

**FOREIGN INVESTMENT AND TECHNOLOGY:  
THE CASE OF SWEDISH MANUFACTURING SUBSIDIARIES  
IN BRAZIL**

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Sweden is, no doubt, one of the most capital exporting countries in the world. Almost half of the industrial production of Sweden is sold abroad. Swedish industrial firms started expansion abroad already during the first two decades of this century. Firstly, by establishing sales companies all around the world and later on, and increasingly so, through the establishment of manufacturing subsidiaries. The traditional markets for Swedish products have been concentrated to Western Europe and the United States but during the last two decades an increasing flow of direct investment has gone to the countries in the so-called Third World.

Latin America accounts for the overwhelming bulk of these investments (87 % of total assets of Swedish subsidiaries in Third World countries in 1974), and about 90 % of these assets are concentrated to three countries, Argentina, Brazil and Mexico. It is estimated that Brazil alone in 1976 accounted for more than half of the assets of Swedish subsidiaries in the developing countries. In 1976 the Swedish Central Bank authorized Swedish manufacturing firms to invest no less than 458 million crowns (about 100 million\$) in Brazil, the third largest investment authorization in that year.

Today there are about 70 Swedish subsidiaries, or firms related with Swedish capital, in Brazil. Of these 32 are production firms of which the great majority were established during the latter part of the 1950's or the beginning of the 1970's. A complete list of producing firms in Brazil, connected with Swedish capital in one form or another, is presented in Table 1.

TABLE 1  
SWEDISH MANUFACTURING AFFILIATES IN BRAZIL, 1976

| Affiliate                     | Parent Company           | Branch              | Total assets   | million cruzeiros |                |                  |
|-------------------------------|--------------------------|---------------------|----------------|-------------------|----------------|------------------|
|                               |                          |                     |                | Sales             | Profits (Loss) | Number employed  |
| 1 ERICSSON DO BRASIL          | LM Ericsson AB           | Electrical          | 361            | 3 761             | (140)          | 10 003           |
| FICAP                         | LM Ericsson AB           | Electrical          | 191            | 400               | 48             | 1 250            |
|                               | Anaconda                 |                     |                |                   |                |                  |
| TELECOMPONENTS <sup>1</sup>   | Ericsson do Brasil       | Electrical          | 11             | 301               | (0.5)          | 1 030            |
| 2 SAAB-SCANIA                 | Saab-Scania AB           | Transport equipment | 331            | 2 179             | 16             | 2 822            |
| 3 SKF ROLAMENTOS              | SKF (Sweden)             | Metal               | 279            | 360               | 97             | 1 100            |
|                               | SKF (France)             |                     |                |                   |                |                  |
| Fca PAULISTA DE BROCAS        | SKF Tools (85 %)         | Machinery           | 53             | 150               | 27             | 600              |
| AÇOS ANHANGUERA               | SKF AB (2.7 %)           | Metal               | 350            | 855               | 29             | 2 059            |
|                               | Bethlehem Steel          |                     |                |                   |                |                  |
| 4 ASEA ELETRICA               | Asea AB                  | Electrical          | 109            | 371               | 73             | 868              |
| ARNO S.A.                     | Asea AB (38 %)           | Electrical          | 392            | 1 017             | 88             | 5 651            |
| 5 AGA S.A.                    | AGA AB                   | Chemical            | 36             | 100               | (1.4)          | 550              |
| Fca AÇO PAULISTA              | AGA AB (80 %)            | Metal               | 236            | 535               | 100            | 2 485            |
|                               | Hidland-Ross (USA)       |                     |                |                   |                |                  |
| AGANOR                        | AGA S.A.                 | Chemical            | 17             | 16                | (3.2)          | 72               |
| 6 ELECTROLUX                  | AB Electrolux            | Electrical          | 31             | 115               | 15             | 345              |
| FACIT                         | AB Electrolux            | Machinery           | 74             | 301               | 25             | 1 364            |
| 7 MONARK                      | AB Crescent-Monark       | Transport equipment | 90             | 488               | 18             | 2 433            |
| 8 ATLAS COPCO                 | Atlas Copco AB           | Machinery           | 304            | 940               | 157            | 600              |
| 9 SANDVIK DO BRASIL           | Sandvik AB               | Metal               | 124            | 381               | 12             | 672              |
| SANDVIK CONVEYOR              | Sandvik AB               | Machinery           | no information | no information    | no information | 11 <sup>2</sup>  |
|                               |                          |                     |                |                   |                |                  |
| SANDVIK VASONE                | Sandvik do Brasil        | Machinery           | no information | 14 <sup>2</sup>   | no information | 114 <sup>2</sup> |
|                               |                          |                     |                |                   |                |                  |
| 10 ELETRO SOLDA AUTOGENA      | ESAB                     | Machinery           | 71             | 327               | 40             | 700              |
| 11 NIFE DO BRASIL             | Nife-Jungner AB          | Electrical          | 47             | 55                | 3.6            | 600              |
| 12 FAGERSTA-VULCANUS          | Fagersta Bruks AB        | Metal               | 26             | 180               | 7.5            | 360              |
| 13 ALFA LAVAL                 | Alfa Laval AB            | Machinery           | 36             | 165               | 10             | 449              |
| 14 PRODUTOS PERSTORP          | AB Perstorp              | Chemical            | 47             | 185               | 16             | 326              |
| 15 DYNAPAC                    | Dynapac Maskin AB        | Machinery           | no information | 76 <sup>2</sup>   | no information | 440 <sup>2</sup> |
|                               |                          |                     |                |                   |                |                  |
| 16 SUECOBRAS                  | AB Bromsregulator        | Transport equipment | 86             | 160               | 56             | 237              |
|                               |                          |                     |                |                   |                |                  |
| 17 INTERPRINT                 | Bonnierbolagen           | Graphical           | 20             | 65                | (3.6)          | 300              |
| 18 TANAC                      | Weibulls                 | Chemical            | 66             | 81                | 11             | 334              |
| 19 ALVENIUS <sup>1</sup>      | AB Alvenius              | Metal               | 11             | 30                | (0.2)          | 150              |
| 20 SF DO BRASIL <sup>1</sup>  | Svenska Fläktfabriken    | Machinery           | 25             | 32                | 6.4            | 50               |
| 21 ASTRA QUIMICA <sup>1</sup> | Astra AB                 | Pharmaceutical      | 35             | 55                | 3.1            | 261              |
| 22 HUGIN DO BRASIL            | Kooperativa Förbundet    | Machinery           | 16             | 29                | 2.6            | 140              |
| 23 CEDERROTH                  | Cederroth Int. (Schweiz) | Pharmaceutical      | no information | no information    | no information | 35               |
|                               |                          |                     |                |                   |                |                  |
| 24 AÇOS KANTHAL               | Bulten Kanthal AB        | Metal               | no information | 20 <sup>2</sup>   | no information | 58 <sup>2</sup>  |
|                               |                          |                     |                |                   |                |                  |

