International Bankers, Diplomacy and Andean commodity business, 1890-1914[1]

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Abstract

After the Baring crisis in Argentina in 1890, the international banking scenario in South America was transformed, and those banks that had accompanied the funding of Brazil and Argentina found with an increase in competition with the arrival of other banking houses to the region. However, the competition was not only presented in the economic powers of South America, but also in the Andean countries with important strategic resources, essential to Central economies (Britain, Germany, United States and France). Nevertheless, the arrival of international banks was accompanied by diplomacy inasmuch as the interests of some countries by the Andean resources that will facilitate industrial progress and development.

Keywords: Networks, Banking, Diplomacy, Commodities, Andean Countries

Resumen

Después de la crisis de la Casa Baring en Argentina en 1890, el mapa bancario internacional en Suramérica se transformó, y aquellos bancos que habían acompañado la financiación de Brasil y Argentina, encontraron un incremento en la competencia con la llegada de otras casas bancarias a la región. Sin embargo, la competencia no solo se presentó en las potencias económicas de Suramérica, sino también en los países andinos que tenían importantes recursos estratégicos, esenciales para las economías centrales (Gran Bretaña, Alemania, Estados Unidos y Francia). Sin embargo, la llegada de los bancos estuvo acompañada de la diplomacia, dados los intereses de algunos países de hacerse a los recursos andinos, que les facilitarían su desarrollo industrial y su avance como potencias.

Palabras Claves: Redes, Banca, Diplomacia, Bienes Básicos, Países Andinos

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Introduction

After the Baring crisis in Argentina in 1890, the leadership of the Baring and Rothschild houses that had from years ago in the region was gradually reduced, especially in Argentina and Brazil. New opportunities for investment banks, merchant banks and joint-stock banks were opened, to develop new business and energize the Andean economies. Although it was not the first time that the Andean countries were linked with international banks, but was initiated a new process where a larger number of banks and commercial houses were articulated with commodity booms such as cooper, gold, nitrate and tin in a minerals group and coffee and cocoa in a soft commodities group.

The expansion of international trade in the late nineteenth century and early twentieth century managed to integrate the Andean countries to international commodity markets as part of a range of products required to meet new industrial innovations and changes in some eating habits in countries like Britain, Germany, United States and France. The growth of international trade was higher than world economic growth, as well as the integration of commodities trade with banking services like a finance of trade, exchanges operations and warranty for loans.

The tin in Bolivia, gold and coffee in Colombia, nitrates in Chile, cocoa in Ecuador and copper in Peru, in some cases another commodities, were consolidated as a commodity booms in small economies and achieved the supply of world markets that demanded a greater amount of raw materials to an industrial race that linked with commodities market throughout the world extension (Findlay and O'Rourke 2007, 405). Although some of these booms advanced beyond the First World War. But some of these resources were consolidated as a part of the political, economic and diplomatic strategy of the central economies that seeking to acquire a global political and economic leadership before outbreak the Great War.

The Andean countries did not have a good political stability but the reason of some international bankers linked with these economies was the importance of raw materials for the Central economies. Although the Andean countries could not to consolidate their political structure, as were frequent the clashes between different political groups and supporters of liberal and conservative factions. Several international bankers analysed if the opportunities might be attractive enough to join regions that could easily result in a territorial fragmentation or disintegration of some country. The temporary prosperity of Andean countries increased the revenues of international banks and also benefits of the industrial and innovation interests of central economies governments.

The Andean exports to Central economies concentrated almost the 80 per cent in some cases the 95 per cent and 80 per cent only to one country. By 1913 Bolivia sent 80.8 per cent of her exports to Britain, followed by 8.5 per cent to Germany and 4.9 per cent to France. Chile had a more balanced distribution with 38.9 per cent to Britain, 21.5 per cent to Germany, 21.3 per cent to the United States and 6.2 per cent to France. Colombia had to United States like a best partner with 44.5 per cent of her exports, and 13.5 per cent to Britain, 7.1 per cent to Germany and 2.0 per cent to France. Ecuador had to France as best partner with 34.1 per cent, and 24.3 per cent to United States, 16.6 per cent to Germany and 10.3 per cent to Britain. Finally, Peru had a distribution of his exports 37.2 per cent to Britain, 33.2 per cent to United States, 6.7 per cent to Germany and 3.5 per cent to France (Bulmer-Thomas 1994, 74, 94-95, Klaren 1986, 248-251).

