INTERNATIONAL ECONOMIC RELATIONS:
Economic Forces and Development -
Brazil as a Case Study

A thesis submitted in partial satisfaction of the requirements for the degree of Master of Arts in Political Science

by
Paulo Ivan Vadas

January 1973
The thesis of Paulo Ivan Vadás is approved:

________________________________________
Committee Chairman

California State University, Northridge
January 1973
PREFACE

I dedicate this work to my wife who, through a great amount of patience and understanding, has tolerated my idiosyncrasies during the difficult moments of my scholastic endeavors; and to my son, for whom, I hope, my generation will be able to provide a more humane and peaceful world.

I would like to thank the members of my thesis committee, Dr. Ram Roy (chairman), Dr. Christopher Leu, and Dr. Larry Littwin, for their evaluations and criticisms of this paper; and Dr. Roger Rieber (now teaching at the University of Utah) for the great assistance he has given me in the selection of the topic for my Master's thesis.

A very special "thank you" to Drs. Lowell Noonan and Dalmas H. Nelson. Dr. Noonan has given me inspiration and guidance through my undergraduate and graduate study years. From him I acquired the necessary confidence to continue in my studies, and for that I shall always be indebted to him. Dr. Nelson has helped me to develop a more functional research technique which, as I discovered during my graduate years, was essential for the preparation of the graduate papers and for the Comprehensive Examinations for the Master's degree.
I would also like to thank the State of California and especially California State University, Northridge, for providing me with the facilities necessary to my pursuit of higher education.

To my mother, father, and brother I owe much for the contributions they have made, directly and indirectly, for better or for worse, to the development of my attitudes and motivations. To my aunt and uncle, my most sincere "thank you" for the warmth and hospitality with which they received me on my several trips to Brazil.

Last but not least, I would like to thank Senhor Raimundo of the Brazilian Consulate in Los Angeles for his assistance in providing me with pertinent information for this study; and Miss Charlotte Stolmaker for her invaluable aid in the finishing stages of this paper.

Whatever merit this paper may have should be credited to the hundreds of scholars whose works have provided me with the necessary knowledge concerning the subject matter. For its shortcomings, I take full responsibility.

P. I. V.

Los Angeles, California
January, 1973
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ABSTRACT

Economic development is not accomplished solely as a result of the decisions made by officials of particular nations. Rather, it is an interdependent evolutionary process formulated, shaped and transformed by several interrelated forces.

The purpose of this paper is to analyze how these forces of economic development have affected the economic development of Brazil. For analytical purposes the forces are divided into three major categories: internal forces, external forces, and international forces. Internal forces are attributes of the particular nation seeking economic development (e.g., social-political structure, natural resources, cultural expectations, infrastructure, etc.). External forces are seen as the perceptions that other actors in the international arena have of the particular nation under analysis (e.g., does General Motors see Brazil as a viable market for investment?). International forces are the interactions of all actors in the international arena (e.g., national governments, international organizations, multinational corporations, etc.) -- interactions which affect international trade and the flow of international capital and which contribute to a dynamic, ever-changing
international economic structure.

The underlying proposition of this paper is that the forces of economic development affect the manner and rate of development in particular nations, and the abilities of those nations to pursue their desires, in varying degrees. In turn, as these nations develop, the composition of each of the economic development forces changes. The case of Brazil's economic development is an illustration of this proposition.
I. INTRODUCTION

Economic development is the desire of most underdeveloped nations. Given the difference of resources which exists between developed and underdeveloped nations and among underdeveloped nations, several theories and models have been created, debated, and utilized in different countries to promote their economic desires. That they have failed can be witnessed by the amount of poverty and hunger which still exists in those countries.

But not all countries have failed in their quest for development. Some countries are, even if sluggishly, moving towards their goals of economic development.* Brazil is one of those countries which are, today, experiencing an economic boom.

The economic development of Brazil has followed decades of frustrating attempts to industrialize. That it is finally on its way, suggests that certain changes have been made with regard to the forces shaping that development. Since the Brazilian model, based on the goal of industrialization through domestic policies (primarily in the area of fiscal reform and economic

*By economic development it is meant the growth of output, not the distribution of wealth within any specific country.1
planning for the allocation of resources) and foreign capital reserves from foreign loans, aids, investments, and balance of trades, has basically remained the same throughout these decades, the forces which have allowed Brazil to finally move towards its economic goals must have been, at least to some extent, external.

It is the basic concern of this paper to analyze those forces and to show how they applied to the Brazilian case. As such, the theoretical proposition is framed on the assumption that the ability of Brazil to move towards economic development has been largely dependent on the external and international forces described below.

Economic development is dependent on three interrelated forces which, combined, form the total environment for the style and speed of economic growth: 1) internal forces; 2) external forces; and 3) international forces.

Internal forces are defined as those aspects which contribute to the economic structure and desires of a specific economic actor.* There are two primary internal aspects: a) physical aspects (i.e., resources at the command of the economic actor such as land, people, and capital; resources affecting the activity of the economic

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*By economic actor is meant any corporate entity (such as governments, common markets, international organizations, financial institutions, and private corporations) which partakes in economic interactions with other corporate entities.
actor such as climate, location and navigability of rivers and lakes, proximity to the ocean, etc.; and resources which facilitate the activity of the economic actor -- cost-saving infrastructure such as roads, communication systems, harbors, etc.); and b) social-political-cultural aspects (i.e., values, attitudes, sophistication, necessities, and desires of the members of a particular actor).

External forces are defined as those relationships which a particular actor has, directly, with other actors on a one-to-one basis and which affect each actor's policy formulations. A particular nation's policies affect the way in which foreign actors view that nation in terms of foreign investments. In turn, policies of foreign actors affect the manner in which a given nation views those particular actors in terms of allowing them to invest or, in the case where certain foreign actors do not want to invest in that particular nation, formulating policies which might "force" those actors to invest.

International forces are defined as those forces which indirectly affect a particular actor's policies. The trade policies of actors A and B may affect the policies of actor C, even though actor C was not directly involved in the policies of actors A and B. The relative "economic power" of actors in the international
arena affects all actors, one way or another, and provides for a "system" of economic relations (a sort of international economic structure*). Today, that system's structure is comprised of: a) the primacy of the United States; b) the development of the Japanese and Western European economies; c) the growth of multinational corporations**; d) the agreements of trade relations among the economic actors (e.g., the General Agreement On Tariffs And Trade); e) the internal policies of each actor vis-a-vis other actors (such as the imposition of import quotas); and f) the types of interactions among the economic actors (i.e., trade and/or investments).

* The international economic structure refers to the economic actors in the Western world -- those areas "dominated by the United States, including allies in Western Europe and satellites in Latin America and elsewhere (including Japan)..." under a "capitalist system; based on private ownership in a free market; development of corporate wealth and strong tendencies toward monopolistic controls of large private power blocks."2

**Hellman classifies corporations into:
"1) International corporations operate from the country of origin via export and possibly via subsidiaries and investments.
2) Multinational corporations try to introduce their potential in those countries in which the aims of the corporation can most easily be realized. The ownership and the decision making powers of multinational corporations, however, remain in national hands.
3) Transnational corporations are multinational firms owned and managed by nationals of several countries.
4) Supranational corporations, finally, are attributed to a national state. One day they shall be controlled by an international organization and owe taxes to this body."3

In this paper, Hellman's definitions of Multinational and of Transnational corporations are used interchangeably and referred to as multinational corporation.
The primacy of the United States has, at least since World War II, set the tone and pace of interaction between economic actors. United States economic policies, domestic and international, shaped the structure of international economic development which helped to restore the war-torn economies of Japan and Western Europe. In doing this, the United States also promoted the growth of international competition. As Cohen points out with reference to European economic development:

"Towards this end we disbursed to the former war zones aid in the form of grants and loans, most spectacularly under the European Recovery Program, which lasted from 1947 to 1952. Toward this end, also, we later encouraged an outflow of private investments from the United States, particularly to Canada but also to Europe, and we promoted through GATT (General Agreement on Tariffs and Trade) a broad program of worldwide liberalization of industrial trade that frequently benefited our allies directly at our own expense. Lastly, we encouraged various schemes of regional cooperation and integration in Europe, despite the potential threat to our own economic influence, on the grounds that these would cement ties, and substitute cohesion for fragmentation in the face of external communist pressures."4

The development of the Japanese and Western European economies has changed the international economic structure by intensifying international competition and lowering, relatively speaking, the primacy of the United States in the international arena. An article in Automotive Industries points out that the United States' "competitive edge as the world's leading trading nation narrowed as the
Europeans and the Japanese recovered. It was narrowed even more by integration within Europe -- especially within the Common Market -- which clearly implied trade diversion at America's expense. This, in turn, signaled a decline in (the United States') relative share of the welfare gains from international trade." The consequences are that "Europe and Japan have not only recovered from World War II, now they can even effectively challenge American leadership in world economic affairs. This country can no longer set the pace on matters such as commercial policy. Europe and Japan will become the pace-setters." 5

The growth of multinational corporations has introduced a new element in the international economic structure (the importance of which can be estimated from the growing literature analyzing such corporations and their impacts in international economic relations). Divorced in many ways from national interests and seeking instead corporate interests, multinational corporations, as will be shown later, have had a profound impact on the economies of several underdeveloped nations and especially on the economic development of Brazil.

The agreement of trade relations among the actors has provided channels through which economic actors can better accomplish their interactions in the international market. Institutions such as the International Monetary Fund have been created to facilitate international trade relations and to promote economic development. Agreements
such as the General Agreement on Tariffs and Trade have been made to give a certain amount of stability to trade relations by providing a forum in which multilateral agreements among the actors can be accomplished.

The domestic policies of each actor vis-a-vis the other actors have provided the dynamics and limitations of economic interrelations. Taking into account their desires, their possibilities, and their relative standing in the international market, each actor formulates its own internal policies aimed at achieving the best possible model through which to pursue their goals.

Finally, the type of interaction among the actors is accomplished through: a) foreign trade, and b) transfer of capital. Each of these types of interaction has different implications for the actors involved and should, therefore, be explained at some length.

Foreign trade refers to the buying and selling of products from one nation to another. The balance of trade is the difference between the aggregate of what one nation exports from the total amount it imports during a given period of time. The items exported by any given nation are dependent on the supply-demand relation in the international market for those particular products. The items imported by any given nation are, usually, those which for one reason or another that nation does not, or cannot, produce in sufficient quantities to provide
for the internal demands. The pattern of trade relations, in general, has consisted of underdeveloped nations exporting raw materials (primary products) to industrialized nations and importing manufactured products from the industrialized nations. Given the values, needs and quantities of the traded items, the industrialized nations have, when trading with underdeveloped nations, usually enjoyed a positive balance of trade while the underdeveloped nations have had, usually, a negative balance of trade. The results have been to widen the discrepancy in the balance of payments between industrialized and underdeveloped nations.

Transfer of capital has been used as 1) debt-funds (loans and aids from one nation to another to help in the payment of foreign debts); and 2) project-capital (which can be subdivided into public and/or private).