1 1975

2 1974

Sources: Guia Interinvest 1975/76

Quém e quem na Economia Brasileira (Visão, 22 August 1977)

Information collected at some of the companies

## 1. Why do Swedish firms invest in Brazil?

When transnational companies go abroad they have an option between setting up a sales company and/or building a plant which might be either an assembly plant (with imported assembly parts) or at once building a full-scale integrated plant (with little or no imported inputs). These investments are motivated by the need of defending or increasing an old market, or opening up new ones.

Usually, the company begins with a sales company and then, when import difficulties begin, decides to invest directly in a production plant. These *direct* investments, motivated as described above, are often referred to as *market motivated investments*. Swedish investments abroad have traditionally been of this type.

There are also other types of investments, however. Companies might invest abroad in *raw material resources*. Thus, the market is not abroad but in the home-country. There are only a few such cases in the history of the Swedish transnationals (the most important one being the well-known LAMCO project in Liberia).

A third type of investment is when the decision to invest abroad is primarily motivated by taking advantage of low wages. These industries are sometimes called *runaway industries*. (Examples are the export industries in Taiwan, South Korea, Singapore and the US-Mexican border project.) This is a rather new phenomenon and in the Swedish case is practised primarily in the textile industry (the *Algots* plant in Portugal, for example).

With respect to Swedish investments in Brazil practically all of these have been motivated by defending the markets. This was the situation until the middle of the 1970's. There are signs, however, that this will change. At least two or three Swedish firms have interest in exploiting eucalyptus forests in Brazil and some of the already established firms might be tempted to move some of the productive capacity from Sweden, covering the Swedish market with low-wage products "made in Brazil". This might, for instance, be the case with *Monark*.

