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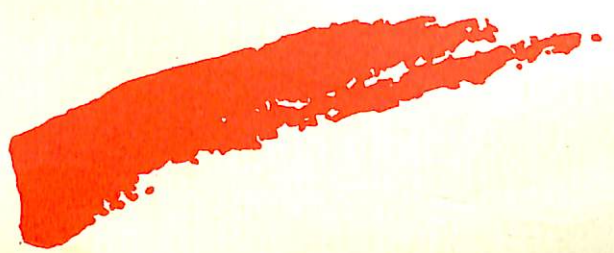
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*The Brazilian Military, Foreign
Indebtedness and Transnational
Enterprises*

Reinaldo Gonçalves

TEXTOS PARA DISCUSSÃO

Instituto de
Economia
Industrial
UFRJ





Universidade Federal do Rio de Janeiro
Instituto de Economia Industrial

Textos para Discussão

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INDEBTEDNESS AND TRANSNATIONAL
ENTERPRISES*



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Reinaldo Gonçalves *

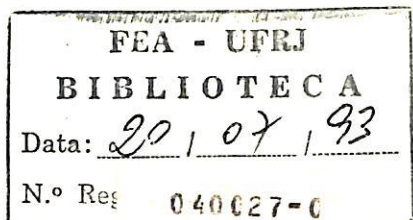
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The Brazilian Military, Foreign Indebtedness and Transnational Enterprises

1. Introduction

Brazil is one of the largest countries in the world, with a very favourable endowment of natural resources, and a population of 150 million people. The total personal wealth is estimated to be over US\$ 1 300 billion, whereas the mineral reserves at Amazonia are worth more than US\$ 2 000 billion. The country's land area is nearly twice that of Europe and the gross national product of US\$ 380 billion is the tenth largest GNP in the world (equivalent to the total GNP of Sweden, Denmark and Norway).

Since the country's discovery in 1500, Brazil has had a very high degree of insertion into the world economy. The Brazilian economic growth from the XVIth century up to the beginning of the XXth was characterized by the expansion and contraction of both production and export of primary commodities. During the XXth century, the country had relatively high growth rates on the basis of import-substitution industrialization. Transnational enterprises had a bearing on this model of industrialization. As a matter of fact, the Brazilian economy has one of the highest degrees of internationalization of production - transnational enterprises have played a major role in the country.

Moreover, government intervention is significantly biased towards the "privatization" of the Brazilian State in so far as private interests have predominated at the expense of public interests. Capitalism and the market system have ruled over the Brazilian economy in the context of a widespread presence of transnational enterprises. The market system, although not always a "free market", and foreign private interests have ruled

over the Brazilian society. It was during the military regime that transnational enterprises were able to penetrate even further into the Brazilian economic system.

Unfortunately, Brazil is also well-known for having one of the most unjust societies in the world. The opportunities for income and employment have always been limited. The situation of human deprivation in Brazil is quite astonishing. The access to health, education, housing, safe water and sanitation is very limited. There are millions of mal-nourished children, as well as millions of children without access to school and hundreds of thousands of children dying every year of hunger, disease, malnutrition and physical violence. Meeting the basic human needs is still very far-away in Brazil.

Despite the formal democracy and political freedom which exist since 1985, after the end of the military regime, the human rights for a large majority of the Brazilian population are still violated day to day. Indeed, rights are very much unevenly distributed and are strongly related to the level of income and wealth. There are no social mechanisms assuring the dignity of the human person. In Brazil the "market system" also applies shamelessly to the rights, dignity and development of the human person. As far as human development is concerned, one finds the tyranny of a perverted version of the free-market principle that "get-the-prices-right-and-development-will-follow"¹

Furthermore, Brazil has one of the largest degrees of income and wealth concentration in the world. Indeed, Brazil shows the greatest income disparity in the world if one takes into account the ratio of the per capita income of the richest 20% to the poorest 20%: in Brazil this ratio is 26, whereas in the United States and Sweden the income ratios are 9 and 5 respectively.¹

Also, the lowest 40% of households has a per capita income of US\$ 350 - it implies that 60 million people in Brazil have an average income similar to that of the poorest countries of Asia (Pakistan), Central America and the Caribbean (Haiti) and Africa (Burkina Faso). It is also worth noting that the richest 1% of the Brazilian population accounts for approximately 20% of income and more than 50% of total wealth; in developed

countries, such as the United States and the United Kingdom, the richest 1% account for 8% of income and about 25% of wealth². As regards income and wealth disparities the evidence is conclusive: Brazil is a "champion", and it surpassed even the poorest countries of Central America and the Caribbean, Asia and Africa.