The international prices and volume were part of the incorporation of the Andean commodities in world markets. The progress of production was essential to build a new perspective of commodity business. The nitrate had the evolution in volume but its price had a basic performance.[2] By 1890 the production was the 1.1 millions of tons, and the current price was 23.9 dollars per ton. Ten years after, the production increased to 1.5 millions of tons and price increased to 25.1 dollars per ton. Six months before outbreak the Great War, the production was 2.7 millions of tons, and the current price was 37.6 dollars per ton (O'Brien 1989, 134, Stocking and Watkins 1946, 123, Sutter and Sunkel 1982, 126).

The progress of Bolivian exports was favoured by global demand of tin and its price. By the period 1900-1904, the average price was $ 615 per ton and $ 881 by period 1910-1914 (Abadie-Aicardi 1966, 24, Ruiz 1956, 50-51). The Bolivian production increased from 1,700 tons by 1890 to 9,200 tons by 1900, and 21,800 tons by 1915, thus, Bolivia increased her

[2] The current prices are nitrate to put in Chilean ports of Antofagasta and Iquique not aboard ships.

share in the world market from 10.7 per cent in 1900 to 19.3 per cent in 1913 (Burt and Kudo 2015, 29, Thoburn 2015, 226). Peru had a good performance with cooper than Chile in early twentieth century but this country had other commodities with a same performance, like sugar, cotton and rubber.[3] By the period 1890-1899 the current average price of cooper at London Metal Exchange was 53.42 pounds. For the next decade the price was 70.86 pound per metric ton and 66.36 by period 1910-1914 (Schmitz 1986, 409).

The case of cocoa in Andean countries had in Ecuador the best performance. By 1885, Ecuador production was 11.8 thousand of metric tons, ten years after was 17.8 thousand of metric tons, a variation of 48.3 per cent. By 1905, Ecuador, Brazil and Trinidad & Tobago had a production over 20 thousand of metric tons but St. Tome was the major of cocoa producer. By 1914, Ecuador was a production of 47.2 thousand of tons with only one country with a major production: Ghana with 53.7 thousand of metric tons (Clarence-Smith 2000, 238-9). The other case of soft commodities is coffee in Colombia. The production increased the first years of twentieth century with an expansion of new cultivation lands, especially in Antioquia, that link with a Cundinamarca and Santander production (Bejarano 1987, 177-179). This expansion achieved that Colombia had participation by 1900-1904 period of 3 per cent of world production but in a world market with overproduction (Daviron 1993, Uribe 1952, 91).

This background raises the question: The Andean countries were incorporated into the commodity trading as from the structuring of a global network, where were linked international bankers, diplomats and local elites? To answer this question by analysing comparatively commodity business development in Colombia, Ecuador, Bolivia, Chile and Peru, with gold, coffee, cocoa, tin, nitrates and copper respectively, where the business was headed by local elites and partnerships with international entrepreneurs, but the results were different. This document investigates these issues using new evidence on international bankers. For this used network theory as a mechanism that explain the evolution of business

[3] See this hypothesis at (Drinot 2003)

and merchant schemes between 1890 and 1914. The network analysis linked with the archival sources at public and private archives in Britain, United States and Germany.

This document aims to analyse comparatively the development of commodity business and relations between Andean elites, international bankers and diplomats who allowed the business dynamics. But in some cases the influence in public and foreign affairs as part of its corporate strategy with different structure between countries. Although the analysis is developed in an imperial period, focuses on international business and economic diplomacy, where Central economies began to advance as an imperial power with the new political approach that deepened Wilhelm II at Germany and the advance of United States with innovation progress and the end of nineteenth century and the Roosevelt's presidency. This paper is an international business discussion and focusing on imperialism, like said Jones (2003, 367). Nevertheless this period was also characterized by the incorporation of banks to *Haute Finance*, that linked with governments, infrastructure projects, industry, innovation and technological progress, wherein were necessary the strategic materials and luxury products like cocoa and coffee.

This document is divided into six sections, besides this introduction. A second presents the political and economic scenarios of Andean countries. A third analyses the network between elites, foreign governments, banks and merchant houses in commodity business. A fourth examines the structure of the global network between each of Andean countries and the Central economies. A fifth a network model and the final section provides a conclusion.