## 2. The foreign investment boom

The overthrow of Goulart in 1964 and the establishment of a military regime offering all kinds of incentives to foreign capital led to a mass flow of direct investment capital into Brazil. The real boom of investment came in the latter part of the 1960's when the so-called Brazilian miracle started. According to the Brazilian Central Bank, registered foreign direct investments increased almost five times between 1969 and 1976 (see Table 2 A), and Swedish investments

increased eleven times, surpassed only by Japan and the Netherlands. Most of the Swedish investments are concentrated to the Machinery and Electrical branches (see Table 1).

### 3. New Swedish investment projects

A number of Swedish Companies have in the last years made large investments in Brazil. However, since these firms had not started production as of 1976 they are not included in the list of Swedish affiliates in Table 1. *Volvo* is investing in a large truckplant in Curitiba, south of São Paulo. If the planned merger between Saab-Scania and Volvo eventually will take place, the domination of this new company on the Brazilian truck market would be almost total.

*Tetrapak* (packaging) has recently finished the construction of a milk-packaging plant in Montenor outside São Paulo. *Uddeholm* (steel) has plans to build a factory for the production of stainless tubes. This is noteworthy since this is the first time that this famous company is obliged to invest abroad in order to defend its market. Swedish steel does not "bite" as it once used to.

*Billerud* and *MoDo* are two fully integrated forestry and paper firms, both with advanced plans to exploit the eucalyptus forests in Brazil, for processing on the spot and exports to Europe. *Billerud* is already contributing with know-how to the Aracruz project, a so-called joint-venture project with several foreign firms. *MoDo* has acquired forests in Curitiba and is constructing a fully integrated

TABLE 2 A  
REGISTERED FOREIGN DIRECT INVESTMENTS 1969 AND 1976

|                             | million dollars |       | Increase  |
|-----------------------------|-----------------|-------|-----------|
|                             | 1969            | 1976  |           |
| USA                         | 816             | 2 546 | 3.1 times |
| Federal Republic of Germany | 177             | 946   | 5.3 "     |
| Japan                       | 55              | 930   | 16.2 "    |
| Switzerland                 | 105             | 835   | 8.0 "     |
| Canada                      | 168             | 464   | 2.8 "     |
| United Kingdom              | 109             | 413   | 3.8 "     |
| France                      | 35              | 311   | 8.9 "     |
| Netherlands                 | 8               | 202   | 25.2 "    |
| Sweden                      | 17              | 191   | 11.2 "    |
| Other countries             | 220             | 1 165 | 5.3 "     |
| Total                       | 1 710           | 8 003 | 4.7 times |

Source: Fiscalização e registro de capitais estrangeiros no Banco Central do Brasil

TABLE 2 B  
REGISTERED SWEDISH DIRECT INVESTMENTS IN BRAZIL, 1969—1976

|      | million dollars             |                           |
|------|-----------------------------|---------------------------|
|      | Total Direct<br>Investments | of these<br>reinvestments |
| 1969 | 16.7                        | 0.6                       |
| 1970 | 39.4                        | 13.2                      |
| 1971 | 57.7                        | 25.0                      |
| 1972 | 69.0                        | 29.7                      |
| 1973 | 73.2                        | 30.9                      |
| 1974 | 118.9                       | 63.8                      |
| 1975 | 144.9                       | 65.7                      |
| 1976 | 191.3                       | 74.2                      |

*Source:* Same as Table 2 A

pulp plant, *MoBaSa*. This plant will, when entering into production in 1981, produce some 1 000 tons of paper pulp per day. The whole investment is estimated to reach 300 million dollars one of the largest investments ever made by a Swedish company in Brazil.

In contrast with the much criticized *Borregaard* project (Norwegian), *MoBaSa* will from the outset have a bleachery. It caused a scandal when some years ago it was discovered that *Borregaard do Brasil* was exporting unbleached paper pulp to Norway at 100 \$ per ton, and then imported bleached pulp into Brazil from Norway at a price of 500 \$ per ton!

It may sound strange that a pulp exporting country like Sweden is interested in forestry exploitation in Brazil. The explanation lies in the long-term disastrous effects of the unplanned exploitation of Swedish forests during the 1940's. This means that there will be a lack of Swedish timber during the next decade. In order to meet this deficit a number of Swedish lumber firms are looking for alternative resources bases abroad. *Korsnäs* and *Stora Kopparberg* have similar projects going on in Liberia.