Public project-capital is loans or aids given by one government to another for the purpose of helping the lending country to purchase materials for defined projects or to apply the capital for the development of non-defined projects.

Private project-capital is provided by private enterprises to governments of other countries or enterprises of other countries, either as portfolio investments (as through the sale of stocks and bonds) or, more generally, through direct foreign investment. In this respect, Gordon suggests that:
"The role of foreign investment, especially direct investment, as one of the great engines of economic growth, has been amply documented in recent years. It can play an especially important part in helping to develop a strong domestic private sector -- in fostering local entrepreneurship, local skills, and a local sense of participation in a growing economic system... (I)t is especially relevant to businesses producing goods and services for local consumption. Here the stimuli of example, technique, training, and direct partnership can have the greatest multiplier effect in promoting rapid economic modernization."  

It is private, direct foreign investments which, I suggest, hold the key to the economic development of Brazil. When we analyze the internal, external and international forces in terms of the Brazilian model for economic development, the role of foreign investments becomes clear.* Foreign trade, on the other hand, as pursued through the concept of division of labor (i.e., complementary trade among nations,) has not been a major factor in providing for economic development. Calling for industrialization as a means of developing its economy, the Brazilians found the international

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*I should point out that there are at least four different areas for foreign investments, each of which has a different impact on the economy of the host country and, therefore, will be analyzed in conjunction with the discussion of the pros and cons of foreign investments as means for economic development. These areas are: 1) manufacturing of goods; 2) service enterprises (such as department stores); 3) extracting industries (such as petroleum, coal, plantations, etc.); and 4) financial enterprises (such as banks, loan associations, and others).
environment propitious to their desires only by the mid-1960's. It was only by the mid-1960's that a new pattern of international economic relations finally emerged to change substantially the international economic environment. As Kolde points out,

"(S)ince World War II... foreign trade that used to comprise the bulk of transboundary business has shrunk to a minor fraction... International intermediaries -- export and import merchants, commission houses, and trading companies -- have been submerged by new arrangements and are on the verge of disappearing from the institutional structure... Multinational corporate ventures have risen to remold not only the channels of international trade but also the internal organization, as well as the external relations, of the corporation itself."

Chapter II gives a presentation of the internal forces which contributed to the Brazilian drive towards industrialization as a goal.

Chapter III analyzes the Brazilian economic model in terms of the Brazilian strategy for economic development.

Chapter IV presents a view of foreign investments as a major factor in the development of the Brazilian economy. In terms of external forces, foreign investments have contributed to, and affected, the rate of Brazilian economic development. Their favorable aspects as well as their limitations are discussed in light of the arguments pro and con of the implications which foreign investments are thought to have for both the investor and the recipient nations.

Chapter V presents the dynamics of international
economic relations. The metamorphosis of the international economic structure from a primarily bipolar world after World War II to today's multipolar economic world is analyzed with reference to its effects on the economies of underdeveloped nations in general and its effects on Brazil in particular.

My intention in this study is to show how economic development is interdependent with the three major forces described above. These forces provide the environment for economic development. To the extent that each country experiences different internal forces, perceives external forces differently, and is, relatively, at a different level in terms of economic and political power relations in the international market (read structure), each country's model for economic development will, I suggest, necessarily differ from that of other countries. The formula for economic development, then, is not found in any universal proposition but is formulated according to the attributes of each particular country at a particular point in time.
II. INTERNAL FORCES -- INDUSTRIALIZATION AS A GOAL OF BRAZILIAN ECONOMIC DEVELOPMENT

The development of the Brazilian economy from the 17th century to the beginning of the 20th century was based primarily on the concept of "division of labor". That is, Brazilian production for foreign trade was composed of goods for which Brazil had a "comparative advantage" relative to other countries. For the most part, therefore, Brazil relied mainly on a few exportable agricultural goods and, usually, the bulk of the exports consisted of one type of goods alone.

The basic characteristic of developed nations, however, is the industrialization of the economy. "Economic development consists of the introduction of new combinations of factors of production which tend to increase the productivity of labour."¹ And the most "efficient" factor of production is the machinery provided by industrialization; or, as Bergsman points out, "efficiency may not appear as a result of industrialization, but will not appear without it."²

The main reason for the necessity of industrialization as a means of economic development lies in the supply/demand ratio of the international market for manufactured and non-manufactured goods. Since manufactured goods suffer relatively less fluctuation of demands in the
international market, and also less fluctuation of supply due to less dependence on the unpredictable natural factors (such as climate, disease, weather, etc.), they afford a more stable (i.e., predictable) source of revenue for economic development.

The Brazilian reliance on primary products (raw materials) as export goods was, therefore, a major cause of the nation's inability to achieve a stable economic growth. As such, the primary factor contributing to Brazilian underdevelopment has been the inability of Brazil to produce goods constantly demanded in the international market (i.e., manufactured consumer durable goods), while relying on those countries which did provide such goods to supply its own internal demands.³

The main Brazilian export-good has been, from the middle of the 19th century to the present, the sales of coffee. Coffee sales accounted for over half of the total value of Brazilian exports from the 1850's through the 1930's. As a matter of fact, in the 1924-1933 decade, coffee comprised over 70 percent of the total value of exports and, in the 1950's and early 1960's, the Brazilian balance of trade was almost totally dependent on coffee. Up to 1969, it still accounted for almost 50 percent of the total exports.⁵

For much of the first decade of the 20th century, Lima points out, Brazilians did not even think of diversifying exportable goods by either stimulating more
production of other goods, or at least substituting domestic production for imports. By the middle of the 20th century, however, industrialization had become the major goal of Brazilians.

The seeds of the industrialization desires of Brazilian officials were planted primarily by the concentration of coffee production in the southern part of Brazil and by the influx of European immigrants into that area.

Speaking of the 1880-1929 period, Leff points out that

"(T)ransportation equipment was the equipment product in greatest demand for local use. Despite relative factor prices different from those in the advanced countries, railways -- and later automobiles and trucks -- replaced traditional means of conveyance... Equipment for the processing of coffee, sugar, and cotton was among the first mechanical products introduced into the Brazilian economy. For processing these products, in contrast to their production, it was advantageous to use modern equipment."?7

The immigrants, especially those of Italian origin, brought with them commercial values. Their ability to save income from the work they performed in the railroads and in mechanical workshops enabled them to open their own businesses. "Brilliant mechanics, they built their firms to the size of fifty or more employees before leadership passed to the hands of the second generation, in the 1930's and 1940's."?8

The sons of the native-born Brazilian elite also
provided an expansion of the entrepreneur ideology. Members of the educated segment of the society, they acquired technical instruction by becoming engineers. "These engineers imbibed an 'industrial mentality' and a nationalistic ideology which apparently had its origins in the Sao Paulo Polytechnical School, an institution founded by nationalist modernizers and Comptian positivists in the 1890's."

Leff further points out that

"The 'industrial mentality' stressed the glamorous achievements of modern technology. Along with this attitude, sometimes bordering on scientism, the ideology emphasized a willingness to engage in the day-to-day details of technical work in order to participate in the world of modern technology and to help establish it in Brazil... Strongly nationalistic, they also stressed the importance of import substitution as a means toward national economic and political progress... This ideology also expressed a strong preference for industries that were considered the embodiment of both national development and modern technology. For example, steel, petroleum, and capital goods production had a special mystique and were accorded a higher value than textiles or food products."

It was "import-substitution", however, which provided the major stimulus for Brazilian industrialization. Occurring first as a result of the interruption of supplies from overseas due to World War I, import-substitution meant the need to create industries domestically in order to fill the gap and even to supply overseas markets. Limited in its ability to purchase
from abroad, Brazil was forced to supply its internal demands for manufactured products through internal production. In fact, Lima points out, the industrial impulse of the war period was extraordinary, since 5,940 new manufacturing enterprises were born between 1915 and 1919.\textsuperscript{11}

The Brazilian manufacturing industry, however, suffered from its lack of qualitative production. The result was a setback for Brazilian industry when the war ended. Baer explains that Brazilian domestic goods were not only of poor quality but also high priced in comparison to American and European goods. By the early 1920's, therefore, American products once again started to appear in the Brazilian market while European products began appearing once European industries were rebuilt.\textsuperscript{12}

The same need for import-substitution appeared again during the Great Depression period and during World War II. As a result of the import-substitution promoted by the second World War, Baer contends,

"(A) substantial spurt occurred in some of the more basic industries like cement production and iron and steel. The production of steel was especially influenced by the opening of the government-owned steel plant at Volta Redonda.

"The most notable development in the manufacturing sector during that period was the boom in the textile industry. This was caused not only by the need for replacing formerly imported goods by domestic production, but also by the demand from the textile-starved overseas markets, such as South Africa,"
and from other Latin American countries.

"By the end of the war Brazil was one of the world's leading textile exporters." 13

Once again, with the termination of the second World War, Brazil was unable to compete with the major industrial powers. However, the desire for industrialization had by then become fairly well ingrained as the major goal for economic development.

"Although the immediate cause for the post-World War II industrialization effort was similar to previous situations which led to industrialization spurts -- that is, difficulties with the external sector -- its ultimate characteristic turned out to be quite different from earlier times. The chief difference was that after the second world war the industrialization changed from a stopgap effort into a determined policy to alter drastically the structure of the Brazilian economy. The basic reason for this change was a realization by the policy makers that Brazil could not attain a high rate of growth in the future by relying chiefly on the export of its principal primary commodities, whose world market was shrinking." 14

It was not until President Kubitschek's administration (1957-1961) that Brazilian economic policy was geared totally to the promotion of industrial development. Rapid growth and industrialization became a deliberate and high-priority goal of his administration. The effects of such policy were substantial, and the results highly successful. After a 1.9 percent growth rate in 1956, gross domestic product (GDP) grew by 6.9 percent in 1957, 6.6 percent in 1958, 7.3 percent in 1959, and 6.7 percent in 1960. In 1961, the first year
after Kubitschek left office, GDP growth was 7.3 percent.\textsuperscript{15}

Kubitschek's promotion of industrial development was formulated in his Programa de Metas (Program of Targets)—the first time that an extensive planning program was applied to give direction to Brazilian economic development. Such a program was not, however, a comprehensive development plan. It did not include all of the areas of public investments or basic industries, nor did it attempt to coordinate its five-year plan for thirty basic sectors of the economy with the economy as a whole in terms of the resource needs of the planned sectors and with resource availability in general.\textsuperscript{16}

On the other hand, the program covered five main areas: energy, transportation, food supply, basic industries, and education (especially for the training of technical personnel), and it was mainly concerned with infrastructure-investment for the elimination of structural bottlenecks. The program set out detailed targets for many individual projects while, on the whole, it formulated only broad general terms for the other targets.\textsuperscript{17} The basic aim of the Programa de Metas was to offer a guideline for the achievement of the industrialization goal. It set up, in other words, a sketchy model for Brazilian economic development in which it underlined the presence of the federal government as an active element in the development of the nation.
In this chapter, we can see to some extent the effects that the three main forces for economic development (defined in Chapter I) had in shaping the goal of industrialization. First, the internal forces, comprising the concentration of the Brazilian economy in the southern region and the changing composition of the population, affected the physical necessity as well as the psychological desires for industrialization. The concentration of the economy called for the construction of an infrastructure in that part of the country to provide for better transportation and communication facilities, as well as for machinery for the construction of that infrastructure and the more "efficient" processing of production in general.

