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Abstract

The US corporations United Fruit and Standard Oil (New Jersey) have been historically considered the purest representatives of American imperialism in Latin America, generating strong nationalist feelings and hostile actions from both working classes and local elites. By studying these two companies’ operations in Colombia, this article analyzes how and why nationalism towards these multinationals differed from each other. I argue that the differences in the technological entry barriers between the banana and the oil industry strongly influenced nationalist policies at the government level. In the case of the low-entry banana sector, elite wanted limited government intervention because they were themselves active participants in this industry. The high costs of the oil industry, by contrast, encouraged elites to ally with the government to gain a foothold in this industry.

Keywords: Economic Nationalism, Foreign Direct Investment, Oil Industry, Political Economy, Banana Industry, Exxon, Chiquita, United Fruit Company, Standard Oil Company, Colombia

Introduction
On September 17, 1945, business historian Henrietta Larson met Colonel James Flanagan at the Waldorf Astoria Hotel in New York to interview him about his activities with Standard Oil Company of New Jersey (now Exxon) in Latin America. A picturesque character with a history of adventures around the world, Colonel Flanagan had been a key figure in negotiating the oil concessions in South America for Standard with local governments. During their conversation, Larson asked Flanagan about the relationship Standard Oil had with the Latin American governments and labor forces. He proudly replied that Standard’s behavior towards the local societies was outstanding in comparison with other American multinationals. Flanagan chose the specific case of the United Fruit Company (now Chiquita), to illustrate the good relations between Standard Oil and the host countries. He said that while United Fruit was a good example of corporate arrogance and disrespect towards local societies, Standard had shown a remarkable behavior in terms of contributions to the local society and respect to the local legislation and culture.

Flanagan’s choice to compare Standard with United Fruit--among all the American companies operating in Latin America at the time--was not a coincidence. Both United Fruit and Standard Oil have been traditionally perceived as the quintessential representatives of American imperialism in Latin America. The two companies have been portrayed as powerful institutions that violently transformed the local countries to their

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2 Larson, “Reports,” 68-76.
benefit by oppressing workers, and profiting from the exploitation of the host countries’
natural resources. Thanks to mutually beneficial relationships with the local elite and the
US government support, these companies had no incentive to leave benefits for local
societies to enjoy. In fact, both companies shared the same nickname in Latin America --
*El Pulpo* ("The Octopus")-- because of the perception people had of these companies as
monsters with powerful tentacles that permitted them to control everything. Thus, it is
not surprise that these two companies have sparked strong nationalist sentiments in the
countries in which they have operated.³

In this paper I study the operations of Standard Oil and United Fruit in Colombia
during the 20th century. I am particularly interested in how the Colombian government’s
economic nationalist policies towards these two companies differed and why. I argue
that the technological entry barriers in each of the two sectors determined the differences
and similarities regarding the way the government, the national elite, and the working
class related to the multinationals operating in both industries.

The oil industry has high technological entry barriers. Companies have to make
enormous investments in early exploration phases, followed by the construction of very
expensive production infrastructure and little certainty of the returns a field can generate.
In less developed countries, these early high investments make it almost impossible for
an oil multinational corporation to think of local subcontractors. Local elites usually do
not have the capital and skills necessary to join the exploration and production effort.

³ A good general history of nationalist reactions towards foreign capital in Latin America can be found in
Press, 1999) For the oil industry see,; De la Pedraja, Tomas, *Petróleo, Electricidad, Carbón y Política en
Colombia* (Bogota: El Ancora Editores, 1993). For the banana industry see, Kepner, Stephen and Jay
Soothill, *The Banana Empire* (New York: Vanguard, 1935); White, Judith, “The United Fruit Company in
the Santa Marta Banana Zone” (Oxford: Unpublished Diss. 1971)
The only possible partnership in this effort is usually with the state, with whom the negotiations are made with a different criterion from that of private capitalists. The only role the local elite can aspire to in this industry is that of land speculators, skilled laborers, or lobbyists at the level of local government.

On the other hand, although an agro-export industry also requires significant initial investments, a multinational corporation can use the local elite as providers. The foreign company can provide technical or financial assistance to local growers and not rely solely on its own production. As I show in this study, a landowning elite can be already familiar with the agricultural industry and already has the skills and knowledge necessary to participate in agricultural production. As a result, it will be much easier for an agricultural multinational to find partners or subcontractors in less developed countries, than for oil multinationals. How do these technical characteristics affect economic nationalist policies? In this paper I show that because of the oil industry’s high entry barriers, the national elite would not oppose government initiatives that increase the rents the country gains from oil production. The entry barriers of the oil industry can make the state the best ally for a local elite interested in participating in that industry. The government can either increase the rents the country gets from the oil industry, or can by decree force the multinationals to hire local companies or have locals among their high-ranking officials. On the other hand, an elite that is working as a subcontractor of a foreign corporation in the agrarian sector might distrust nationalist initiatives towards the multinational. For the local producers, stronger participation by the government in the industry where the multinational operates means a general displacement of the private sector. The only instance in which an agrarian producer would like to see government
intervention is when the industry is in crisis, or when the multinational is abusing its power. Otherwise, they are most likely to have a smooth flow of exports with minimal government intervention.

The main findings of this paper can be summarized as follows: First, even though the two multinationals built a vertically integrated structure in Colombia, one (United Fruit) had more flexibility than the other one (Standard Oil). This was because United Fruit could place parts of the process (like plantation management and production) in hands of local producers, while no local producer could replace foreign corporations in the oil industry. Second, the flexibility of the banana industry and its lack in the oil industry generated different attitudes from the Colombian elite towards these two foreign corporations: in the banana industry the national growers wanted the government to empower them when negotiating with United Fruit, but did not want the government to participate in the industry or to increase the rents the government could earn from it. Regarding the oil industry, the elite supported government initiatives to make the industry more competitive by inviting other foreign corporations to participate. It also endorsed the creation of a national oil company dominated by the government, but in which the elite could have some minor participation. Third, the relative low technological barriers in the banana industry made the elite believe that it was possible for them to compete openly with United Fruit in the world market by creating their own company with government support. At some point, the Colombian elite also thought that it was possible to create their own national private oil company with government support. However, due to their lack of capital to develop an industry with such high cost and
technological entry barriers, the elite had to accept that only the Colombian state and the multinational corporations were capable of exploiting national oil resources.