#### 4. The criticism of foreign capital in Brazil

The Brazilian "model" has often been criticized for giving too much emphasis on economic *growth* while discarding equity variables like income distribution and basic needs like social welfare, nutrition, housing and education. This has rightly been denounced as the dark side of the so-called Brazilian miracle.

When the Brazilian economy in 1974 entered into serious difficulties with falling rates of growth, increasing inflation and the drastic worsening of the balance of payments situation a growing number of critical voices were raised pointing at the tremendous price to be paid for the "model". A number of economists in exile but also social scientists working in Brazil all published critical books about the Brazilian model in general and especially about the detrimental effects of the penetration of foreign capital.

A phenomenon that seriously worried at least some sectors of the government was the rapidly deteriorating trade balance of Brazil. The increasing impact of the oil price increases in 1974 is no doubt part of the explanation but the large bulk of the increasing trade gap could be explained by the imports of the affiliates of the transnationals operating in the country. CACEX, the Foreign Trade Department of the Banco do Brasil, in September 1975 published a list of balance of trade effects of some of the largest firms in the electrical branch in 1974. Topping the list was the Swedish subsidiary *Ericsson do Brasil*.

In 1975 the Brazilian congress set up an *ad hoc* committee to investigate the role of the transnational firms in the Brazilian economy. The main report, endorsed by the ruling ARENA party, draws in general positive conclusions of the role of the transnationals, and that Brazil depends on these companies for "the capital investments it so desperately needs". The minority report, endorsed by the only legal opposition party, MDB, on the other hand, is mainly critical, particularly with respect to the balance of payments effects and the *de facto* denationalization of the Brazilian industry which is actually taking place. With respect to this latter criticism, the MDB report could, much to the embarrassment of the ARENA party, refer to a recent report of the US Congress on the implications of the growth of US conglomerates in Brazil and Mexico. As this report shows, there has been a clear trend in the past that US firms rather take over *existing* Brazilian firms than invest in new plants of their own (see further Table 7).

## 5. The criticism resumed

From the books and references mentioned above it is possible to group the criticism of the transnationals in Brazil under eight headings. These are discussed below with a tentative assessment of to what extent the criticism also applies to Swedish subsidiaries in Brazil.

### A. "The social costs"

Foreign investment is directed to producing goods for the higher income brackets which leads to increasing income concentration, pauperization in the urban slums and growing polarization of the society at large.

According to a "white book" published by the Episcopate of São Paulo in 1976 (São Paulo 1975 — *Crescimento e Pobreza*) the income differences have steadily grown in the São Paulo area in the last decade, and the nutrition levels have deteriorated. As an example it is pointed out that a head of family had to work 84 hours in 1964 in order to earn enough for his own and family's monthly livelihood. In 1968 the same family head had to work 97 hours in order to buy the same quantity of food, and between 1968 and 1974, during the very boom period, this necessary labour increased to 155 hours per month.

While the purchasing power of the minimum wage has steadily gone down since 1964, this is not so with the *average* earnings in industry (wages plus salaries) which have increased most of the years. Since the *median* earnings have decreased this means that the higher income brackets have improved their situation at the disadvantage of the lower ones. Another factor that explains the growth of the average income is that a growing number of the labour force work *overtime*. This is often necessary in order to amortize debts accumulated over years of purchases of domestic appliances, transistors, TV-sets and other end-products of the "economic miracle". Simultaneously with this flood of durable consumer goods "made in Brazil" with imported technology and capital, the majority of the families in the suburban areas of São Paulo have a lower nutrition level than ten years ago. An indicator of this is that the infant mortality increased from 60 per mil in 1964 to 100 per mil in 1970 and is estimated to be around 129 per mil today.

Although the average earnings of the Swedish manufacturing firms in Brazil are higher than the average earnings in respective industry, there are large and apparently increasing income differences within each firm (see Table 3). At Saab-Scania, for instance, the average salary for the high-level staff was 12 times larger than the average wage of the bluecollar worker (before tax). In 1975 this difference had grown to 16 times. The after-tax difference is of course smaller but it should be pointed out that the Brazilian income tax never exceeds 50 %. These income differences are in no way unique. The wage and salary pattern is similar at Ericsson, SKF, AGA and ASEA. The lowest wages are found at Monark, partly perhaps as a result of the relatively large share of female labour employed (20 %).