The immigration of Europeans provided an influx of new values, geared primarily toward the work ethic, and industrial know-how. And finally, the growth of nationalism provided a new impulse, through elitist desires for widespread and rapid industrialization.

Second, the external forces, comprising the realization by Brazilian officials of the productive capacity and competitive advantages of other nations, promoted the idea that the only way to improve the relative competitiveness of Brazilian products in the international market was through more efficient production of Brazilian goods and more diversification of production for export.
Both of the latter meant industrialization.

Finally, the international forces, comprising changes in the supply/demand relations in the international market, forced Brazil to rely less on the production of other countries to supply Brazilian demands and to rely more on domestic production to satisfy those demands. Whenever international relations (through wars, for instance) or domestic problems of foreign countries (through the Great Depression, for instance,) contracted the availability of supplies in the international market for particular products, Brazil had to resort to import-substitution as a means of supplying the increasing demands for those products, both internally and externally.

Some authors, espousing a more Marxist point of view, see in this interdependence between market contraction and market expansion by industrialized nations proof of the dependence of non-industrialized nations on the "whims" of the industrialized "metropolises". The argument is based on the contention that while non-industrialized countries are allowed economic independence when the industrialized nations are distracted by other problems, as soon as those problems are solved the industrialized nations revert to their "exploitative" measures -- a basic aspect of capitalist economies.18

As we shall see, however, Brazilian interdependence in the capitalist international structure was not
"exploitative" but competitive. As such, the internal forces of the Brazilian economic structure could, and to a large extent did, affect the course of its own economic development. However, as the word interdependence implies, the external forces also had an impact on the ability of the Brazilian economy to pursue its desired course. The changing of the international economic structure with the advent of the multinational corporations provided, I suggest, the environment which gave a major impetus for the Brazilian march toward its industrialization goals (see Chapter IV for a further discussion of this point).

But before going into the dynamics of Brazilian industrialization, Chapter III provides a glimpse of the means through which Brazil has attempted to achieve its goals. The basics of the Brazilian economic development model is, then, the concern of the next chapter.
III. THE BRAZILIAN MODEL FOR ECONOMIC DEVELOPMENT

Having determined to follow a policy of rapid industrialization, it was now left to Brazilian officials to determine the means by which the objectives were to be accomplished. In this respect, two basic options were available for the creation of capital: Brazil could create its own capital by forced savings based on reduced consumption, as was done in the Soviet Union, Red China, and Cuba, or it could create capital through more stringent tax collection and more emphasis on foreign loans and foreign investments. The first alternative was not appealing to either the Brazilian officials or to the Brazilian people in general -- nor is it sure that the United States would not have intervened had it been adopted: "the personal sacrifices and slow pace of development due to deprivation of foreign know-how and techniques make the choice of this alternative singularly unattractive."¹ The second alternative was more in line with Brazilian political and economic ideology and, therefore, it was adopted.

As indicated in the previous chapter, it was not until President Kubitschek's administration that Brazilian economic policy was totally geared toward full industrial development. In his message to the Brazilian
Congress in 1957, Kubitschek announced the basis of the model presented in the Programa de Metas, including his determination that

"(A)nother measure to which the government gives great importance is the attraction of foreign enterprises which with their technology and their capital can give valuable aid in the construction of our industrial parks..."  

New laws and regulations were made restricting imports in order to boost domestic production. Item 27 of the Programa de Metas, for instance, established a quota on the number of cars that could be either imported or assembled in Brazil. The aim was to transform the existing automobile assemblies in Brazil into automobile manufacturing. This policy, as will be explained in the next chapter, met with some resistance by certain foreign car manufacturers, especially in the United States.  

The process of industrialization seemed to be gaining momentum. From 1950 through 1962, industrial output increased on an average of 9 percent per year, while gross domestic product (GDP) increased at about 6 percent. Agricultural output, however, increased at only 4 percent on an average. In fact, Leff points out that

"Neglect of agriculture was a prominent unstated attitude of this approach to Brazil's economic future. Introduction of modern industrial technology was stressed not only for its higher productivity but also as a demonstration that Brazilians were capable of mastering the technological complexities of the modern world. On both grounds, industries such as steel and petroleum fit into this picture. They were
considered to be the essence of modern 'complex technology'; and the ideology assumed that the development of domestic supply of industrial raw materials would be a strategic step toward general industrial progress."

Rapid industrialization in an economy lacking its own capital and a compatible infrastructure led the government to overstep its capability. With more money going out than coming in, the government resorted to the print shop for money. The result was the creation of an inflationary cycle which persists, to some extent, to this date.

The inflationary cycle, moreover, caused some other, more substantial problems for the Brazilian economy. The deterioration of the laborers' acquisitive powers prevented their making any substantial savings in the private sector (further deteriorating the accumulation of capital to be made available for private industry), while those who had any surplus money tended to convert it into more stable foreign currencies such as the dollar. Production began stagnating and the Brazilian dependence on foreign aid, loans, and investments increased.

Adding fuel to the fire, the building of Brasilia in 1959 caused the cost-of-living to soar from a previous average of 20 percent to 50 percent during that year alone. The inflation receded somewhat in 1960, but from then on it rapidly moved up. By 1963 prices rose above 80 percent, and during the first three months of 1964 alone, prices rose by another 25 percent (see Table 1).
Table 1. Growth and inflation, 1948-64\(^8\) (annual percentage increases).

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Manufacturing</th>
<th>Increase in prices (GDP implicit deflator)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>9.5</td>
<td>11.9</td>
<td>3.9</td>
</tr>
<tr>
<td>1949</td>
<td>5.6</td>
<td>10.6</td>
<td>9.3</td>
</tr>
<tr>
<td>1950</td>
<td>5.0</td>
<td>12.3</td>
<td>11.9</td>
</tr>
<tr>
<td>1951</td>
<td>5.1</td>
<td>6.1</td>
<td>14.9</td>
</tr>
<tr>
<td>1952</td>
<td>5.6</td>
<td>5.0</td>
<td>8.9</td>
</tr>
<tr>
<td>1953</td>
<td>3.2</td>
<td>9.9</td>
<td>18.5</td>
</tr>
<tr>
<td>1954</td>
<td>7.7</td>
<td>9.0</td>
<td>20.4</td>
</tr>
<tr>
<td>1955</td>
<td>6.8</td>
<td>11.0</td>
<td>16.6</td>
</tr>
<tr>
<td>1956</td>
<td>1.9</td>
<td>6.6</td>
<td>25.3</td>
</tr>
<tr>
<td>1957</td>
<td>6.9</td>
<td>5.4</td>
<td>11.8</td>
</tr>
<tr>
<td>1958</td>
<td>6.6</td>
<td>16.9</td>
<td>16.2</td>
</tr>
<tr>
<td>1959</td>
<td>7.3</td>
<td>12.6</td>
<td>28.1</td>
</tr>
<tr>
<td>1960</td>
<td>6.7</td>
<td>10.6</td>
<td>25.6</td>
</tr>
<tr>
<td>1961</td>
<td>7.3</td>
<td>11.1</td>
<td>34.8</td>
</tr>
<tr>
<td>1962</td>
<td>5.4</td>
<td>8.2</td>
<td>49.2</td>
</tr>
<tr>
<td>1963</td>
<td>1.6</td>
<td>0.0</td>
<td>71.7</td>
</tr>
<tr>
<td>1964</td>
<td>3.1</td>
<td>5.1</td>
<td>90.8</td>
</tr>
<tr>
<td>1965</td>
<td>3.9</td>
<td>-4.7</td>
<td>57.1</td>
</tr>
<tr>
<td>1966</td>
<td>4.4</td>
<td>12.2</td>
<td>38.0</td>
</tr>
</tbody>
</table>

Other problems, as Bergsman suggests, further compounded the inflationary cycle:

"(T)he rapid structural change caused continued rapid changes in demand for various goods. Thus import substitution and growth caused shifts in relative prices which, as always and especially in a growing economy, moved upward more readily than downward. Second, many industries were monopolistic or oligopolistic in structure and, since they were strongly protected from foreign competition, tended to sell at high prices relative to imports. Thus the continuing import substitution caused more and more price increases as supply shifted from imports to higher-priced domestic production."\(^9\)
President Janio Quadros attempted, in 1961, to shift the priorities away from rapid industrialization and toward inflation control. His resignation in August 1961, however, plunged the nation into economic and political chaos.

The leftward-leaning government of Joao Goulart further increased political and economic instability. Not only did the country meet with sharp reductions in coffee production and other important crops due to adverse weather conditions in 1962 and 1963, but also the restricted hydroelectric power output, due to a drought in the Sao Paulo-Rio area in 1963, and Goulart’s hostility toward foreign capital (reflected in the 1962 law which limited profit remittances to 10 percent of officially registered capital and prohibited royalty payments to foreign parent concerns), which met with a sharp reduction in foreign private investment, brought industrial production to a halt.

With the drop in direct foreign private investment from an average US$100 million in the late 1950’s to US$69 million in 1962 and US$30 million in 1963, the economic industrial production almost totally stopped (see Table 1). As inflation increased up to 8 percent per month, the government of President Goulart finally fell. On March 31, 1964 a military Revolution, backed by several of the leading political figures, ousted Goulart
and took over the government under the presidency of Humberto Castello Branco.

The new government, guided by the economic policies of Minister Roberto Campos, restructured economic priorities and set up a comprehensive economic plan based on a gradual decrease of the rate of inflation, slow recovery of industrial growth through direct private foreign investment, foreign loans, and foreign aid, and stabilization of the economy through fiscal and monetary policies and wage and price controls.

"Stabilization in Brazil was a slow and painful, if effective process. Real gross domestic product, which had enjoyed a growth rate of some 6% a year in the post-war period before the 1963 recession, grew by less than 3% annually in 1964 and 1965 and by only 5% a year in 1966 and 1967. The cost-of-living increase, on the other hand, was held to an 87% rate for all of 1964 despite the uncontrolled rise of the first quarter; it fell below 50% in 1965 and 1966, and under 25% in 1967."

With the relative stabilization of the political and economic environment, and with foreign confidence regained, the Brazilian government once again moved toward rapid industrialization under the guidance of Ministers Delfim Netto and Reis Velloso (Finance and Planning Ministers, respectively).