Nationalism, Vertical Integration, and Sectoral Foreign Direct Investment

During the late 1960s and early 1970s, scholars studying multinational corporations paid particular attention to the relationship between companies operating in the primary sector and host governments in less developed countries. The wave of economic nationalism and expropriation of foreign property in the Third World led several scholars to define new concepts useful to understand the new political economy of foreign direct investment. In their pioneer studies, Raymond Vernon and Louis Wells defined what they called the “obsolescing bargaining power” multinationals investing in the primary sector had. Roughly, Vernon and Wells argued that a multinational operating in the primary sector had its strongest bargaining power with the local government before it began any operation. However, given that the primary sector usually requires a vertically integrated structure, the more the company invests in the country, the lower its bargaining power is. Once the company establishes all the production infrastructure in the producing country, its bargaining power is at its lowest because these investments are not mobile and become easy targets for a government interested in expropriation.4

In his analysis of expropriations of foreign property in the Third World, Stephen Kobrin argues that a government might be inclined to expropriate foreign property not only because the multinational lost bargaining power, but also because the host country becomes more familiar with the technology used by the multinational and this technology

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became more accessible.\(^5\) This is a situation in which the country simply does not need the multinational anymore and can reap more benefits by exploiting the sector itself. This was particularly important in sectors with a high political or economic strategic value. Following this logic, Kobrin explains the wave of nationalizations in the 1960s and early 1970s as a period in which the governments of less developed countries decided to take control of strategic sectors (especially oil) they were finally capable of exploiting.\(^6\) Between the late 1970s and the 1990s - Kobrin and Minor argue-- less developed countries had completed the process of taking control of these strategic sectors, something that explains the decrease in the number of expropriations.\(^7\) Kobrin and Minor’s findings contribute to obsolescing bargaining theory by addressing the logic followed by host countries when they decide to expropriate or renegotiate foreign property.\(^8\)

Not all industries with large investments in infrastructure are subject to the same expropriation risks. Different authors have found that foreign direct investment in manufacturing faces lower expropriation risks due to several factors. First, governments in less developed countries tend to see manufacturing industry as an ally to generate development and economic independence.\(^9\) And second, the companies can operate along a nationalist protectionist policy, which eventually protects them as well. In some

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cases, manufacturing multinationals can adopt a nationalistic discourse and operate within the government’s nationalist agenda. 10 These two factors create a situation in which manufacturing industries generate less resentment from the local population than the extractive ones. Kobrin’s empirical studies have even found that the obsolescing bargaining power theory does not hold true for manufacturing corporations. 11

Many scholars agree that foreign investment in manufacturing can generate more economic growth and social stability than that in extractive industries. The classic Dependency scholars argued that foreign direct investment (FDI) in extractive industries exacerbated problems of poverty and political repression. 12 More recent studies have argued that not only does FDI in manufacturing generate economic growth, but also that FDI in the extractive industries has a negative impact in economic growth, political stability, and the creation of democratic regimes in poor countries. 13 These studies analyze the political economy of FDI by isolating investment in extractive industries from other industries. My paper makes a contribution to the literature by comparing two sectors within the extractive industries.

12 Frank, Andre G., Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil (Monthly Review Press, 1969); Dos Santos, Theotonio, Imperialismo y Empresas Multinacionales (Buenos Aires: Galerna, 1973)
National Elite, Multinational Corporations, and Export Economy in Colombia

Latin American elites have traditionally been involved or closely linked to export economies, placing them in close relationship with foreign capital. The Colombian case has several particularities. First, during the period I analyze the country’s main export was not oil or bananas, but coffee, which rose from 68% of total exports (already extremely high) in 1925-29 to 72% in 1945-49. Second, the coffee sector was not dominated by foreign multinationals. The Colombian elite controlled most of the exports, but did not vertically integrate the industry, leaving production in the hands of a combination of small landholders and traditional big landowners. Third, although banana and oil exports were not as significant as those of coffee, they were the sectors with the largest levels of foreign investment in Colombia. Fourth, although we find a local landowning elite in the banana sector, this was a regional elite with little influence at the national level. Coffee was so important that on several occasions, the government preferred to follow policies that defended this sector even if this was on the detriment of the export of other goods, including bananas. Fifth, from the 1940s, an industrial elite emerged and became more and more important and politically influential.

14 Palacios, Marco, Entre la legitimidad y la violencia: Colombia, 1875-1994 (Bogotá: Norma, 2003): 143-144.
16 Bergquist, Labor, 298.
The Conservative years: Promotion and resistance to Foreign Direct Investment, 1900-1922

During the first years of the 20th century, Colombia was recovering from the bloody “War of the Thousand Days” (1899-1902), a conflict between Liberals and Conservatives, that destroyed the country’s economic infrastructure. The triumphant Conservatives, under the leadership of President Rafael Reyes, decided that the only way to jump-start the economy was through foreign investment, so after 1902 the government actively sought the arrival of foreign corporations. The Conservatives remained in power until 1930, and during these years Colombia enjoyed unprecedented economic growth through coffee exports, the birth of the manufacturing industry, foreign loans, and foreign direct investment.

Attracting United Fruit

United Fruit started its operations in Colombia in 1899, in the midst of the War of the Thousand Days. However, the company was operating in the Atlantic Coast, a region that suffered less than the rest of the country in terms of combats and destruction. By the end of the war, United Fruit was the only big corporation operating in the Colombian Caribbean. Reyes considered United Fruit a regional engine for economic growth, so it provided the company with tax incentives and land grants to create a banana export industry in the Magdalena region.

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During its first years of operations, Reyes’ incentives had the effects he sought. Magdalena turned into an important banana producer in the Western Hemisphere, the company invested in infrastructure such as railways, telegraph lines, hospitals, housing for workers, and port facilities, and the planters were exporting their fruit, something they had been unable to do on their own prior to United Fruit’s arrival. Simultaneously, Magdalena witnessed the arrival of a mass of unemployed people attracted by the relatively high wages United Fruit offered.

The economic changes generated by United Fruit did not mean that the company faced no resistance or criticism. Before 1922, there were two big strikes against United Fruit (1918 and 1919). In these two strikes the workers demanded a wage increase, an eight-hour day, written labor contracts, and health benefits. Although the workers did not succeed in getting contracts and had modest gains in their other demands, these two strikes marked the beginning of an increasingly organized and powerful banana workers’ union movement.²⁰

United Fruit also dealt with some opposition from a group of small planters in Magdalena. Although many planters were satisfied with their role as United Fruit providers, others wanted to work independently, something made impossible by the contracts they had previously signed with United Fruit. The multinational had made sure that the planters could not sell their fruit to any other company (including the fruit United Fruit rejected), and created a complex system of enforcement that included the use of foreign courts whenever a planter exported the fruit without United Fruit’s permission. The company also staggered the expiration of different contracts, thereby avoiding the risk that “free” planters unite to form their own company. The attempts by some planters

to create their own business parallel to United Fruit failed, and the company exerted undisputed control of the business in Magdalena until 1945.21