Overtime work is very common in Swedish firms. Workers at Saab-Scania, for instance, say that they frequently work 60 hours or more per week (to be compared with the 48 legal requirement). According to Luis Inácio Silva, Secretary-General of the Metallurgical Workers' Union in São Bernardo do Campo, Saab-Scania also practises the so-called "sistema da rotatividade" (rotation system) together with other foreign car producers (see also New York Times, 25 January 1976).

The automobile plants are concentrated to an area in São Bernardo do Campo,

TABLE 3  
REAL WAGES & SALARIES AT SOME SWEDISH AFFILIATES IN BRAZIL 1969—75

|                    | cruzeiros expressed in 1975 purchasing power |        |        |
|--------------------|--|--------|--------|
|                    | 1969   | 1972   | 1975   |
| Average earning    | 1 799  | 2 039  | 2 298  |
| <i>Saab-Scania</i> |  |        |        |
| Average            | 3 085  | 3 530  | 3 448  |
| Workers            | 1 776  | 2 180  | 2 167  |
| Clerical staff     | 3 413  | 4 344  | 4 802  |
| Professionals      | 21 174                                       | 25 931 | 34 670 |
| <i>Monark</i>      |  |        |        |
| Average            | no   | 1 675  | 2 179  |
| Workers            | infor-                                       | 1 264  | 1 507  |
| Employees          | mation                                       | 5 675  | 6 997  |
| <i>Perstorp</i>    |  |        |        |
| Average            | 3 243  | 3 665  | 3 742  |
| Workers            | 1 459  | 1 652  | 1 746  |
| Employees          | 5 046  | 5 455  | 5 791  |

*Sources:* Information from the companies

outside São Paulo. The rotation system implies that the plants fire unqualified labour before the probation period is over (normally three months). The worker then continues to the next plant, where he is then fired within three months and so on. The system eventually leads to the absurd situation that a worker ends up in the firm where he initially started working but without the social benefits he would be entitled to as a permanent member of the work force.

#### *B. Balance of payments effects.*

According to a survey done by the MDB for the earlier mentioned Congress Investigation on the Role of the Transnationals in Brazil (CPI), a selected number of the largest foreign affiliates operating in Brazil invested 299 million dollars in the country in the period 1965—75. In the same period the same firms repatriated 774 million dollars to the parent companies as profits, "technical assistance", license and management fees, leaving a negative balance of 475 million dollars.

What is then the situation with respect to the Swedish affiliates in Brazil? In order to get an idea one could look at Brazil's balance of payments with



Sweden (see Table 4). We can see that Brazil had a positive balance on all accounts with Sweden up until 1969. Then, from 1969 and on, paradoxically as it may seem, both trade and payment balances start deteriorating *simultaneously* with the unprecedented growth of Swedish direct investments in Brazil (cf. Table 2B). The deterioration culminated with a record deficit in the trade balance in 1975 with 238 million dollars, and in the balance of payments of 220 million dollars. This large trade deficit with Sweden is mainly explained by the imports of Swedish subsidiaries from the parent companies in Sweden. These imports account for between 80 to 90 per cent of all imports to Brazil from Sweden, according to the Swedish-Brazilian Chamber of Commerce (see also Table 5).

*C. "Technical assistance", a covert form of over-pricing*

According to Brazilian law foreign firms can include in their accounts "technological payments" to their own parent company to a value corresponding to 5 % of sales. According to an investigation by the Brazilian Central Bank, transnational firms in Brazil in this way repatriated no less than 223 million dollars in the year 1975 alone which is almost as much as the repatriation of regular profits, 237 million dollars.

Against this background it would be highly surprising if Swedish firms did not practise these methods. Available statistics for the electrical sector also show

TABLE 4  
BRAZIL'S BALANCE OF PAYMENTS WITH SWEDEN, 1966—75

|      | Exports | Imports | million dollars |                          |                     |
|------|---------|---------|-----------------|--------------------------|---------------------|
|      |         |         | Trade balance   | Current accounts balance | Balance of payments |
| 1966 | 55      | 29      | + 26            | + 22                     | + 34                |
| 1967 | 50      | 35      | + 15            | + 9                      | + 15                |
| 1968 | 51      | 48      | + 3             | — 6                      | + 13                |
| 1969 | 60      | 62      | — 2             | — 10                     | — 6                 |
| 1970 | 69      | 50      | + 19            | + 10                     | + 10                |
| 1971 | 54      | 70      | — 16            | — 33                     | — 26                |
| 1972 | 66      | 88      | — 22            | — 42                     | — 36                |
| 1973 | 94      | 149     | — 55            | — 80                     | — 45                |
| 1974 | 72      | 240     | —168            | —204                     | —173                |
| 1975 | 83      | 321     | —238            | —266                     | —220                |