Since 1967, under the Costa e Silva and Medici administrations, the Brazilian economic growth has been steady and considerable. Industrial production rose in the period 1967-1971 by 45 percent, based on the
comprehensive economic planning which included:  

1) neutralizing inflation through monetary correction and a "crawling peg" pattern of controlled, periodic currency devaluations;  

2) promoting exports through tax incentives and subsidies for exporters;  

3) orienting private investment through tax incentives in order to promote given types of industries and in locations which would move away the concentration of the industrial area from the southern region into those regions where there was widespread poverty and unemployment (primarily the North and Northeast);  

4) increasing national savings through the system of monetary correction (i.e., savings interest rose parallel to inflation plus the normal interest rate), which guaranteed attractive returns on fixed bank deposits and commercial paper; tax incentives for investment in the capital market; and control of pay raises;  

5) maintaining foreign confidence as a means of promoting an increase in the volume of direct foreign investment through several incentives to investors, and as a means of acquiring technical know-how in industrial production and marketing;  

6) investing in infrastructure in order to maintain and promote an overall pattern of economic development;  

7) maintaining the vitality of the private, domestic sector through loans, consultations, incentives and
subsidies;

8) coordinating growth of the basic industries\textsuperscript{14} through programs in naval construction, steel production and expansion, and mineral production; and

9) coordinating the growth of the Brazilian economy in a geographical pattern under the Program of National Integration (Programa Nacional de Integração), in order to increase the economic level of all Brazilians and in order to better utilize idle productive capacity.

The underlying characteristic of the Brazilian economic model is the function of the government as a principal element in the pursuit of economic development. The participation of Brazilian government officials in shaping and directing the economy is substantial, especially when considering that the nation's economy is basically in the hands of private concerns.

The second characteristic of the model is the extent to which the Brazilian economy is dependent on the "external strategy"\textsuperscript{15} of that model. This strategy aims at interrelating the Brazilian economy with the international economic structure in order to: a) attain the means to enable the supplying of the growing demands for certain imports, through the growth of exports, and still maintain a balance of trade; and b) maintain an external liquidity, through the restriction of imports, which would supplement means for economic development consistently through time.
To offset the interdependence between the internal economy and the fluctuations of international commerce and international capital availability, the Brazilian government has sought to maintain a steady increase in its international reserves.

Through its external strategy, the model has opened the way for extensive cooperation between international concerns and Brazilian industry. In this way Brazil has been able to acquire much-needed technological education and marketing know-how which has greatly contributed to the growth of output at minimum costs and to the ability to find markets for more exports. If "no country has become an exporter of a large range of manufactures without first gaining experience in producing for its domestic market,"\(^{16}\) then it would seem that the more knowledge and experience the growing Brazilian industry attains, the greater will be its ability to expand its export market.

The concomitant effect of the Brazilian external strategy, added to the principles set up in the economic model, has been a tremendous influx of foreign investments into the economy. The reliance of economic development on foreign investments to a substantial extent, however, carries with it tremendous implications, both for the capacity and rate of development and for the future of Brazilian economic development.
The results, as they appear today, and the desirability of foreign investments as argued from several angles and points of view, are the concerns of the next chapter.
IV. EXTERNAL FORCES — PRIVATE FOREIGN INVESTMENTS IN THE BRAZILIAN ECONOMY

The term "private foreign investment," when used in a generalized way, can be highly misleading in the context of effects on both the investor and the host country. There are, in general, at least four different types of foreign investments, each of which has a different impact on the parties involved: 1) manufacturing (enterprises for the production of durable and/or non-durable goods); 2) services (e.g., department stores); 3) extractive enterprises (e.g., the extraction of oil, minerals, and other limited natural goods); and 4) financial enterprises (e.g., banks and loan associations).

Manufacturing enterprises are generally beneficial to the investor-firm and not, in net terms, necessarily beneficial to the investor-country (see Chapter V for the arguments on this point). The host country usually benefits to a great extent in the initial phase of foreign investments in manufacturing; the latter brings in needed capital, employs local workers, introduces technical know-how, and may cut down the need to import particular products. In the long term, however, manufacturing enterprises owned by foreign concerns may or may not be beneficial to the host-country depending on the extent to which they enable the host-country to increase exports.
and to the extent that they may block the domestic firms of the host-country from producing those particular products being produced by the foreign firms.

Service enterprises are generally beneficial to the investor-firm and to the investor-country but not to the host-country. While the investor-country can increase its exports through the investor-firm, the domestic firms of the host-country suffer from increased competition in areas in which they can function almost as well as the foreign firm. Moreover, while all of the profits of domestic firms remain in the country, the profits of foreign firms are, to a certain extent, remitted to the investor-country. The result is capital appropriation from the host-country to the investor-country. This factor, however, is minimized to the extent that the host-country also "uses" the investor-firm as a channel of exports for the products of the host-country to the investor-firm's outlets in the investor-country.

Extracting enterprises can be beneficial to all concerned. Inherently, this type of investment tends to increase the export capacity of the host-country. The extent of the benefits, however, depends on the extent through which extraction is made that could not have been made by the domestic firms themselves (i.e., the net value derived from the foreign investor's extraction is greater than the net value of the extraction made by
the domestic investor). This type of investment-enterprise can also be beneficial to the host-country to the extent that it decreases the need to import certain extractive goods necessary for its industrial production. The investor-firm benefits from the profits while the investor-country benefits from the revenue collected as a result of taxes on the investor-firm's profits and, when needed, from the possibilities of importing lower-cost extractive goods.

In order to analyze the effects of private foreign investments in the economic development of Brazil, we need to know: 1) the extent to which foreign firms share in the Brazilian economy; 2) the sectors in which foreign firms are active in the Brazilian economy; 3) the roles which Brazilian officials have assigned foreign firms to play in the Brazilian economy (i.e., what it is that Brazilian officials expect to accomplish by allowing large-scale foreign investments in Brazil); 4) the extent to which foreign investments have met these expectations; and 5) the implications which foreign investments may have on the future development of the Brazilian economy. This last aspect implies not only the effects on the internal structure of the Brazilian economy but also the effects which the pattern of Brazilian economic policies may have in influencing, or being influenced by, the international economic structure. As such, this
aspect is analyzed in the broader context of international economic forces as presented in Chapter V.

Investments in the Brazilian Market

Following a policy of incentives geared toward promoting a high inflow of foreign investments, the Brazilian economy shares a substantial percentage of its investment market with private foreign concerns (Table 2).

<table>
<thead>
<tr>
<th>Sector</th>
<th>State</th>
<th>Foreign</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi-manufactured goods</td>
<td>52.05%</td>
<td>34.60%</td>
<td>13.35%</td>
</tr>
<tr>
<td>Capital goods</td>
<td>--</td>
<td>72.61%</td>
<td>27.39%</td>
</tr>
<tr>
<td>Consumer durables</td>
<td>--</td>
<td>78.32%</td>
<td>21.68%</td>
</tr>
<tr>
<td>Consumer non-durables</td>
<td>6.37%</td>
<td>53.38%</td>
<td>40.25%</td>
</tr>
<tr>
<td>Retail sales</td>
<td>--</td>
<td>8.25%</td>
<td>91.75%</td>
</tr>
<tr>
<td>Banks</td>
<td>61.70%</td>
<td>---38.30%</td>
<td>19%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>73.07%</td>
<td>17.25%</td>
<td>9.68%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>46%</td>
<td>35%</td>
<td>19%</td>
</tr>
</tbody>
</table>

As we can see, the share of foreign investments is substantial in the sectors of capital goods (72.6 percent), consumer durables (78.3 percent) and consumer non-durables (53.4 percent), which are precisely the sectors dealing with industrialization needing high capital investments and technological know-how. Moreover, "within the industrial sector in the same year, companies with major foreign participation accounted for all of auto-
industry investment, and 94 percent of the drug industry, 91 percent of the tobacco industry, 82 percent of the rubber-products industry, and 71 percent in the highway equipment industry. On the other hand, foreign participation in banking was only 5 to 6 percent of the total market, and in publishing, oil refining, hotel, and domestic transportation industries, foreign investors' share of control is negligible."

The extent of foreign investment as a major force in Brazilian economic development can be further appreciated when we realize that, of Brazil's 100 largest companies, ownership is in the hands of:

- the public sector ..................... 63.4%,
- the foreign private sector .......... 24.7%, and
- the Brazilian private sector ....... 11.9%.

In fact, a 1967 survey indicates that more than half of Brazilian industry is held by foreign groups, and that this control increases as we move from the consumer non-durable goods industries to the durable and capital goods industries, which are precisely those undergoing the most rapid expansion.

Furtado points out that "of the 55 largest Brazilian groups...the majority of the so-called national groups are linked, in one way or another, to the foreign groups. In fact, only 9 of the 55 groups had no shareholding connection with foreign interests. In most cases, part of the capital of the Brazilian group's subsidiaries is held by foreign
groups, an association often unavoidable if the enterprise is to have access to the know-how for certain production techniques. 4

Goals and Roles of Foreign Investment

Minister of Finance Antonio Delfim Netto and Planning Minister Joao Paulo Dos Reis Velloso have both expressed the Brazilian desires for the role of foreign investments, generally, as follows: 5

______ Integration of the foreign enterprise into the Brazilian economy and society within the guidelines of the national development policy (see below);

______ Foreign investments only in those areas which domestic enterprises cannot develop adequately (precisely those sectors in which, today, foreign investors have a large share. See above);

______ Foreign investors are to be innovators. They are to inspire and bring new ideas in economic projects, to be implemented in the Brazilian economy.

______ Foreign investment should, in the long run, strengthen the Brazilian domestic firms; and

______ Foreign investors should develop their projects in Brazil with an eye to exporting their products from Brazil to other countries.

These desires of Brazilian officials have been more formally expressed in the "First National Development Plan, 1972-74" and have been pursued through the imple-
mentation of tax incentives and laws with regard to foreign investments and capital remittance.

The "First National Development Plan, 1972-74" indicates that:

"Foreign enterprises should orient their investments mainly towards areas of more sophisticated technology, where the transfer of modern technology and modern management methods to this country becomes relevant; it is essential also that they contribute towards the improvement of the balance of payments by promoting exports or substituting imports and operating in a manner complementary to the activities of national enterprise. The operation of foreign enterprise in fields already covered by national enterprise with adequate know-how and investment capacity is inadvisable."6

The official foreign investment law indicates that foreign capital invested in Brazil "shall receive identical treatment under the law as that accorded to Brazilian capital in the same situation."7 However, it restricts profit remittance by imposing a tax of 25 percent to 60 percent, depending on the level of capital remittance in terms of original capital investments. Moreover, a 1964 foreign capital law, slightly modified to further strengthen Brazilian firms, limits given activities of foreign investors, including: limits on the access to local financing (preferential tax treatment is given to Brazilian-owned enterprises); restrictions on foreign acquisition of rural lands and investments in "national security zones", and disallowing government technical service contracts with foreign-owned (50 percent or more)
The primary goal, as of 1967, which Brazilian officials have hoped to achieve from foreign investments, has been the promotion of Brazilian exports:

"Brazil's vital interest in the growth of its exports, especially those of manufactured products, is based on the known advantage that a fast increase in exports brings to a developing economy, i.e., a rise in the capacity to import, an expansion of external credit, and an improvement in productivity and efficiency. In the Brazilian experience the export of manufactured goods helped to eradicate idle capacity in some industries and, coupled with a certain degree of import liberalization, acted as an overall corrective mechanism against a natural slack in industrial competition.