Finally, the policies towards United Fruit faced some opposition by the Magdalena local government. First, they were disappointed with the tax exemptions President Reyes granted United Fruit. The Magdalena government saw in the banana boom an opportunity to increase its rents, so leaving the main sector of the economy tax-free did not help. Second, they also disliked the thirty-year railway concession the central government granted to the company. The main opposition to these policies came from the Liberal politicians in Magdalena who represented the region’s small holders and the planters who wanted to gain independence from United Fruit. The large landowners remained faithfully loyal to the Conservative government and their arrangements with United Fruit.22

How did the Conservative government react to the different sources of opposition to United Fruit? The government remained devoted to its commitment to facilitating United Fruit’s operations. Under the government’s viewpoint, the undeniable economic growth the banana zone, and the prosperity of some of its inhabitants as a result of the banana exports, justified the protection of the company. In addition, both the company and the government shared a dislike towards labor unionism, which they characterized as “Bolshevism” infiltrating the country. This is why it was not hard for United Fruit to get government support in repressing the 1918 and 1919 strikes.

22 Bucheli, Bananas and Business, 91-94.
The planters who wanted to develop their own business independent from United Fruit, found little support from the central government. In the 1920s, some planters along with the local government requested that the central government open a branch of the state-owned Agrarian Mortgage Bank in Magdalena in order to compete with the loans provided by United Fruit. In fact, United Fruit was the only serious credit institution in the region. The government, however, took too long to open the bank, and once the bank opened the local planters suffered a disillusion when they found out that the interest rates of the Agrarian Mortgage Bank were even higher than those charged by United Fruit, and the application requirements more complicated.\textsuperscript{23}

Finally, the opposition of the local government to the taxation system could not succeed in the highly centralized Colombian political system. Not only most fiscal decisions were made in Bogotá, but Magdalena was a particularly politically weak region in the country.\textsuperscript{24}

\textit{Oil and the Loss of Panama}

The policies towards foreign investment in oil proved to be more complicated than those in the banana sector. Although the Conservative government wanted to attract foreign corporations, they did not want them to become extremely powerful in the country. The Mexican Revolution begun in 1910 was seen as a lesson of what could happen to a country when foreign oil corporations become too politically powerful. In addition, opposition to excessive control of the oil sector by the foreign companies was much stronger than that found in the banana sector. This is understandable for three


\textsuperscript{24} Bucheli, \textit{Bananas and Business}, 92-94.
reasons: first, strategically speaking oil is undoubtedly more important than bananas. Second, by the 1910s there was a belief that Colombia had extremely rich oil reserves under its soil. And third, the oil policy would be strongly tied to the issues around the US support for the separation of Panama from Colombia in 1903.

Right after the end of the War of the Thousand Days, there was a strong anti-American sentiment in Colombia. The United States had openly supported the separatist movement of the Colombian province of Panama in order to take control of what would become the “Canal Zone.” In 1909, the Colombian government signed the Cortes-Root Treaty recognizing Panama as an independent state. The opposition to this treaty in Colombia was so strong that Reyes suppressed basic freedom and speech. This however, was not enough to stop the opposition by the press, or street demonstrations against to what many considered a humiliating treaty with the US. Unable to control the opposition to the Cortes-Root Treaty, Reyes resigned in that year.

In 1913, the British firm Pearson and Son Ltd., opened negotiations with the Colombian government for an oil concession. The United States government distrusted Pearson, whom they saw as one of the conspirators in the outbreak of the Mexican Revolution. Pearson and Son was a very powerful company in Mexico, producing 60% of that country’s output through its subsidiary El Aguila, and was looking for new sources in South America. In order to reduce nationalist opposition, Pearson proposed that the Colombian government create a Colombian oil company with which Pearson

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would work. Although the government liked the idea, it was reluctant to go ahead as it negotiated reparations with the US—a country opposed to Pearson’s actions— for the loss of Panama.\(^{28}\) The US opposition to Pearson’s operations were basically because this British company was encroaching in “US” territory. American opposition to Pearson’s operations in Colombia led the Pearson official in charge of the negotiations to publish a letter in the London *Times* questioning the right of the US to oppose the actions of a sovereign nation.\(^{29}\) So, in spite of US opposition, Pearson continued to conduct oil exploration in Colombia.\(^{30}\)

In 1914, the US Ambassador in Colombia signed the so-called Urrutia-Thomson Treaty in which the United States acknowledged its participation in the Panama secession and the negative effects this had in Colombia, committing to pay $25,000,000 in reparations. The treaty still needed to be ratified in the US Senate. It found a strong opposition from Republican Party, which considered the document a *mea culpa* for gaining control of the Panama Canal, which they considered “one of the great acts, of a great president, in a great era of American history.”\(^{31}\) However, some Democratic senators, along with President Woodrow Wilson, considered it crucial to normalize relationships with Colombia, a country they considered a great potential oil producer. In addition, aware of the moves Pearson was making in Colombia, the Wilson

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\(^{28}\) Letter from Ribbon to Lord Murray, January 25, 1914. Pearson (S.) and Son Ltd. Papers, Reel 133, LAC. Benson Library, University of Texas at Austin; Philip, *Oil*, 34.


\(^{30}\) Lael, *Arrogant Diplomacy*, 94

administration considered the treaty a great opportunity to open the doors of Colombian oil to American companies. 32

With the debate over the treaty still going on in 1916, the Tropical Oil Company, an American corporation, purchased the territory of the De Mares concession. It started drilling in 1918, and made its first discovery in 1919. 33 As soon as Tropical started pumping oil, the Liberal opposition pressured the government for more nationalistic legislation. In addition, according to the Liberal newspaper El Tiempo, most of the Colombian territory had already been divided among foreign oil companies. The government reacted to the criticisms by writing new legislation, which declared the country’s subsoil property of the state, similar to the provisions Mexican revolutionaries wrote into their country’s Constitution in 1917. 34 The American oil companies considered the new legislation a potential threat, and the US government decided to postpone the ratification of the Urrutia-Thomson Treaty until the Colombian government made some changes to its oil laws. 35 Fearing the loss of the Panama reparations, Colombian President Marco Fidel Suárez informed the US government and the American companies that they had nothing to fear from the new oil legislation. However, this attitude only generated more internal opposition, which eventually led to Suárez resignation. 36 In December 1919, the Colombian Supreme Court declared the national

32 Lael, Arrogant Diplomacy, 93
subsoil law unconstitutional ending with the impasse that risked the Urrutia-Thomson Treaty.  