Source: Banco Central do Brasil

TABLE 5  
TRADE PERFORMANCE OF THE LARGEST SWEDISH AFFILIATES IN BRAZIL,  
1972-75

|                          |         | US dollars |             |              |              |
|--------------------------|---------|------------|-------------|--------------|--------------|
|                          |         | 1972       | 1973        | 1974         | 1975         |
| Ericsson<br>do Brasil    | Exports | 1 901 798  | 697 404     | 562 693      | 870 574      |
|                          | Imports | 10 226 190 | 27 266 975  | 151 987 690  | 148 459 825  |
|                          | Balance | -8 324 392 | -26 569 571 | -151 424 997 | -147 589 251 |
| Tele-<br>componentes     | Exports | —          |             |              |              |
|                          | Imports | —          | 455 065     | 11 494 910   | 14 095 117   |
|                          | Balance | —          | -455 065    | -11 494 910  | -14 095 117  |
| Saab-Scania<br>do Brasil | Exports | 349 141    | 1 564 586   | 4 951 385    | 10 622 111   |
|                          | Imports | 6 654 174  | 11 071 338  | 18 324 841   | 28 470 890   |
|                          | Balance | -6 305 033 | -9 506 752  | -13 373 456  | -17 848 779  |
| SKF                      | Exports | 222 336    | 143 886     | 303 906      | 484 267      |
|                          | Imports | 8 528 109  | 10 324 381  | 15 516 690   | 7 559 038    |
|                          | Balance | -8 305 773 | -10 180 495 | -15 212 784  | -7 074 771   |
| ASEA                     | Exports | 33 388     | 1 225 426   | 794 182      | 1 129 425    |
|                          | Imports | 2 545 325  | 2 657 962   | 4 460 773    | 3 647 730    |
|                          | Balance | -2 511 937 | -1 432 536  | -3 666 591   | -2 518 305   |
| AGA                      | Exports | 24 594     | 24 240      | 760          |              |
|                          | Imports | 306 489    | 1 031 886   | 1 274 784    | 232 741      |
|                          | Balance | -301 895   | -1 007 646  | -1 274 024   | -232 741     |
| Electrolux               | Exports | 155 455    | 202 028     | 1 256 470    | 2 261 748    |
|                          | Imports | 218 413    | 1 705 904   | 1 086 997    | 356 944      |
|                          | Balance | -62 958    | -1 503 876  | +169 473     | -1 904 804   |
| Facit                    | Exports | 361 659    | 528 349     | 1 234 439    | 2 059 418    |
|                          | Imports | 2 959 738  | 5 491 497   | 7 454 667    | 5 119 516    |
|                          | Balance | -2 598 079 | -4 963 148  | -6 220 228   | 3 060 098    |
| Monark                   | Exports | 138 088    | 604 318     | 1 461 659    | 1 478 419    |
|                          | Imports | 1 759 956  | 5 251 834   | 6 489 796    | 3 106 109    |
|                          | Balance | -1 621 868 | -4 647 516  | -5 028 137   | -1 627 690   |
| Atlas Copco              | Exports | 25 093     | 57 526      | 24 935       | 133 101      |
|                          | Imports | 6 812 350  | 24 864 468  | 20 400 084   | 14 205 956   |
|                          | Balance | -6 787 257 | -24 806 942 | -20 375 149  | -14 072 855  |

Source: CACEX, Banco do Brasil

that *Ericsson do Brasil* over the period 1966—74 sent nine million dollars to the parent company in Stockholm, as payments for "technical assistance". In the same period ASEA Eléctrica sent 372 000 dollars for the same purposes to Sweden. Even ARNO, a Brazilian domestic appliances firm in which ASEA owned 38 % of the shares sent 316 000 dollars for "technical assistance" to ASEA, Sweden, in the same period.