"The government authorities seem determined to maintain an open economy capable of attracting foreign resources to supplement the country's development efforts." 8

The hope is that the foreign investor's privileged position in his connection with his home-office and home-country will open more channels for an increase in Brazilian exports. That in 1970 exports increased 69 percent is only an indication that the hope is becoming a reality. 9

Growth of Foreign Investments

As indicated previously, the influx of foreign investments is not only dependent on a given nation's desires for them but also on external forces (i.e., how international actors are able to invest and how they view areas which they consider to be "good" environments for
investments), as well as the international forces which in essence force competitive enterprises to act as they previously would not have acted (see Chapter V for a discussion on this point).

In the case of Brazil, as pointed out above, officials deliberately set out to provide a propitious environment for foreign investments, beginning in the 1950's with the Kubitschek administration. The main industry to develop, and the one which today is almost totally in the hands of foreign concerns, has been the automobile industry. Beginning with the production of buses and trucks in 1951-1952 by the Fabrica Nacional de Motores, S. A., by June 1960 twelve manufacturers were participating in the Brazilian government's car and truck program:

"Ford (with three truck models), General Mótores (with two trucks), and Mercedes-Benz (with two trucks and a bus) were the three largest builders of commercial vehicles. GEIA (Grupo Executivo da Industria Automobilistica -- the government automobile industry group) also approved passenger car programs presented by Willys, Volkswagen, Vemag, Simca, and Maquinas Agrícolas Romí.

"Willys, which had the headstart, became the largest Brazilian automotive producer (1957-1960), making a jeep, a rural Willys station wagon, an Aero-Willys car, and also the Renault Dauphine. Volkswagen, however, with rapidly mounting sales, provided fierce competition and in 1961 overtook and outsold Willys... By the end of 1960, under the 1959 government decree, Ford-Brazil began manufacturing tractors. It was the first to enter this field... others followed. Of the twelve participating companies in mid-1960,
only the two smallest (Toyota, which made jeeps, and Maquinas Agrícolas Romi, S. A., which made the Romi-Isetta car), had no foreign capital. The others were financed in the main from abroad, with foreign investment primarily from the United States, Scania Vabis (Swiss) and Volkswagen (German) being the notable exceptions. On June 30, 1960 the foreign investment of Willys was $26.8 million, of Ford $21 million, of General Motors $20 million, of Mercedes-Benz $18 million, and of Volkswagen DM 51.611 million (at the then rate of exchange about $12.4 million). 11

From a production of less than 5 percent of the total cars in 1957, two-thirds of Brazilian automobiles were nationally manufactured by 1967. Expansion programs have been announced for 1973 by Ford-Willys, Chrysler, Volkswagen, and General Motors, as well as by shipbuilding, cement, and iron ore industries which should add about US $300 to $350 million to Brazil's exports in the 1974-1975 period. 12

Since 1965, foreign investments in Brazil nearly doubled. "Of the nearly $4 billion in direct private investment in Brazil, almost half has been supplied by U. S. firms, including General Electric, Kodak, GTE Sylvania and IBM (Brazil's biggest exporter)." 13 The Japanese, from a high of $8.1 million in 1960, and no investments at all in 1961, have jumped to an estimated total of $230 million by 1969 and $350 million by 1971, with over 100 factories in the hands of private Japanese concerns, "one big exception being a steel mill in Minas Gerais. That joint venture includes a $100 million
Japanese government investment. Another big joint venture is the Ikikawajima Do Brazil shipyard, biggest in South America... Areas of interest in future investment run from electronics and heavy industry to chemicals and cakes.  

Announcements such as: "Toyota Will Build Cars in Brazil, But With Locally Made Components"; Brazil's Government Approved Plans For A $33 Million GM Truck Factory; "Allis Weighs Tractor Plant In Brazil"; and "American Hoist Unit Plans Brazil Facility", are some of the few latest indicators that foreign investors view Brazil as a prime investment country. Moreover, in terms of the desires for export growth, these investors seem to be sympathetic to the wishes of the Brazilian government:

"American Hoist & Derrick Co. said a subsidiary, Tema Terra Maquinaria, will build a multimillion dollar plant in Sao Paulo, Brazil, for the manufacture of road building and maintenance equipment and a four-wheel mobile sweeper for African and South American markets."

"With exports in mind, Germany's steel giant Thyssen is considering a $600 million investment in Brazil, and, on a less ambitious but concrete scale, Armco's joint venture in Sao Paulo (Cogeral) is already selling specialty strip to Argentina and Uruguay.

"In the pulp and paper sector, Norway's A/S Borregoard is shipping unbleached pulp and part-processed woodpulp along with cut timber from a $40 million operation in Rio Grande do Sul to the parent plant Scarpsbourg, Norway, where it is further processed and exported worldwide."
"In domestic appliances, Hoover already exports from Brazil to Venezuela, Central America, and the Caribbean and is looking for other possibilities further afield... Piper Aircraft Corp. has worked out a deal... to market internationally the 16-passenger turbine engine Bandeirante plane developed by the Brazilian airforce... Germany's Siemens supplies the North American market with electrical components made in Brazil. IBM exports mainly typewriters and unirecords to Europe, Africa, Asia, and other LAFTA countries."

The growth of foreign investments in Brazil will continue to rise, especially in those areas of heavy, large-scale operations where the Brazilian domestic investors lack either capital or know-how. At least US $500 million is planned for the expansion of the automobile industry within the next five years. In the same period, over $1 billion is earmarked for investment in the extractive industries (ore mining and refining) by companies such as U. S. Steel, Alcoa, Mitsubishi, Hanna, Thyssen and Alcan.

As for the source of these investments, the United States over the years has been the major contributor. However, as more capital comes in from Japan and the EEC, the U. S. percentage is expected to drop (see Tables 3, 4, 5, and 6).
Table 3. Percentage of foreign investment in Brazil, 1950.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>43</td>
</tr>
<tr>
<td>Canada</td>
<td>31</td>
</tr>
<tr>
<td>France</td>
<td>3</td>
</tr>
<tr>
<td>Great Britain</td>
<td>12</td>
</tr>
<tr>
<td>Others</td>
<td>11</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 4. Percentage of foreign investment in Brazil, 1955-1959.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>48.8</td>
</tr>
<tr>
<td>Canada</td>
<td>2.7</td>
</tr>
<tr>
<td>West Germany</td>
<td>17.8</td>
</tr>
<tr>
<td>France</td>
<td>4.1</td>
</tr>
<tr>
<td>Italy</td>
<td>3.5</td>
</tr>
<tr>
<td>Great Britain</td>
<td>3.9</td>
</tr>
<tr>
<td>Other European</td>
<td>6.2</td>
</tr>
<tr>
<td>Japan</td>
<td>4.0</td>
</tr>
<tr>
<td>Others</td>
<td>9.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Total capital investment in millions of dollars for that period was 395.7.
Table 5. Percentage of foreign investments in Brazil as of December 1969.25

<table>
<thead>
<tr>
<th>Country</th>
<th>Investments</th>
<th>Reinvestments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>37.38%</td>
<td>84.11%</td>
<td>47.69%</td>
</tr>
<tr>
<td>Canada</td>
<td>12.76%</td>
<td>10.82%</td>
<td>9.80%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>5.73%</td>
<td>60.88%</td>
<td>6.39%</td>
</tr>
<tr>
<td>West Germany</td>
<td>12.52%</td>
<td>19.47%</td>
<td>10.37%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7.84%</td>
<td>12.71%</td>
<td>6.13%</td>
</tr>
<tr>
<td>Others*</td>
<td>23.77%</td>
<td>--</td>
<td>19.62%</td>
</tr>
<tr>
<td>TOTAL**</td>
<td>100.00**</td>
<td>44.31**</td>
<td>100.00**</td>
</tr>
</tbody>
</table>

Table 6. Percentage projections of foreign investment in Brazil for 1976.27

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>45</td>
</tr>
<tr>
<td>Canada</td>
<td>5</td>
</tr>
<tr>
<td>Great Britain</td>
<td>6</td>
</tr>
<tr>
<td>EEC</td>
<td>20</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7</td>
</tr>
<tr>
<td>Japan</td>
<td>10</td>
</tr>
<tr>
<td>Others</td>
<td>7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
</tr>
</tbody>
</table>

* Includes 2.8 percent investment by the Japanese ($45.1 million total in U. S. dollars) in Brazil.26

**Total investments in U. S. dollars: $1,185,206. Total reinvestments in U. S. dollars (profits reinvested over original investment): $525,169. Total amount invested and reinvested: $1,710,375.
Brazilian Economic Performance

The overall coordination of the Brazilian model provided a climate of social stability "which gave both Brazilian and foreign investors confidence in the market, and...(a) well-planned, and even better executed, rational economic policy...has succeeded in gradually reducing inflation without stemming economic growth."\(^\text{28}\)

Unlike the period during President Kubitschek's administration, this time the Brazilian government has tried not to focus unduly on just a few particular sectors of the economy for development\(^\text{29}\); during 1971, economic growth was rather harmoniously balanced: agriculture grew 11.4 percent, industry rose by 11.2 percent, trade increased by 12.9 percent, and transport by 8.4 percent — a total of 11.3 percent economic growth for the year. Moreover, the economic growth, which before 1971 was averaging 9 percent (1967 through 1970), has now reached US $40 billion, "the tenth largest in the world..."

"In the last 10 years, exports have increased 140%, growing from US$1 billion 200 million in 1962 to US$2 billion 900 million in 1971. While their overall growth rate was 6% in 1971, manufactured goods continued their impressive expansion, increasing 23.6%. Brazilian reserves have consequently grown, despite the concomitant increase in imports necessary for industrial output to continue expanding rapidly. The reserves now stand at more than US$1.5 billion. The results of the first six months of this year have been excellent, and it will be no surprise if in 1972 Brazil manages to repeat its 1971 performance."\(^\text{30}\)
In general, it seems that the Brazilian economic goals are being achieved. As Table 7 indicates, economic growth has been maintained at a relatively high level (for comparison purposes, see Table 1 in Chapter III of this paper). Inflation has been largely contained when compared to previous levels, while foreign reserves have grown substantially. As Table 8 indicates, manufactured products are becoming a strong export-production. Finally, Table 9 indicates that exports are rapidly increasing and are expected eventually to offset the outflow of capital promoted by rising imports and rising outflow of capital due to profit remittance on foreign investments.