In 1920, Standard Oil Company (New Jersey) initiated operations in Colombia by acquiring Tropical Oil. The Urrutia-Thomson Treaty still needed final ratification, and Standard sought ways to speed up the process by sending Colonel James Flanagan, the company’s main negotiator for South America, to Colombia. The Colombian government had granted a thirty-year concession to Tropical Oil. Keeping his affiliation with Standard secret with the Colombian government, Flanagan negotiated to create a new “independent” pipeline company, the Andian National Corporation, registered in Canada. Andian would be in charge of building the pipeline and providing Tropical (or the Colombian government once the concession finished) with transportation services. In order to get the Colombian government on its side, Flanagan traveled to Washington and informally lobbied the US government to gain approval of the Urrutia-Thomson treaty. As one of the main negotiators for Colombia in Washington, Flanagan acquired a privileged position within the Colombian government, which approved the contract with Andian after the American government accepted to pay Colombia the reparations in 1922. Pearson had left Colombia in 1919 after the new legislation and by pressures from the British government, who did not want to confront the US, leaving

39 The information on the role of Flanagan is taken from the unpublished manuscripts of the interviews made by Henrietta Larson. See Larson, “Reports from Interviews,” 68-76.
supremacy over the Colombian oil sector to the Americans with the arrival of Standard Oil.

The secrecy surrounding the role of oil in the negotiations in the Panama reparations ended in 1924, provoking a scandal in the US. Several senators openly admitted that the reparations were paid in order to secure American oil interests in Colombia, something that was immediately condemned by the British media. But in the end, the scandal did not have any lasting consequences on relations between oil companies and the Colombian government.40

After 1922, Colombia entered a new period of economic prosperity. The Panama reparations provided cash the government used for public works, and as collateral for cheap foreign loans (this period is known as the “Dance of the Millions”). The industrial sector flourished as never before, and coffee exports boomed. Economic changes led to social transformations: an urban working class appeared, and the industrial elite became increasingly powerful with respect to the traditional landowning class. These transformations also permitted the growth of the opposition Liberal party, which had a larger constituency as a result of labor unions and the growing urban population.

Negotiating before the “Dance of the Millions”

What does the pre-1922 experience with United Fruit and the oil companies tell us? Although there was a consensus around the need of foreign direct investment for national economic development, Colombian government and private actors did not take the same approach to bananas and oil. In the banana sector, United Fruit had a relatively important group of local planters who worked alongside with the multinational.

Although United Fruit had its own plantations, the local growers produced more than half of the fruit. Local growers only requested some government intervention when they tried to compete with United Fruit. However, the kind of intervention they wanted was in the form of cheap loans, and not the creation of some government owned banana company able to compete with them. Liberal opposition groups protested against the company’s power and wanted stronger participation by the local elite through soft loans. It is worth highlighting that the local banana growers did not ally themselves with their regional government against the company. This is because the Magdalena government wanted to increase taxation, and the local growers certainly did not want that. This explains why the Magdalena growers and the Magdalena government never bonded together against the company.

The situation in the oil sector was very different. There was no local elite involved in the business, and the political discussion surrounded taxation and concession terms, instead of the creation of financial resources to allow the national elite to compete. The high technological barriers of the oil industry did not permit the creation of a local oil elite even with soft loans or tax incentives. One also finds a strong relationship between the oil policy and the separation of Panama. The great importance of oil tied the two issues together, and the reparations around Panama and the Colombian oil legislation were a topic of heated debate in the US Senate, something that did not occur in the case of the banana industry. Even though both United Fruit and Standard Oil were multinational corporations, the policy towards oil was considered issue of domestic and foreign policy. We cannot ignore that two presidents (Reyes and Suárez) had to resign
because of their oil policies. However, the social changes experienced by Colombia after 1922 had a deep effect on the ways the government related to these two corporations.

**Growing Unionism and Conservative Nationalism, 1922-1930**

The $25,000,000 reparations for Panama brought the country a period of economic prosperity and social transformations. On one hand, the country—in particular the city of Medellín—witnessed the rapid growth of an industrial elite. This elite benefited from coffee exports by producing textiles for a population with increasing purchasing power. In other cities, the food industry permitted the enrichment of other entrepreneurs. With these changes also came the rise of labor unionism. During this period, workers became acquainted with Socialism and Communism, and started organizing themselves in both the cities and the countryside. The creation of this industrial bourgeoisie and a politicized proletariat deeply affected the operations of these two companies, as well as the way the government related to them.

The payment of reparations was followed by a friendlier oil legislation by the Colombian state, which increased the size of concessions and opened the possibility of exploration and production on public lands. More and more, international analysts saw Colombia as a good place to invest.

**Oil and Banana Unions During the Conservative Regime**

United Fruit and Standard Oil were the first companies to deal with large-scale strikes in Colombia. There is a consensus that both companies paid higher wages than

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41 “Colombian Oil Reforms” and “Colombia Proving a Real Oil Country,” *Oil and Gas Journal*, Vol. 21, No. 42, March 15 1923: 11.
any other employer in Colombia. It is also widely accepted that these companies also provided their workers with unprecedented welfare measures before the Colombian state began to demand worker protection in legislation. The banana and oil workers are considered the first proletarians in Colombia and, therefore more mature and more sophisticated in understanding labor relations than their illiterate peasant counterparts. For this reason, they were the first workers approached by Socialist and Communist organizers. As close followers of orthodox Marxist theory, these left-wing leaders believed that a revolution was only possible among the industrial proletariat, rather than among peasants living in semi-servile conditions. These Socialist leaders included Raúl Antonio Mahecha, who had studied in the Soviet Union, and María Cano, a charismatic union leader, both of whom organized strikes in both oil and banana regions in the 1920s.

When it comes to labor relations, it is possible to draw strong parallels between the banana and oil sectors. In fact, Mahecha worked at organizing the workers of both sectors almost simultaneously. Although closer to the Liberals than to the Conservatives, the most radical union leaders (like Mahecha) were distrusted by both sectors of the elites. The government also followed the same approach with the unions in both the banana and the oil industry: it started with negotiations but ended with repression. However, as time passed, the Liberals found in the union movement a way to increase its constituency and win the presidential elections. An analysis of Mahecha’s activities in both sectors provides a good illustration of the similarities and differences between labor unionism in both sectors.