*D. TNC do not create employment opportunities in the long run*

TNC are highly capital-intensive and have a technology adaptable to industrialized societies. Although TNC in the short run might create new job opportunities through direct investments in manufacturing plants, the long-term trend is adverse since capital tends to replace labour especially if the direct investment is used to acquire already existing firms (see point below). The growth of the employment at Swedish manufacturing plants in Brazil is shown in the table below.

The rapid expansion of employment at Swedish firms in Brazil is the reason why São Paulo sometimes is referred to as "the third industrial town of Sweden". But this is not the same as to say that the employment effect is as impressive. As table 6 shows the incremental employment effect of net additions in capital stock (as measured by total assets) is steadily decreasing over the years. Thus, while total assets increased by 13 times over the period 1960—75, the corresponding increase in employment was only 6 times.

TABLE 6  
NUMBER OF PERSONS EMPLOYED AND TOTAL ASSETS OF SWEDISH  
MANUFACTURING AFFILIATES IN BRAZIL 1960—75

|      | Number employed | Index | (million Sw. Cr.)<br>Total assets | Index |
|------|-----------------|-------|-----------------------------------|-------|
| 1960 | 4 764           | 100   | 201                               | 100   |
| 1965 | 8 065           | 169   | 414                               | 206   |
| 1970 | 12 981          | 272   | 1 082                             | 538   |
| 1975 | 29 924          | 628   | 2 600 <sup>1</sup>                | 1 294 |

<sup>1</sup> Estimated.

Sources: Birgitta Swedenborg, *Den svenska industrins investeringar i utlandet*. (Stockholm 1973)

Birgitta Swedenborg, *Den svenska industrins investeringar i utlandet, 1970—1974*. (Stockholm 1976)

Quém é Quém na Economia Brasileira. (Visão, September 1976)

### E. *Transfer pricing*

Accusations of price-manipulations are very frequent in the literature about the transnationals. The problem is, however, that it is very difficult to prove. Managing directors in the Swedish firms in Brazil are when approached about the subject, very reticent. Some, however, claim that there is no secrecy at all about the so-called *transfer prices* (the prices applied within the different branches of a transnational) and that such lists are readily available in the ministries. People at CACEX (The foreign trade department of Banco do Brasil), however, claimed to be ignorant about such lists. On the other hand they gave me access to the statistics available on the trade performance of the Swedish firms since 1972 with quantities, values, and items identifiable by origin or destination (see Table 5). A brief look at these statistics (a complete report of these findings is forthcoming) showed that practically all Swedish firms significantly increased imports from the Swedish mother firms in the period 1972—75, leaving important deficits in the Brazilian trade balance. These data, of course, do not reveal the significance, if any, of transfer-pricing. In order to do this one has to identify price changes of identical products over a number of years. This is possible, for instance, in the case of Saab-Scania. The only imports of any significance of Saab-Scania relate to the import of the gear-box from the parent company in Södertälje, Sweden. The transfer price of this gearbox increased by 52.8 % between 1972 and 1975, in only three years.

### F. *Denationalisation of the domestic industry*

This is perhaps the most touchy criticism since it means nothing but the surrender of national interests to foreign capital. The Brazilian government often says that it defends the interests of the domestic private industry, but none the less there are in accordance with Brazilian law no restrictions whatsoever for foreign capital to take over domestic private firms. There is a clear trend that transnationals enter the Brazilian market through acquisitions of domestic competitors. Or as the earlier mentioned US Congress Report states:

"As the industrial base has deepened, the acquisition of existing enterprises has played an important role in the US corporate expansion. Fifty-nine of the 177 manufacturing affiliates established by the reporting MNC's, that is one third, commenced operations in the parent organization as a result of direct acquisition."

"More important is the fact that the MNC acquisitions as a mode of entry and growth have become increasingly common. Prior to 1950, affiliates were established through formation of a new corporate entity in over 90 percent of the cases (see Table 7). However, by the late 1960's and early 1970's MNC takeovers of existing firms had grown to become the principal

vehicle of initiating new affiliate activity in the Brazilian market — well over half of the new affiliates were acquisitions.”

No such statistics are available for the entry of Swedish firms into the Brazilian market, although it seems that acquisitions have been relatively rare in the past. There are only a handful of cases like AGA's acquisition of Fabrica de Aço Paulista in the 1920's, SKF's of Fabrica de Paulista de Brocas, and Sandvik's recent acquisition of Vasone Serras. ASEA's acquisition of shares in ARNO (apparently sold to Electrolux in January 1978) could also be considered as an example.