Table 7. Economic growth, inflation, and foreign reserves, 1968-1972 (annual percentage increases). \(^1\)

<table>
<thead>
<tr>
<th>Year</th>
<th>G.N.P. % Growth</th>
<th>Cost of living % increase</th>
<th>Foreign reserves US$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>8.3</td>
<td>24.0</td>
<td>338</td>
</tr>
<tr>
<td>1969</td>
<td>9.0</td>
<td>24.0</td>
<td>549</td>
</tr>
<tr>
<td>1970</td>
<td>9.5</td>
<td>20.9</td>
<td>1,207</td>
</tr>
<tr>
<td>1971</td>
<td>11.3</td>
<td>18.1</td>
<td>1,721</td>
</tr>
<tr>
<td>1972*</td>
<td>9.5</td>
<td>15.0</td>
<td>1,850</td>
</tr>
</tbody>
</table>

*Estimated
Table 8. Brazilian exports (1960-1970), in US$ millions.32

<table>
<thead>
<tr>
<th>Year</th>
<th>Total value of exports</th>
<th>Total value of manufactured exports</th>
<th>% of manufactured over total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>1,268.8</td>
<td>23.7</td>
<td>1.7</td>
</tr>
<tr>
<td>1961</td>
<td>1,403.0</td>
<td>38.5</td>
<td>2.7</td>
</tr>
<tr>
<td>1962</td>
<td>1,214.0</td>
<td>33.1</td>
<td>2.7</td>
</tr>
<tr>
<td>1963</td>
<td>1,406.5</td>
<td>37.4</td>
<td>2.7</td>
</tr>
<tr>
<td>1964</td>
<td>1,429.8</td>
<td>69.9</td>
<td>4.9</td>
</tr>
<tr>
<td>1965</td>
<td>1,559.5</td>
<td>109.5</td>
<td>7.0</td>
</tr>
<tr>
<td>1966</td>
<td>1,741.4</td>
<td>96.8</td>
<td>5.6</td>
</tr>
<tr>
<td>1967</td>
<td>1,654.0</td>
<td>142.7</td>
<td>8.6</td>
</tr>
<tr>
<td>1968</td>
<td>1,881.3</td>
<td>130.0</td>
<td>6.9</td>
</tr>
<tr>
<td>1969</td>
<td>2,311.2</td>
<td>181.6</td>
<td>7.9</td>
</tr>
<tr>
<td>1970</td>
<td>2,711.1</td>
<td>306.9</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Table 9. Brazil's international accounts: goods, services and transfers (millions of U. S. dollars).33

<table>
<thead>
<tr>
<th>Goods</th>
<th>64</th>
<th>66</th>
<th>68</th>
<th>70</th>
<th>72</th>
<th>74</th>
<th>76</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports FOB</td>
<td>1,430</td>
<td>1,741</td>
<td>1,881</td>
<td>2,739</td>
<td>3,315</td>
<td>4,000</td>
<td>4,820</td>
</tr>
<tr>
<td>Imports CIF</td>
<td>-1,263</td>
<td>-1,496</td>
<td>-2,129</td>
<td>-2,849</td>
<td>-3,095</td>
<td>-3,770</td>
<td>-4,080</td>
</tr>
<tr>
<td>Trade balance</td>
<td>167</td>
<td>245</td>
<td>-248</td>
<td>-110</td>
<td>220</td>
<td>230</td>
<td>740</td>
</tr>
<tr>
<td>Investment income</td>
<td>-190</td>
<td>-282</td>
<td>-302</td>
<td>-350</td>
<td>-400</td>
<td>-450</td>
<td>-550</td>
</tr>
<tr>
<td>Other (net)</td>
<td>23</td>
<td>-107</td>
<td>-158</td>
<td>-398</td>
<td>-425</td>
<td>-450</td>
<td>-475</td>
</tr>
<tr>
<td>Service and transfers balance</td>
<td>-167</td>
<td>-389</td>
<td>-460</td>
<td>-748</td>
<td>-825</td>
<td>-900</td>
<td>-1,025</td>
</tr>
<tr>
<td>Balance: goods, service &amp; transfers</td>
<td>0</td>
<td>-144</td>
<td>-708</td>
<td>-858</td>
<td>-605</td>
<td>-670</td>
<td>-285</td>
</tr>
</tbody>
</table>
Foreign Investments: Implications

If, on the one hand, Brazil has apparently been able to achieve a rather impressive initial development of its economy, some analysts fear that the price for economic development through substantial reliance on foreign investments may be quite high. While the Brazilian government has moved in 1970 and in 1971 in the direction of strengthening domestic firms with loan programs envisioned to enable them to compete with foreign firms, the dependence of the Brazilian economy on foreign enterprises may need careful attention if Brazil is to pursue an independent economic policy. As Galbraith points out, "Unlike suppliers of raw material or even labor, the supplier of funds is traditionally conceded some degree of power. Money carries with it the special right to know, and even to suggest, how it is used. This dilutes the authority of the planning unit." 35

In a thoroughly candid, and at times hostile manner, Genival Rabelo describes how American industry in Brazil has infiltrated and dominated the Brazilian press. 36 According to him, American firms have been able to manipulate Brazilian public opinion in defense of interests which are openly contrary to Brazilian interests by monopolizing the publicity agencies owned and operated by subsidiaries of American enterprises. He further explains how, one by one, Brazilian magazines and news-
papers which had published articles offensive to or critical of American firms suddenly lost most of the advertising needed to keep them alive.\textsuperscript{37}

The following are some of the arguments, pro and con, relative to economic dependence on foreign investments.

Raymond Vernon explains that foreign enterprises often find a hostile environment in the host-country because of the competitive advantage which foreign-owned enterprises seem to have over local entrepreneurs:

"In the first place, foreign producers often enter a local economy on the basis of a strong trade name or trademark position, built on prior imports. On top of this, the foreign-owned producer usually has much easier access to international credit... The foreign owner of a local company can usually extend credits to its subsidiary at very much lower interest rates. Insult is added to injury when credit is rationed in local markets."\textsuperscript{38}

Tyler points out that industrialized nations can, and do, control the extent to which underdeveloped nations are able to develop an industry which directly competes with their own enterprises.\textsuperscript{39} The U. S. pressures on Brazil to self-impose an export tax on Brazilian-manufactured coffee are an illustration of this point.\textsuperscript{40} Tyler explains that the American coffee industry, feeling the threat of competition, exerted pressure on the U. S. Congress. The State Department was then pressured to try to bar the development of soluble coffee manufacturing in Brazil.\textsuperscript{41}
An article in Newsweek magazine, after pointing out that foreign companies still admit to pressuring national congresses in efforts to influence legislation, and that bribes to local officials are nearly as common in the developing world as they are in New York City, suggests, however, that "one fixed rule of this uneasy game between government and guest is that once a foreign corporation has made its own particular contribution to the local economy, it has lost most of its bargaining power."42

Finally, there is the impact of both rapid industrialization and foreign investments on the society of the host country. In the case of Brazil, for instance, Wagley asserts that

"All observers of the Brazilian scene since World War II agree that the traditional Brazilian class structure is changing in a significant and fairly rapid fashion. The direction of change is quite clear. New social sectors and even a new social class are appearing, and the quality of the relationships among all classes is being affected by the growth of impersonal, large-scale, industrial forms of wage employment, and by the exigencies of a mass society. Brazil is no longer a stable society without social or economic mobility, but a highly dynamic society in a state of rapid flux."43

The impact is a dual one. While the Brazilian society has had to adapt to new forms of life, the foreign investors have also had to adapt to their new environment. Economic relations with the Japanese, for example, have brought to Brazil (particularly to the Sao Paulo region) a fairly large Japanese colony:
"The Japanese community in Brazil has grown to a prosperous 700,000 and has become a key factor in the country's economic growth. Today's Japanese immigrants...are likely to be young college graduates bedecked with cameras and portable TV sets, and who will help conduct the growing economic dialogue between Brazil and Japan..."

If anything, the results of this economic inter-relationship might be, at least, the development of common understanding and mutual respect among the investor-nation's nationals and the host-country's nationals.
V. INTERNATIONAL FORCES --
THE INTERNATIONAL ECONOMIC STRUCTURE

We have seen in previous chapters how the internal and the external forces have affected the economic development of Brazil. Now, in support of the main proposition of this paper, an account must be made of the international forces which, indirectly but substantially, have affected the economic development of Brazil. However, since this chapter deals primarily with the dynamics of international economics, its focus will not be on Brazil per se but on the more general aspects of international political and economic relations. Given that Brazil is an integral part of that structure, it is implicitly included in the following analysis.

The modern international political and economic systems are the direct result of the events leading from the end of the second World War. Politically, the world was "split" into two main camps. On the one side was the "communist" world under the leadership of the Soviet Union, on the other the "free" world under the leadership of the United States. Economically, the relations among nations revolved around the Soviet Union's policy in the communist world and around the United States' policies in the free world. The so-called "Third World" was comprised (and still is, to some extent,) of underdeveloped nations.
intrinsically dependent on one of the two major powers for economic trade and assistance.

According to Cohen,

"Geographically U. S. foreign economic policy has divided into three primary components that roughly correspond to the three broad economic divisions of the world in the post war period: the noncommunist industrial nations of Europe, Canada, and Japan; the communist bloc; and the less developed Third World of Africa, Asia, and Latin America. American policy regarding the noncommunist industrial nations has been unmistakably clear. From the start of the Cold War, official Washington's chief objective was to reconstruct the war-ravaged economies of Western Europe and Japan, and maintain the vigor of the undamaged Canadian economy, so that they could all serve as effective barriers to communist expansion. Toward this end we disbursed to the former war zones aid in the form of grants and loans, most spectacularly under the European Recovery Program (Marshall Plan), which lasted from 1947 to 1952. Toward this end, also, we later encouraged an outflow of private investments from the United States, particularly to Canada but also to Europe, and we promoted through GATT (the General Agreement on Tariffs and Trade) a broad program of worldwide liberalization of industrial trade that frequently benefited our allies directly at our own expense. Lastly, we encouraged various schemes of regional cooperation and integration in Europe, despite the potential threat to our own economic influence, on the grounds that these would cement ties, and substitute cohesion for fragmentation in the face of external communist pressures. Any cost of these policies was regarded as a small enough price for preserving the power balance in Europe and Asia as well as the united strength of the North American continent."

As a result of this initial U. S. policy, the economies of Western Europe and of Japan developed at a
very rapid rate. By the mid-1950's both areas were in a competitive position against U. S. products in the world market. The competitive edge of the U. S. as the world's leading trading nation narrowed (Figure 1) and, in turn, the U. S. relative share of welfare gains from international trade declined. Moreover, the Western Europeans (primarily the members of the European Economic Community) and the Japanese began to challenge American business sales in the U. S. domestic market by the 1960's.

"In the first half of 1970 alone Common Market exports to the United States were up by some 17.5 percent over the same period a year earlier... Europe and Japan have not only recovered from World War II; now they can even effectively challenge American leadership in world economic affairs. This country can no longer set the pace on matters such as commercial policy. Europe and
Japan will become the pacesetters.\(^3\)

One of the means by which the Japanese and, especially, the Western Europeans were able to cut into the U. S. international market was by foregoing international trade and instead developing manufacturing plants inside less-developed countries (LDC). In the case of Brazil, for instance, as soon as Volkswagen developed a car-manufacturing plant in that country, the Brazilian government applied import restrictions on automobiles. As a direct result of this action, foreign car manufacturers (mainly from the U. S.) lost the Brazilian market to a substantial degree. In this way foreign manufacturers were "forced" into opening plants in Brazil to "regain" the market.