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Labor Conflicts in the 1920s

In 1922, Mahecha settled in the city of Barrancabermeja (also known as Barranca), the center of Tropical Oil’s activity. He chose Barranca because he considered the oil workers the most “modern” in the country and, therefore the ones who could lead a proletarian revolution. In 1923, Mahecha created the Unión Obrera, the labor organization of the oil workers, and managed the candidacy of a union member for the city elections. The government incarcerated him for a month, as a result of these actions, after which he returned to his union activities. Under his leadership, workers organized protest demonstrations that led the Conservative government to send a negotiator to Barranca in early 1924. The negotiators made Tropical sign a document in which the company agreed to accept some of the workers’ demands. However, this did not eliminate tensions, and in October 1924, the oil workers went on strike for the first time, joined by local peasants and small shopkeepers who resented the power of Tropical’s stores. Ten days later, the workers and the company reached an agreement, but Mahecha was arrested and placed in prison for seventeen months.43

Once again, Mahecha returned to his union activities after his arrest. In 1926, he organized a new strike, arguing that Tropical did not comply with what it had agreed upon in 1924. In addition, the workers demanded a 25% wage increase (against the 6% offered by Tropical), job security, Sundays off with pay, and improvements in working

In January 1927, 7,000 workers called a new strike, followed by thousands of workers around the country, who stopped work in solidarity. The Conservative government saw this movement as a threat to political stability, and decided to end the strikes with force. The Army forced 4,000 people out of Barranca and arrested Mahecha for six months.

The government and the Tropical Oil had deep concerns about the implications of the strike. During the oil strike, José Antonio Montalvo (the Minister of Industry) personally contacted Tropical’s manager, who told the Minister that increasing the workers’ salaries and decreasing their work day would create a terrible precedent (“precedente funesto”), creating pressures to drive up wages, and thereby harming the oil and agricultural economy of the region as a whole. The major of Barranca expressed that the strike had started peacefully, but that the intervention of the police had increased tensions. The workers, on the other side, argued that both police intervention and the company’s actions were illegal. In the end, Montalvo argued that the strike was illegal and endorsed the police and army intervention. This eventually led to the killing of between three and eleven strikers by the police in January 22, 1927. As I show in the next section, it was during that same period that Montalvo led the first nationalist campaign against oil multinationals, leading Marxist and Neo-Marxist historians to identify him as a hero against US imperialism.

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After his third arrest, Mahecha moved to Magdalena to collaborate with the banana union movement. The banana workers had already organized their union and went on strike in 1924 demanding the formalization of contracts between the company and the workers. United Fruit used a subcontracting system by which most workers did not formally belong to the company. In addition to this, the workers also demanded better working conditions and an increase in welfare expenses. The company and the workers agreed on everything except for the elimination of the subcontracting system.47

The company’s refusal to sign a contract radicalized the union movement, which in turn allied with other workers in the region (with jobs related to banana exports). This much larger union organized one more strike in 1927, which was unable to make United Fruit sign contracts with its workers. In 1928, the workers kept insisting on the contract issue by threatening a new strike. This time, the government also sent a negotiation team who told United Fruit that the workers’ demands were legal and did not define them as subversive. Feeling that the government endorsed their petitions, the workers’ set up a date for the strike, which began in November 1928.48

The 1928 strike grew to levels neither the company nor the government could have imagined. With 25,000 striking workers, it became the largest strike ever seen in the country. Although the government initially showed some sympathy towards the workers, it quickly vanished as the government began to view the strike as part of a dangerous revolutionary movement. United Fruit refused to negotiate with the workers, and the government brought the Army to control the strikers. This tense situation came to a tragic end when on December 6 1928, the Army attacked and killed a group of

unarmed demonstrators, an event reproduced by novelist Gabriel García Márquez in his novel *One Hundred Years of Solitude*.49

Responding United Fruit and Tropical Oil, one finds a government more preoccupied with halting a Communist revolution than with improving the workers’ living conditions. With each of the largest strikes (1927 and 1928), the government assumed the role of the arbiter only to end the conflict with the use of force. Only the most radical members of the Liberal Party and the Socialist Party openly denounced the government’s actions as selling out to American interests. The government justified its actions by arguing that a Communist revolution had been avoided. Among those who supported the government’s actions was Minister Montalvo, who spread fears of workers reading “alarming Bolshevik tracts.” The Liberal newspaper *El Tiempo*, added that “the Soviet spirit is as foreign to our people as the Protestant spirit, and the very painful proof has been the Magdalena strike.”50

Regarding labor relations, the government behaved similarly in labor conflicts in both the banana and oil sectors. This Conservative government that sent troops to the striking areas and claimed that Colombia was in danger of falling in the hands of the Bolsheviks, was the same government that followed an aggressive nationalist campaign in the oil sector in the same period, as I explain in the following section.

*Conservative Economic Nationalism*

The period in which the government repressed the large strikes against Tropical (1927) and United Fruit (1928) coincides with a time of strong nationalism from the

50 Henderson, *Modernization in Colombia*, 166; Bucheli, *Bananas and Business*, 120.
government in the oil sector. The Conservatives were aware of their decreasing
popularity and the perception that the country had fallen into the clutches of American
multinational or was a puppet of US interests. In 1927, Minister Montalvo, tried to
increase the royalties paid by foreign multinationals from 10% to 15%. Tropical,
however, rejected the idea, forcing Montalvo to look for other means to increase the
government’s bargaining power with the company. Montalvo’s strategy was to secretly
approach Anglo-Persian and negotiate a concession with them in the Urabá region close
to the Panama border. The government signed a contract with Anglo-Persian’s secret
envoy, colonel H.I.F. Yates in July 1927. This contract, however, still needed the final
approval of Congress.51

Montalvo wanted to use the recently expired Barco Concession to attract the
British. The Barco Concession, in a territory close to the Venezuela border, had been
awarded to the Carib Syndicate in 1918, but since the company did not comply with its
obligations to exploit the oil within the time stipulated its concession was declared null in
1926. This briefly caused protests from the US Department of State.52

The secret contract between Yates and the Colombian government was filtered to
the press causing an outrage in both the US companies and the opposition represented by
the Liberal Party.53 Standard informed the US Department of State, and lobbied in the
Colombian Congress for a rejection of the contract. Although the US companies did not
get the support they wanted from the Department of State, the British government saw

51 De la Pedraja, René, *Petróleo*, 23-25; Colmenares, “Ospina y Abadía,” 262
this issue as a source of potential conflict with the United States in the Western Hemisphere and decided to cancel Anglo-Persian projects in Colombia.\textsuperscript{54}

Some members of the Conservative Party also opposed the Yates contract, but for different reasons. The charismatic Conservative leader Laureano Gómez accused the government of placing Colombia under the yoke of the British Empire, and proposed the nationalization of oil as an alternative. Gómez, an ultra-rightwing, fanatic Catholic, anti-Semitic, openly racist, and Mussolini admirer politician had also a strong dislike of the United States and the industrial elite of Medellín. He believed in clear social hierarchies kept in order by the government and the Catholic Church. In spite of these beliefs, however, his proposal to nationalize oil made him popular among young Conservatives and Liberals.\textsuperscript{55}

