey House, 1944), 237.
tracks. What had once been a small and quiet suburb of the Brazilian capital had become a heavily developed and modernized city and a locus of activity and production.

In the course of this research, I was unable to find as many indicators of the CSN’s track record throughout the course of the US-Brazilian diplomatic as I was able to find of the RDC. As the CSN was not directly under the scrutiny of the United States, this can be an understandable shortcoming. However, the evidence I was able to find clearly demonstrates that the CSN became a powerful force in both the American war machine and the Brazilian economy itself. Unlike the admittedly less than stellar results of the rubber project, the American-Brazilian project to develop the Brazilian steel industry was an unmitigated success. The CSN was a rising tide that lifted all boats, as the knock-on effects brought by facilitating the steel industry changed the infrastructural makeup of Brazil a great deal. The establishment of the CSN demonstrates the gains that Brazil secured from throwing its economic and developmental lot in with the United States during the Second World War.

Conclusion

There are several patterns that emerge when analyzing these various sectors of US-Brazilian economic collaboration. The first is that the practice echoes much of the export-led growth and trade that has typified many interactions between Latin America and the rest of the developed world. As before, many times in Latin American history, loans and investments were given from countries outside of Latin America in exchange for other resources. However, this set of interactions is far more interesting as there were tangible benefits brought to the Brazilian economy. Wherever the guiding hand of U.S. wartime need came to Brazil, several improvements would be granted. For the US, it is apparent that this rapid development was designed to help satisfy upcoming shortages that would have resulted from the waging of total war. However, the Brazilian Government found different benefits in these interactions that shed light upon their willingness to adopt the different projects. Unlike the previous economic collaborations between the United States and Latin America, the developments in wartime Brazil gave the Latin American country access not only to an enhanced infrastructure, but also to the products. In the cases of rubber, steel, and foodstuffs, the resources were not exclusively shipped to the United States. The Brazilian economy would also benefit from these basic items, which could be reinvested back into an economy that was not undergoing the duress of a total war. The economic boost of collaboration with the United States would grant the Brazilian economy a new baseline from which the Brazilian government and

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45 Cooke, Brazil on the March, 238. See also: Brazilian Government Trade Bureau, Brazil at War, ibid. See also: Caffrey, February 2nd, 1942, Foreign Relations, 1942, 679.
business could make vast and comprehensive improvements.

The primary and secondary documentation suggests that the period of the Second World War was a fortuitous era for Brazil. Cooperation with the United States would not only secure Brazil in a powerful strategic and military alliance with the rest of the West, it would go a long way to ensure Brazil’s newfound place in the worldwide economic sphere. With modernized military and robust extractive industries where they had not existed before, Brazil had gone a long way without nearly as much effort on behalf of the Brazilian government. The Vargas government, noted for its developmentalist and (mostly) progressive economic tendencies, recognized the value of the United States shouldering the burden and seized the opportunity that fell in their lap. While the Vargas regime may not have lived long after the war came to a close, the decisions made by the Estado Novo during this period contributed greatly to modernizing Brazil and bringing it to a point where it is now currently one of the leading economic developers and growers in Latin America. Much like the United States itself, the Vargas government used wartime production as a tool for progress.

While this analysis brings to light a great deal of the trends of US-Brazilian collaboration throughout this period, there are several areas in which this research could have used vast improvements. First, and foremost, would have been access to a larger primary source document base from the Brazilian side of the interaction. While a lot of the intents of the Brazilian actors were related in the diplomatic correspondence found in Foreign Relations of the United States, the information is removed one step away from the Brazilian diplomats themselves. This lack of primary documents from the Brazilian side of the collaboration was due to a lack of access to archival materials, and a lack of personal knowledge regarding Brazilian Portuguese. A knowledge of the international atmosphere at the time and the related information from the U.S. diplomatic staff inform many of Brazil’s decisions, but a wider base of research would have allowed for more compelling and conclusive results.

Similarly, an analysis of the operational reports of the various companies and organizations tasked with improving the various sectors of the Brazilian economy would also have been useful in understanding the different projects. While this paper was focused mainly on the decisions made by the different diplomatic actors within the context of domestic and international economic, a look at the direct operational records for these organizations would have added much to this analysis. Finally, I would suggest that an adequate look at the military collaborations, either in conjunction with or additional to an economic analysis, would help to explain the complexities of the relationship. While the summary I provided earlier does convey many of the general trends, there are several nuances to be found within the diplomatic and strategic actions that were carried out through this period and demand the study and analysis of a keen historical eye.
If these shortcomings were addressed and corrected for in further research, then far more conclusive arguments could be made and a much more refined thesis would result.
Work Cited