The growth of international competition among the industrialized nations, then, has provided LDC's with a chance to develop manufacturing industries of durable consumer goods through the influx of foreign investments. This international competition also provided LDC's with some economic leverage:

"Under pressure from the host countries, foreign-owned plants have been forced to turn to local sources for a growing proportion of their supplies... In Latin America, for instance, the local manufacturing plants of U. S. companies now buy most of their materials from the local economy and import very little directly from their U. S. parents -- or indeed from any other foreign source. The speed with which integration has been taking place is illustrated by the fact that in 1955 a very large sample of U. S.-owned manufacturing..."
plants in Latin America reported buying only about 50% of their materials, supplies, and equipment from the local economy. But by 1957 local purchases of materials and services, as reported by U.S.-owned firms operating in the area, had increased to 82%.

The growth of multinational corporations has also provided a new environment for international economic relations. With the industrialized nations having reached a relatively high standard of living, with wages being increased correspondingly, it has been to the advantage of multinational corporations, conscious of international competition and desiring increased profits, to cut their manufacturing costs by producing in underdeveloped countries. Even though at times low labor costs were not enough to offset higher total costs when all the factors of production were included, "the decision to export from a country such as India or Mexico sometimes carried with it the right to sell in a highly protected local market. In that case, the profits to be gained in the internal market could be applied as an offset to the high costs of producing the exports."

"Multinational enterprises have also in a few cases discovered that rare types of labor, such as skilled artisans, could be found in the less-developed countries at a cost and in a quality not available in the U.S."5

The acceleration of wage-inflation in the industrialized nations is also pushing manufacturers to look
for new areas in which they can find cheaper labor. "U. S. companies started the trend for an obvious reason; since they pay the world’s highest wages, they have the most to save by manufacturing offshore." 6

The results of these trends have been to offset foreign trade and replace it, to some degree, with foreign investments. While aggregate international trade has increased through the years, industrialized nations have lost many of their previous export-markets, especially the United States. The effect has been the loss of jobs or the non-creation of new jobs. "In the U. S., the A. F. L.-C. I. O. estimates that the shift of manufacturing to foreign soil cost American workers 700,000 jobs between 1966 and 1969." 7 Interestingly enough, the study by the European Brazilian Bank Ltd. points out that "in 1970, 700,000 new jobs were created in the industrial sector alone in Brazil... With the previous expansion of the industrial sector and the expected increased investment there, it is anticipated that the industrial output will continue to increase by at least 10 percent per year through 1976." 8

Recently, the A. F. L.-C. I. O. has pushed hard for the passage of the Burke-Hartke bill, a bill which would raise import quotas, increase taxes on income earned by U. S. corporations abroad, restrict the flow of U. S. capital investments and technical know-how abroad, and
effect other measures designed to keep corporations from investing elsewhere than in the U. S. The Chamber of Commerce of the United States has indicated that the bill, if passed, "could trigger forces which could lead to a worldwide depression." 9

An article in the Los Angeles Times directly indicates the growth of multinational corporations as the major source of "the accelerating deterioration of the American position in the world economy. Such global conglomerates operate in as many as 40 or more countries. They juggle the production, distribution, prices and sales of products across national frontiers, based on management decisions of the corporations' private advantage." 10

On the other hand, a study by Business International, in response to the proponents of the Burke-Hartke bill, has "'clearly' concluded that 'the more a company invests abroad, the greater its exports and employment at home.'" 11

That multinational corporations look first to their own interests and only tangentially to the national interests of their country of origin is of no surprise considering the fact that the membership of such corporations tends to be of several nationalities whose only common goal is to serve the purposes of the corporation. Furthermore, in a highly competitive world, multinational corporations must be able to present their products in the market at the lowest possible prices. Thus, the
U. S., for instance, is now in the position where automobiles produced by U. S.-based firms are actually imported into the U. S. from the plants of those firms abroad (the Courier, LUV, Cortina, Capri, etc., are only a few examples of U. S. automobiles manufactured by subsidiaries in Japan and in Great Britain).

Headlines such as "Loyalties Of Ford Know No Bounds -- Multinationalism Good For Nation, Company Claims," are indicative of the international environment of such corporations. After indicating that "since 1962 about 30% of its annual outlay for facilities and equipment has been spent outside the United States and Canada," and that "Ford's Pinto typifies what some critics call a callous attitude... advertised as an 'import fighter' to a public concerned over the loss of U. S. automotive jobs to Germany and Japan, it uses European-built transmissions and engines," the article goes on to say that "Ford remains totally committed to its multinationalism and defends the policy as a force that it says will lead toward world peace and unity."\(^1\)

Kolde agrees with the argument that multinational corporations may indeed bring desired political and social developments.\(^2\) He suggests that such developments may come in the form of

"Stronger and more permanent bonds among different countries."
"More efficient utilization of natural resources, manpower, and capital.

"Built-in deterrent to international conflict in the form of industrial interties (sic) which cannot be broken as easily as the flow of trade.

"A surmounting pressure to rethink and redesign U.S. international economic policies and attitudes toward foreign affairs." 15

James W. McKee, Jr., president and chief executive officer of CPC International, Inc., 16 adds to the above list by suggesting that "the existence of hunger, poverty and hopelessness side by side with comfort in a world of almost instant communication bears a potential for social unrest, violence and political adventurism... One of the most viable, practical pipelines already working to transfuse the lifeblood of capital from the haves to the have-nots is the multinational corporation." 17

Some multinational corporations have grown to tremendous size (ITT, for example, with outlets in about 80 countries and sales at $7.3 billion 18 can control more capital and resources than most countries in the world). With the growth of conglomerates in the United States, "marriages" of big companies in Western Europe, 19 and mergers in Japan, 20 the multinational corporations have become the most recent, and already the most important actor in the international economic structure. Their presence serves to once again change the pattern of international economic relations and, in doing that,
presents a new dynamo affecting economic and political relations among nations.

What the reactions of the governments in the home-countries of multinational corporations will be in trying to protect their national interests by imposing more stringent controls on the multinationals, is of vital importance. Whatever the reactions, they will have a fundamental effect on the less developed countries' economies. President Nixon's "Phase I" economic program vis-a-vis imports is symptomatic of the fact that the U. S. has lost a substantial trading market. His visits to the People's Republic of China and to the Soviet Union do not indicate, at least to me, any altruistic desires for a "generation of peace". Rather, they indicate that the U. S. has come to the realization that, if new markets are not found, the U. S. industrial output might have to halt for lack of buyers.
VI. CONCLUSION

The Brazilian economy is today enjoying rapid and, seemingly, extraordinary growth. That does not mean that all Brazilians are sharing in this economic prosperity. On the contrary; as *Time* magazine points out, "The benefits of the new wealth have been largely confined to the middle-class minority, while the majority remains mired in varying degrees of poverty. Even President Medici concedes: 'The economy is going well, the people not so well.'"¹ In order to eliminate this discrepancy, the government's officials have formulated the Programa de Integração Nacional, alluded to previously, aimed at eliminating what could become an economic bottleneck; if people in general do not earn enough to maintain a high demand of manufactured consumer goods, the economy will eventually slow down and might even come to a halt again.

The new programs in effect in Brazil today are illustrative of what I have called "internal forces" of economic development.² As changes occur within the country, new desires come into focus, exerting new demands on the political system. In order to meet these new demands, new programs are set up which in turn cause new changes in the political, social and economic environment.
The internal forces are only one, albeit perhaps the most important, aspect of economic development. We have seen how, in the case of Brazil, government officials shaped the economic model to accommodate foreign investors. Thus, the "external forces" also affect the type and rate of economic development within a particular country. Had Brazil not been desirous of foreign investments, its economic development would have taken a different course altogether.

If the Brazilian economy was, and still is, directly affected by external forces in terms of its direct relationships with international actors, these international actors, on the other hand, are directly affected by each other's competition in the international market. To the extent that economic actors directly affect each other, they may indirectly affect Brazil. For instance, if the Burke-Hartke bill in the United States were passed as the A. F. L.-C. I. O. wanted, the bill would have directly affected the U. S. multinational corporations' ability to invest abroad and, in this sense, the bill would have affected the Brazilian economy to the extent of the Brazilian relations with U. S. corporations. Moreover, as indicated before, competition between Western European, Japanese, and U. S. corporations has affected the nature of international relations. Such announcements as the one that Ford will build automobile
plants in Israel, and in the Philippines, and in Malaysia, are a direct result of such competition.

Should the "protectionism" which now is gaining strength in the U. S. spread to Western Europe (the EEC still gives preferential tariff treatment to underdeveloped nations), the underdeveloped nations will be substantially affected in their trade relations with industrialized nations. In this sense, multilateral trade agreements (such as GATT) give a little more stability to international economic relations.

Nevertheless, as Nixon's Phase I has shown, industrialized nations suffering from the "pains" of competition can, and will, react defensively. Morgenthau's assertion that "international politics, like all politics, is a struggle for power," and that "whatever the ultimate aims of international politics, power is always the immediate aim," seems to be pretty accurate.

As Brazil gains in economic strength and becomes itself a major power in Latin America and in economic relations with African countries, its policies and status in the international arena will also change. The headline, "A Big Borrower, Brazil Extending Foreign Aid -- Total to Latin Nations Near $80 Million; Opponents Claim Domination Is Goal," is an indication of just such change.

What the directions of changes in the international arena will be is a matter of conjecture. Certain things, however, are predictable. Competition in the international
market is becoming greater as new actors are actively becoming involved in international economic relations (i.e., multinational corporations, and developing countries).

It is also a matter of conjecture whether foreign investments as a means of economic development are "good" or "bad". As suggested in previous chapters, there are several types of foreign investments, each having a different effect on the parties involved.

In the end, economic development, it seems to me, depends on the evolutionary process of the internal, external, and international forces as viewed by particular economic actors. Such process does not foster "laws" of economic development but rather "strategies" of economic development.
Chapter I

1 Here I follow the same methodology taken up by Lewis when he states that "...it should be noted that our subject matter is growth, and not distribution. It is possible that output may be growing, and yet that the mass of the people may be becoming poorer. We shall have to consider the relationship between the growth and the distribution of output, but our primary interest is in analysing not distribution but growth."

"Secondly, our concern is not primarily with consumption but with output. Output may be growing while consumption is declining, either because saving is increasing, or because the government is using up more output for its own purposes. We shall certainly have to consider the relationships between output, consumption, saving and government activity, but we shall be doing this from the angle of the growth of consumption..." W. Arthur Lewis, Theory of Economic Growth (New York: Harper & Row, Publishers, 1965), p. 9.


5 Automotive Industries (July 1, 1970), pp. 237-238.


Chapter II


3Cf. Furtado: "(T)he importance of primary products in the pattern of the world economy and more particularly in the pattern of international trade, has been declining and will tend to decline even further." In Celso Furtado, Economic Development of Latin America (Cambridge: Cambridge University Press, 1970), p. 179. See also the comments in Time magazine (November 9, 1970), p. 69: "(I)t is clear that efficient manufacturing can be carried on almost anywhere, given the capital and technology and after a period of learning and experience. Moreover, the markets for many primary products continue to be eroded, relatively if not absolutely, by the substitution of manufactured synthetic materials."