In spite of the opposition led by Gómez and the Liberal Party, the government continued with its own nationalistic agenda. In November 1927, Montalvo sent a new “Oil Emergency” law to Congress, which gave the government unlimited powers over the oil industry until a new oil legislation was written.\textsuperscript{56} The “Emergency” law was approved in 1928, and afterwards Montalvo showed the press evidence that Tropical had not complied with its contract and announced that the De Mares concession would be nullified. This announcement provoked a strong reaction from both the companies and the American embassy. The US Department of Commerce advised against buying Colombian bonds, and the \textit{Wall Street Journal} told its readers that Colombia was

\textsuperscript{54} De la Pedraja, \textit{Petróleo}, 27-28.
\textsuperscript{55} Henderson, \textit{Modernization in Colombia}, 147-148; Villegas, \textit{Petróleo, Oligarquía}, 129-132
\textsuperscript{56} Villegas, \textit{Petróleo, Oligarquía}, 123-125.
following in the same steps of Mexico. As a last resort, Montalvo sought the support of the Colombian elite, but was disappointed. In a poll he conducted among the elite he found out that although they wanted an increase in royalties (as Montalvo), they did not want conflict with the multinationals. Conservative Montalvo did not accept the support offered to him by different sectors of the political left and the Liberal Party. The Left interpreted as a rejection by the Conservative right of any approach to the left even if approaching the Left benefited the nation as a whole.

In order to gain the support of the national elite, Montalvo proposed a new law in 1929, dropping the idea of royalties increase, but forcing the companies to sell 20% of the stock to Colombian citizens. This idea received even more opposition than the previous one. The oil companies considered it illegal, and the nationalists who had supported Montalvo thought this was a step backward from the previous initiatives. And many fellow Conservatives and several Liberals thought this put the U.S-Colombia relations in jeopardy. In this context, Montalvo’s projects collapsed. A year later, Colombia went to new presidential elections with a divided and fatigued Conservative Party, and a Liberal Party popular among the working class as a result of the government’s repressive actions against the workers during the banana and oil strikes. After thirty years in power, the Conservatives lost the elections, and Liberal Enrique Olaya became the new president.


59 Estrada, Sucesos, 229, 243.


The Colombian “New Deal” and the Foreign Corporations, 1930-1938

The changing composition of the Colombian elite defined the political alliances of the post-1930 period. The increasingly important industrial elite of Medellín approached its former critic Conservative Laureano Gómez to help stop the rise of labor unionism. The interest of the factory owners in keeping labor cheap made Gómez their natural ally. On the other hand, the Liberals were divided into three factions. One was led by Alfonso López Pumarejo, a strong advocate of labor and social reforms supported by import-export merchants as well as by labor unions. The commercial elite needed a working class with higher purchasing power, and labor reforms were the best way to reach them. Another faction was led by Jorge Eliécer Gaitán, a popular leader of working class origins and was a fierce critic the government alliances with the multinationals. Gaitán waged the strongest critique of the Abadía government after the Army’s intervention in the banana strike of 1928. Finally, there was the faction led by President Olaya, who wanted a closer relationship with the US with timid social reforms.

Olaya, the Great Depression, and the Multinational Corporations

Before running for president, Enrique Olaya had been the Colombian Ambassador to Washington for eight years. He believed that the government needed to show the US that in spite of the turmoil of the 1920s around workers and nationalist agendas, Colombia remained a good place to invest. The Depression had hit Colombia, and the president considered foreign capital was crucial to economic survival.

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62 The industrial sector witnessed an impressive growth during this period going from 7.1% of the GDP in 1925-29 to 14.4% in 1945-49. See, Palacios, Marco, *Entre la legitimidad*: 138.
In his first months as president, the banana unions realized that despite the fact that Olaya was a Liberal, they could not count on him as an ally. Although he did not repress them with the Army, he did not support them in their petitions either. This made the unions abandon their support to Olaya and approach Gaitán. Moreover, in 1930 United Fruit’s concession over the railway ended, but Olaya granted thirty more years after the multinational provided his government with a $1,000,000 loan. 1930 was also the year in which the banana exports tax exemption ended. The Magdalena government was disappointed when Olaya decided that the new export taxes would go to the central government, and not the regional one. Finally, the local planters who wished the exemption would be extended resented the new tax.64

In order to assure the American multinationals that they were safe in Colombia, Olaya proposed a new oil law to Congress in 1930.65 Both the multinationals and the foreign banks expressed their interest in the creation of legislation to eliminate some clauses that survived from the Montalvo years. In addition, several New York banks informed Olaya that without new oil legislation, the country risked losing access to new loans in the future.66 The law Olaya proposed to Congress eliminated the requirements that foreign oil companies’ workforce be composed of a minimum of 25% Colombian workers. It also eliminated the obligation to fully comply with Colombian legislation without diplomatic arbitration. In addition, the law permitted the companies to terminate their operations before the concession deadline; it decreased royalties from 12.5-6% to 11-2%; decreased taxation on private property from 8-4% to 8-1%; and decreased taxes

64 Bucheli, *Bananas and Business*, 96-98.
on pipelines operations by 50%. This legislation private sector friendly, had the support of the Medellin industrialists who had created the Unión Colombiana de Petróleo. This organization was the lobbying group of the Medellin industrialists to seek local participation in the oil business. The multinationals and the US government were not completely satisfied with the changes, however. Under these circumstances, Olaya believed that the only way to get the multinationals and the foreign banks on his side was by using the Barco Concession.

The Barco Concession, as I explained above, had been declared null by the Conservative government in 1926. The original grantee of the concession was the Carib Syndicate, which was later purchased by the Doherty interests, and later sold to Gulf Oil Company. Andrew Mellon, US Secretary of Treasury and founder of Gulf, suggested that Olaya re-establish the Barco Concession as a way to assure new loans in the future and to avoid more US opposition to his new oil legislation. Olaya proposed the nullification of the previous nullification to the Barco Concession and found an initial strong opposition in Congress and the media. However, Olaya convinced the opposition that without the Barco Concession the country’s economic stability was at great risk. In June 1931, Congress approved the new oil legislation, which permitted

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67 Villegas, Petróleo Colombiano, 68.
68 Palacios, Marco, Entre la legitimidad, 183.
69 De la Pedraja, Petróleo, 46-47.
70 Rippy, Capitalists, 143.
71 De la Pedraja, Petróleo, 51-52.
72 Estrada, Efraín, Sucesos Colombianos, 1925-1950 (Medellin: Universidad de Antoquia, 1990): 348-359
the South American Gulf Oil Co. to exploit the Barco Concession, an action celebrated in the American media.\textsuperscript{74}