But denationalization of the Brazilian industry does not only occur through acquisitions. Many firms are simply outcompeted and go out of business. This is particularly the case in branches where Swedish investments are concentrated, like the machinery and the electrical industry. The latter industry is a case in point. In 1960 69 of the 100 largest electrical firms were domestically owned and whose assets accounted for 34 % of the industry total. By 1974 only 43 of the firms were still in Brazilian hands, accounting for only 23 % of total assets (Newfarmer 1977).

TABLE 7  
PERCENT OF NEW US MANUFACTURING AFFILIATES ESTABLISHED BY  
ACQUISITIONS IN BRAZIL, 1945—73

|                   | Percent of new<br>affiliates es-<br>tablished by<br>acquisition | Total number of<br>newly established<br>affiliates |
|-------------------|---|--|
| Prior to 1945     | 0   | 28   |
| 1946 to 1950      | 9   | 11   |
| 1951 to 1955      | 22  | 22   |
| 1956 to 1960      | 33  | 36   |
| 1961 to 1965      | 38  | 16   |
| 1966 to 1970      | 52  | 46   |
| 1971 to 1973      | 61  | 18   |
| Total all periods | 33  | 177  |

Source: R. S. Newfarmer & W. F. Mueller, *Multinational Corporations in Brazil and Mexico: Structural Sources of Economic and Non-Economic Power* (Report to the Subcommittee on Multinational Corporations of the Committee on Foreign Relations, United States Senate, Washington 1975), Table 6—4.

### G. TNC produce goods for the higher income brackets

Although this is certainly not true for all transnational firms in Brazil, it is on the other hand evident that growing income concentration constitutes incentives to produce for those with purchasing power, that is production of consumer durables. This in turn leads to further income concentration, and so on. Many critics of the import substitution policies in the developing countries mean that if these goods are to be sold at all, it is much better to import them with high duties than producing them in the country with imported capital and technology.

Swedish firms are as a rule not in the durable consumer goods sector but usually in the capital goods sector, like machinery and electrical equipment. There are exceptions though. *Electrolux*, for instance, only makes two products in Brazil, *vacuum cleaners* and *floor polishers*. It is easy to guess who can afford buying such products in a country like Brazil. Another example is *Cederroth* which some years ago initiated the production of *wet tissues*. The production was abandoned since "the Brazilians are not yet used to the use-and-throw-away society", as the sales manager of Cederroth put it.

In this context attention should be drawn to some new tendencies in Swedish trade policy. The question is arms sales. Swedish arms producers need government licenses when they want to export. Such licenses are not given for exports to countries which are at war, or are likely to be involved in war with their neighbours, or be haunted by a civil war. None the less, it has been discovered that the Swedish arms producer *Bofors* has been selling arms to Brazil. In addition, it was recently disclosed that the Swedish-Brazilian Chamber of Commerce in São Paulo last year advised the Swedish Government that there is a large market for Swedish arms sales in Brazil, and "that the abstaining from making use of these possibilities would only damage Swedish exports to the advantage of Swedish competitors, and that a change in the attitude of the Swedish authorities would have a positive impact on the employment situation in Sweden".

### H. The use of restrictive business practices

It is known that transnationals often use bribes in order to get orders or monopoly rights in different markets. Less known is that many of these transnationals have mutual agreements (cartel agreements) by which they make sure that no competitors enter a specific market. At least one such cartel agreement exists in Brazil, according to a study made for the UNCTAD by Kurt Mirow and Barbara Epstein. Mirow is the owner of an electrical firm in Brazil, which until 1966 was one of the largest producers of generators in Brazil. He has since then been fighting the members of International Electrical Association and has

sued the members, among these ASEA, before the Brazilian anti-cartel office, CADE, but without success. On the contrary, when in February 1977 he published a book about his findings, *A Ditadura dos Cartéis*, it was immediately seized by the police and is prohibited for sale in Brazil. But not only that. The author was also to be trialed by a court-martial for "subversive activities". The court proceedings started in August 1977 and the defence claimed that the case should be brought before a civilian court, since it was a civilian offense if any, and the military court agreed that it was incompetent to consider the case. Finally, in April 1978, the author was acquitted by the supreme military court and the book was released for sale.

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