8Leff, p. 17.

9Ibid.

10Ibid., pp. 17-18.

11Lima, p. 329.


13Ibid., pp. 44-45.

14Ibid., p. 35.
Chapter III


4 Rabelo states that by 1951 Ford was exporting about 100 thousand automobiles a year to Brazil. It was therefore against the interests of Ford to manufacture cars in Brazil until, with the beginnings of manufacturing in Brazil of Western European automobiles (Volkswagen in particular), Ford was "forced" to manufacture in Brazil or lose the market. See Genival Rabelo, O Capital Estrangeiro Na Imprensa Brasileira (Rio de Janeiro: Editora Civilizacao Brasileira, 1966), p. 245.

5 First National City Bank, Brazil, A Special Economic Study (First National City Bank, 1971), p. 13.

6 Nathaniel H. Leff, The Brazilian Capital Goods Industry, 1929-1964 (Cambridge: Harvard University Press, 1968), pp. 46-47. Bergsman, writing on this aspect, summarizes the commercial policies of Brazil as follows: "1. Discrimination against producing for export, rather than for the domestic market. This has been strong for primary products and even stronger for manufactures. 2. Generally high protection of domestic manufacturing against imports. 3. Great inequality in the inter-industrial structure of protection, with generally low protection for raw materials, higher for capital goods, higher still for intermediate goods, and highest for finished consumer goods. 4. A concern for established domestic manufacturers, shown by a combination of high protection for products of existing firms and low cost of importing
goods which were not available domestically." Joel Bergsman, Brazil - Industrialization and Trade Policies (London: Oxford University Press, 1970), p. 54.


8 Bergsman, p. 55.

9 Ibid., p. 61.

10 First National City Bank, p. 16.

11 Ibid., p. 18.


14 The following are what the Brazilian Government defines as basic industries and toward which the government has assigned economic priority (investors in these industries receive greater incentives than investors in other industries): minerals; energy (generating, transmission and distribution); manufacturing industries (cement, refractories); metallurgy (steel and steel products; foundry, forge and boiler plant; nonferrous metal-manufacturing); machinery (farm machinery; machine tools, driving machines and industrial apparatus; nonelectric machines and transmission equipment); electronics (electronic material, generators, motors, converters and transformers for radios, TV and electric domestic appliances; communication items); transportation (marine engines and shipbuilding; basic plastic materials and artificial fibers; highway tractors and machines; airplanes); paper, cardboard, and cellulose; chemicals (inorganic and organic chemicals; artificial fibers; crude oils, vegetable essences and animal fats; insecticides, germicides, fungicides and similar byproducts from coal distillation, including gas fertilizers); food (processing, roasting and industrialization of food products, including juices and concentrates of vegetable origin, slaughterhouses, meat canning and lard; fishing and preparation and refining of edible oils and vegetable fats). See, Business International Corporation, Brazil -- New Business Power in Latin America (New York: Business International Corporation, 1971), p. 9.


16 Bergsman, p. 183.
Chapter IV


Ibid.


5For an excerpt of Minister Velosso's commentary, see Business International Corporation, op. cit., pp. 8-9. For Minister Delfim Netto's, see European Brazilian Bank, Ltd., op. cit., p. 9.

6European Brazilian Bank, Ltd., p. 9.

7As presented in First National City Bank, Brazil, A Special Economic Study (New York: First National City Bank, p. 10.

8As shown in European Brazilian Bank, p. 10.

9Banco De Investimento Do Brasil -- BID, Bi-Monthly Review (Sao Paulo, April 1972), p. 10.


12Banco De Investimento Do Brazil -- BID, p. 6.

13Time magazine (February 21, 1972), p. 70.


15The Los Angeles Times (September 5, 1972), Part III.

16The Los Angeles Times (September 14, 1972), Part III.

17The Los Angeles Times (September 29, 1972), Part III, p. 20.
The Los Angeles Times (November 28, 1972), Part III, p. 9.

Ibid.

Business International Corporation, p. 42.

European Brazilian Bank, Ltd., p. 11.

Ibid., p. 12. For a summary analysis of Japanese-Brazilian economic relations, see the Los Angeles Times (October 25, 1971), Part I-A, p. 8, "Japan Views Brazil as Prime Investment Spot."


European Brazilian Bank, Ltd., p. 9.

Business International Corporation, pp. 73-74.

European Brazilian Bank, Ltd., p. 12.

Brazil Export 72 (Sao Paulo: Comissariado da Feira Brasileira de Exportação, 1972), no page annotation given. Concerning economic growth for 1972, see "O Estado de Sao Paulo," December 20, 1972, p. 33, where it has been estimated that for the period January to October, manufacturing increased by 13 to 14 percent relative to 1971, construction went up by 12 percent, and the supply of energy by 11 percent. The economy as a whole grew, for 1972, by around 10 percent.

Consider, for instance, the following proposition: "(A) more people are brought into industry, domestic agricultural output must be expanded or farm imports increased if this industrial growth is not to be checked by raising food prices. Likewise, if farm incomes are to rise steadily, the greater demand for manufactures on the part of farmers must somehow be met and, on a more detailed commodity level, there are thousands of similar interrelationships. Any successful development program must proceed on enough fronts to meet the balances that these interrelations involve." Robert E. Baldwin, "Balanced Growth Versus Unbalanced Growth," in Walter Krause and F. John Mattis, International Economics and Business (Boston: Houghton Mifflin Company, 1968), p. 125.
30 Brazil Export 72.


33 European Brazilian Bank, Ltd., p. 58.

34 The Fundo de Modernizacao e Reorganizacao Industrial [Industrial Modernization and Reorganization Fund], established in November 1970, financed by the Banco Nacional de Desenvolvimento, the Federal Treasury, individual states, and external borrowing, provided during 1971 funds for industrial concerns with medium- and long-term reorganization and modernization programs. "To enable Brazilian financial institutions to compete with foreign suppliers of funds for the purchase of locally manufactured equipment, the Conselho Monetario Nacional [National Monetary Council] during 1971 approved a program to be administered by FINAME. The FINAME program provides credits for periods of up to eight years with two years grace period, at a total cost of 7% per year with monetary correction." Bi-Monthly Review, p. 5. Translations added.


37 Ibid., p. 137. Rabelo explains that almost all magazines in Brazil belong to American-owned firms. Also included are radio and television channels and newspapers -- even though the Brazilian Constitution, Article 160, explicitly forbids non-nationals from owning and operating any newspaper, magazine, radio, or television station, reserving to Brazilian-born citizens only the right to own and operate media of communication. He also states that the publicity-agency business in Brazil is dominated by J. W. Thompson Publications, which controls 70 percent of publicity materials and has as its major clients General Electric, Ford, and Johnson & Johnson. Its power of determining which media will get advertising is, under these circumstances, quite extensive.


Since coffee is still the largest product exported by Brazil, and the U. S. is the major buyer, any threat by the U. S. to cut imports of coffee outright or to impose a high tariff on it would cause a great negative impact on the Brazilian economy. It was necessary, then, under this condition, for Brazil to acquiesce and impose on herself an export tax which was clearly against her own interests.

Tyler, p. 89.

Newsweek (September 20, 1971), pp. 80-82. Consider also Vernon's assertion: "True, less developed countries in the position of India, Mexico, and Brazil -- nations that have made some progress toward industrialization -- have placed unremitting pressure on the more conspicuous multinational enterprises, compelling them to give up lines of local activity as rapidly as national entrepreneurs can take them over, and this sort of pressure can be expected to continue." Raymond Vernon, "The American Investor Abroad," in Walter Krause and F. John Matthis, International Economics And Business (Boston: Houghton Mifflin Company, 1968).


Chapter V


Cohen, p. 238.


Ibid., pp. 104-105.
6 Time magazine (September 21, 1970), p. 91: "West Germany's Rollei-Werke for years has been losing sales to Japanese rivals, whose low wage costs enable them to sell cameras for less than half the price of a Rolleiflex. Fighting to overcome the handicap, Rollei executives recently decided to try to beat the Japanese at their own game. The German firm is investing $12.6 million in a new plant in Singapore. There workers will turn out cameras for sale in the U. S. and East Asia at wage rates only one-sixth as high as in Germany, and two-thirds below those prevailing even in Japanese camera plants. "How long Rollei's advantage will last is problematic. Low as they are by European standards, Japanese wages more than doubled between 1963 and 1969. Logically enough, Japanese industrialists are also discovering the advantages of shifting some production to lands where no wage explosion has yet begun."

7 Time magazine (September 21, 1970), p. 92. Consider also the claim in Fortune magazine (August, 1971), p. 187, that 200,000 jobs were created in the U. S. due to investments abroad. The creation of such jobs is, according to the article, a matter of fact; while the allegations by the A. F. L.-C. I. O. that 700,000 jobs were lost, the article claims, is a matter of conjecture.


9 The Los Angeles Times (July 23, 1972), pp. 1 and 14.


11 The Los Angeles Times (May 30, 1972), Part III.

12 The Los Angeles Times (July 2, 1972), Section F, p. 2 and p. 5.

13 Ibid.


15 Ibid., p. 307.

16 Based in Englewood Cliffs, New Jersey, CPC International is a major producer of food items "with annual sales in excess of $1.5 million, 55% of which is derived from its operations in 40 foreign countries. Some of its
better-known products include Best Foods mayonnaise, Skippy peanut butter and Mazola corn oil and margarine."
The Los Angeles Times (November 29, 1972), Part III, p. 12.

17 Ibid.

18 John F. Lawrence, "Big Business -- Can It Be Governed?" in the Los Angeles Times (March 26, 1972), Section H, p. 4.

19 For some of the problems encountered by European corporations that merged with a view to becoming more competitive against U. S. corporations, see Time magazine (December 4, 1972), pp. 40 and 45.

20 John F. Lawrence, p. 5.

Chapter VI

1 Time magazine (February 21, 1972), p. 70.


3 The Los Angeles Times (September 25, 1972), Business Section.

4 The Los Angeles Times (May 25, 1972), Business Section.


6 The Los Angeles Times (October 16, 1972), Part I, p. 7.

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Los Angeles Times, October 25, 1971 (Part I-A, p. 8); May 25, 1972 (Business Section); May 30, 1972 (Part III); June 25, 1972 (Section F, p. 8); July 2, 1972 (Section F, pp. 2 and 5); September 5, 1972 (Part III); September 14, 1972 (Part III); September 25, 1972 (Business Section); September 28, 1972 (Part III, p. 9); September 29, 1972 (Part III, p. 20); October 16, 1972 (Part I, p. 7); November 29, 1972 (Part III, p. 12).


Newsweek, July 5, 1971 (pp. 62-63); September 20, 1971 (pp. 80-82).

Time magazine. September 21, 1970 (p. 91); November 9, 1970 (p. 69); February 2, 1972 (p. 70); December 4, 1972 (p. 40).

SUGGESTED READING