The Great Depression also affected Olaya’s relationship with United Fruit. United Fruit’s concession of the Santa Marta Railway expired in 1930, and the local politicians saw this as an opportunity to gain stronger control of the banana business. However, after United Fruit gave Olaya’s government a one million dollar loan, Olaya decided to give United Fruit an extension for another thirty years. Additionally, 1930 was the year in which the tax exemption United Fruit had enjoyed for three decades was coming to an end. While the local Magdalena politicians wanted the tax exemption to end, the local growers and United Fruit were united in their opposition to any tax. As a way to avoid local opposition the Magdalena Assembly proposed that only export companies (i.e. United Fruit) and not producers paid the new taxes. Although the national government approved this, the new taxes did not go to the Magdalena government, but to the central government in Bogotá. One of Olaya’s main goals was the centralization of power in Bogotá, denying the Magdalena region to enjoy this long awaited income.\textsuperscript{75}

\textit{The “Roosevelt of the Andes” and the Multinationals}

In 1934, the Liberals won the elections again with Alfonso López Pumarejo, known by the nickname “Roosevelt of the Andes.” López won with the endorsement of the labor unions and the Socialist and Communist parties. A former banker, López


\textsuperscript{75} Bucheli, \textit{Bananas and Business}, 96-97; Palacios, \textit{Entre la legitimidad}, 139.
transformed the country through dramatic changes in labor and social legislation. His main goal was to modernize Colombia following the model of the American New Deal.

In the first months of his administration, López showed his support for the banana workers by siding with them in their new demands to United Fruit, forcing the multinational to write contracts with its workers. In fact, López even jailed the company’s manager for a brief period of time for not complying with the new labor legislation, something that sent a strong message to both the unions and the company.76

López also increased taxation to big corporations. In fact, just during the first year of the tax reform, Tropical Oil paid as much taxes in one year as it had paid in the preceding eight years.77 Taxation kept increasing in the following years. Payments of Col. $ 197,125 by Tropical in 1934, jumped to Col$ 1,108,908 in 1935, and Col.$ 3,382,657 in 1936. In his 1935 report, the Minister of Industry (Jorge Perry), highlighted how the government was making the oil companies comply with the labor legislation and contribute to the welfare of the producing regions.78 The government proudly showed these actions as the only means which it could increase state welfare expenses.79

In his first year (1934), López sought to decrease the oil multinationals’ power by proposing a law to create a state-owned refinery. This project, however, faced the opposition of Standard and the US embassy. Not willing to confront the US, López changed his proposal in 1936 by creating incentives for both foreign and national investors to build a new refinery in the country. In this proposal, the government permitted the operation of companies partially owned by foreign governments. This

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76 Bucheli, Bananas and Business, 98-99.
79 Estrada, Sucesos, 515-516.
measure was aimed indirectly at Anglo-Persian, the company López tried to attract to balance the US power in Colombia.\textsuperscript{80} Anglo-Persian, however, did not come and Standard remained the most powerful oil company in the country.\textsuperscript{81}

While trying to attract British companies, López approved a constitutional amendment that gave the government the right to expropriate private property. Although the government never used it, both United Fruit and the oil companies along with the US government, saw this as a potential threat.\textsuperscript{82}

**Involvement of the industrial elite in the oil industry, 1938-1951**

López’s term was followed by eight more years of Liberal rule. It started with Eduardo Santos (1938-1942), who declared a “pause” in López’s social reforms to avoid civil war, and followed by the reelection of López in 1942. These were also years of reorganization of the Conservative Party under the leadership of Gómez, who coordinated the opposition allied with the industrial elite and the Catholic Church.

In 1938, the Colombian elite was forced to rethink the way oil should be exploited. In that year, the Mexican revolutionary government expropriated foreign oil properties and created PEMEX, a state-owned enterprise in charge of all oil operations. With this event the government thought that a national oil industry was possible, so in 1940 it took a first step by creating the Ministry of Oil.\textsuperscript{83}

Shortly after its creation, the Ministry of Oil had its first conflict with Tropical. According to the government’s lawyers, the De Mares concession expired in 1946, but

\textsuperscript{80} De la Pedraja, *Petróleo*, 55-57; Villegas, *Petróleo Colombiano*, 83-84.

\textsuperscript{81} Philip, *Oil*, 44.


\textsuperscript{83} De la Pedraja, *Petróleo*, 70.
according to Tropical did not expire until 1951. The litigations extended until 1944, when the case was taken to the Colombian Supreme Court. The Court eventually decided unanimously in favor of the company.\textsuperscript{84} Although the company publicly showed confidence in the case and in the Colombian courts, the Conservative opposition used the Supreme Court’s decision to criticize the ruling party.

Despite the Supreme Court’s final ruling, the Colombian elite saw 1951 as the year in which they would create a national oil company with the De Mares concession. There was, however, a debate around how this company should be run. While some argued for a state-owned company (like PEMEX), others advocated for joint ventures between the Colombian state and local entrepreneurs with some foreign participation.\textsuperscript{85}

In the 1940s, Colombian industrial capitalists organized themselves in an organization known as ANDI (Asociación Nacional de Industriales, or National Industrial Association). Established in Medellín in 1944, ANDI became a powerful lobbying group with close ties with the Conservative Party. In the decades to come, ANDI became a strong advocate of protectionism and import substitution industrialization.\textsuperscript{86} The Mexican success in creating their own company made ANDI’s members think that a Colombian oil company was possible, and to begin lobbying for that goal.\textsuperscript{87}

The political environment changed in ANDI’s favor in 1946, when the Conservatives came back to power with Mariano Ospina. In 1947, Ospina proposed a new law to Congress to create a national oil company with 49% private capital (local or

\textsuperscript{84} International Petroleum Company (IPC), \textit{Annual Report} (Toronto: IPC, various years).
\textsuperscript{85} De la Pedraja, \textit{Petróleo}, 76.
\textsuperscript{86} Palacios, \textit{Entre la legitimidad}, 173-177, 181-183.
\textsuperscript{87} Sáenz, \textit{Colombia}, 56/
foreign) approved in 1948 (Law 165). This was consistent ANDI’s goals, because they did not want a state-owned company a la PEMEX, nor they wanted the new national company to be created through expropriation. The law established that the new company would acquire the De Mares concession after 1951.

The nationalist goals of the Conservative government strongly differed from those of the Communist-dominated labor unions, who advocated for a total nationalization of the oil industry. After 1948, the government increased repression against labor unionism, but the oil organizations unions remained very belligerent in the following decades.

In 1949, the Colombian government invited Standard to be part of the group of private investors in the new post-1951 company, but Standard rejected the idea arguing that it would only participate with at least 51% of ownership. The negotiations extended until 1950, when Conservative Laureano Gómez, ANDI’s closest ally, was elected president.

Gómez’s economic policy was highly protectionist, ushering in the golden years of Medellín industry. During his administration, ANDI enjoyed incredible lobbying power in the government to the detriment of the merchant elite (who in 1949 created FENALCO, their own lobbying organization to advocate free trade), and the working class (who suffered prosecution after Gaitán’s assassination).

Despite Gómez’s close relationship with ANDI, the president opened a bid for the creation of the national oil company, in which both foreign and national companies could

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88 De la Pedraja, Petróleo, 81-82.
89 Sáenz, Colombia, 55.
91 Sáenz, Colombia, 57; Philip, Oil, 69.
92 For a detailed study of ANDI’s power in the Conservative administrations see, Sáenz Rovner, Eduardo, La ofensiva empresarial: Industriales, políticos y violencia en los años 40 en Colombia (Bogotá: Universidad de los Andes, 1992)
participate. While Standard proposed the government to provide management, technical, and refining services to the new company, the Medellin industrialists could not make a credible, viable and affordable counterproposal. The government gave ANDI the opportunity to come up with the capital they needed to develop a counterproposal, but this did not happen, leading the government to accept Standard’s. The government and Standard agreed on decreasing the multinational’s participation in the refinery’s profits from 50 to 25%, and on opening its distribution business to local capitalists. This happened in 1951 when the company sold 40% of its shares in Esso Colombiana to local investors.93

In August 25, 1951, Standard reverted the De Mares concession to the Colombian government. In the reversion ceremony, both the Colombian government and the multinational highlighted these instances as an example of “civilized” relationships between governments and foreign corporations. In fact, it was the first time in Latin American history that an oil concession had been transferred to the local government following the expiration of the original contract. Moreover, contrary to what happened in Mexico, the appropriation of the concession by the new government company, ECOPETROL, did not mean that foreign companies could not apply for new concessions. In fact, Standard received new contracts and concessions in following years.94 In 1961, Standard handed over the administration of the Barranca refinery, and only in 2003 did ECOPETROL become public.95


Involvement of the Industrial Elite in the Banana Industry, 1960-2004

The rising power of the Medellín industrial class also affected the relationship between United Fruit and the Colombian government. The company interrupted its operations in Magdalena between 1942 and 1947, because of World War II. The company returned and found that several Colombian planters had created their own export companies. United Fruit worked parallel to them hiring other local planters. Simultaneously, during the 1950s and especially in the early 1960s, United Fruit gradually sold its plantations in Magdalena to decrease its contact with an increasingly demanding and powerful labor movement.96

In the early 1960s, United Fruit withdrew from Magdalena completely and started new operations in the region of Urabá in the Antioquia Department. Antioquia, whose capital city is Medellín –ANDI’s birthplace-, was a much wealthier and politically powerful political unit than Magdalena. When United Fruit arrived in Urabá, the company decided not to run any plantations, and instead subcontracted all production activities to local growers. United Fruit offered cheap loans to anyone willing to develop a banana farm and provide the company with the fruit. The first ones interested in doing business with United Fruit were the Medellín industrialists.97

Contrary to the Magdalena planters, the Urabá planters did not hail from the region, and had no experience in the agrarian industry. While the Magdalena planters depended heavily on banana exports, the Urabá ones had other investments in the manufacturing industry, which as I describe above had a close relationship with ANDI.

The Urabá banana export industry boomed between 1963 and 1968. Funded with United Fruit loans, the Urabá planters transformed a territory previously covered with jungle and some small villages into a land dominated by plantations and ever-growing towns. The relationship between the planters and United Fruit, however, dramatically changed in 1968. In that year, the contracts between United Fruit and the local growers had to be renewed, and the multinational announced to its providers that its purchase price was going to be reduced by half. While United Fruit was the only company marketing fruit in the region, the growers decided to continue on their own by creating a Colombia banana company, Uniban, and a lobbying organization, AUGURA, headquartered in Medellín. The Urabá growers proved to be more powerful than their counterparts in Magdalena who had also requested the government’s aid years before. The Urabá growers received government support from the beginning through soft loans, subsidies, and new laws that obliged United Fruit to cooperate with the Colombian growers. 98 Even though Uniban was not a serious competitor to United Fruit in the long-term, it showed the multinational that it was dealing with growers with stronger political power with the capability of operating independently.

**Conclusion**

In this paper I compare nationalist policies from a host government in the Third World towards multinationals operating in two different industries of the primary sector: the banana and the oil industry. I show that the technological entry barriers each industry posed to the local elite highly influenced the relationship between the companies and the government.

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98 Bucheli, *Bananas and Business*, 173-175.
Each of the two companies created vertically integrated industries in rural areas. Both of them had been encouraged by the local government to invest, but one of them (oil) generated more nationalistic feelings than the other one (bananas). In the first half of the 20th century, the local elite did not show much opposition to the operation of either of the multinationals. In the banana sector, where the local participation was larger, the home providers wanted the security the multinational offered together with a maximization of profits subject to the restrictions imposed by the foreign company. The planters, the government, and the multinational had a common agenda in relation to the labor force: to keep it under control and free of left-wing influence. Similarly, the planters and the multinational did not want the government to participate in the business.

The technology used in the banana industry permitted United Fruit choose a subcontracting system to avoid labor problems. So, not only did United Fruit have more flexibility, it had more mobility. The latter was apparent when the company moved to Urabá using only a subcontracting system.

In the case of the oil industry, I find that before the 1940s no one believed that the local elite could develop the industry. The technological barriers were so high that the conflicts between the government and the companies revolved mostly around taxation, concession terms, and royalties. Before Colombia had a relatively important industrial sector, the development of a national oil industry simply sounded ridiculous. It was only with the maturity of the manufacturing industry in the late 1930s and early 1940s that the idea of creating a national oil company was taken seriously. Not only did the industrial elite accumulate significant wealth, but also it became a group whose lobbying power exceeded that of the traditional landowners. In the 1950s, both the government and the
industrialists realized that no local private company was capable of fully developing the oil industry. However, the influence the industrial elite had in the government permitted the it to claim part of the rents generated by the oil industry and to provide some services to it.

The events in the banana industry of the late 1960s show that even when United Fruit decided to only subcontract its providers, its power could be constrained by the political influence the local planters had. In Urabá, United Fruit was dealing with an elite more powerful and wealthy than the banana growers from Magdalena.

Nationalist reactions towards multinationals have differed depending on the sector in which the foreign company is working –manufacturing, extractive, or service. By studying foreign investment in two industries of the extractive sector, I show that nationalism was affected by the capabilities of the members of the local elite to create the industry themselves, the need the industry has for vertical integration, and the costs behind creating the vertically integrated structure. Further comparisons with other multinationals operating in underdeveloped countries will help us to draw clearer generalizations on the way the technological particularities of each industry affects the way a multinational relates with the local society.