The adjustment process, as a result of the external debt crisis, has systematically failed under both the military and the civilian regime. The Brazilian economy is much more vulnerable and the social fabric is much more deteriorated a decade after the beginning of the debt crisis in 1982. Moreover, the adjustment process and the "market-oriented" reforms implemented by the Collor administration since 1990 are creating a critical economic, social, and political situation in Brazil. In Latin America, the recent experience of countries like Venezuela e Peru show that strong liberal measures, without social safeguards, may be a menace to democracy.

The main concern of this study is to analyse the evolution of the Brazilian economy in the recent past on the basis of the links between the military establishment, the process of external indebtedness, and the presence of transnational enterprises. As a matter of fact, these links have a determinant bearing on the dynamics of the Brazilian society and economy. Although the emphasis is laid on economic issues and, mostly, on the role of transnational enterprises, the analysis deals with explaining factors at three basic levels, namely, the military-strategic, the political and the economic levels³.

The paper proceeds in the following way. In the first section, after this Introduction, there is a discussion of the strategic and geopolitical projects or visions of the Brazilian military, which are at the root of the process of external indebtedness in Brazil. Here, one tries to show that the debt crisis and military initiatives (strategic and economic alike) are closely linked. In the second section, one deals specifically with the issue of the presence of transnational enterprises in Brazil, with an emphasis on their historical role, and contribution to arms production and external adjustment in the recent past. Here it is also shown that the Brazilian government has generally had a very

favourable attitude vis-à-vis foreign enterprises in the context of a secular process of capitalist economic growth. The last section presents a summary of the main conclusions of the study.

2. The Brazilian Military and Foreign Indebtedness

In Brazil the military establishment has a view about its role in society which involves a strong bias towards "state security". This view was a fundamental determinant of the adjustment process and structural reforms after the first oil shock. In this regard, there was a convergence of the military view with the economic interests of the middle class and, mostly, with the interests of large economic groups and transnational enterprises. The latter have a very strong presence in Brazil and have benefited from the nature of the government strategies and policies. Moreover, as regards the Brazilian military establishment, it has a very significant and "revealed propensity" to subordinate democracy to national security, and they also showed a "revealed propensity" to subordinate people's long-term interests to external indebtedness. Of foremost importance is that the "security-biased adjustment" and short-term private interests run over a "people-centred adjustment".

2.1. From "great power" to "great ambivalence"

Since the 1950's the Brazilian military establishment has the intent to build up a "great power". The military vision of Brazil as a "great power" have either an international, or a regional, or a transcontinental scope. Notwithstanding major differences of opinion within the military establishment, it seems that the most pragmatic military groups understand that, on the basis of geopolitical considerations, Brazil has a role to play in the international arena as a regional or intermediate power. According to this view, the Southern Atlantic, the Southern African Cone and South America are Brazil's natural zones of influence⁴.

The military concern has been, therefore, associated with the building up of a domestic technological and economic capability,

which is a necessary condition for the "status" of intermediate power. Hence, the military establishment has played a major role as supporter of economic policies oriented to the creation of strategic industries and sectors. This is true, for instance, in the cases of the steel industry, and oil production and refining during the 1940's and 1950's, the petrochemical industry, the capital goods industry, the electronic complex, the aeronautical and armament industry since the 1970's. The project of building up a nuclear capability which started in the 1970's was, of course, a military initiative oriented much more to the external security concerns than to the domestic supply of energy.

While it is true that the Brazilian military has been closely associated with economic nationalism, it is probably even truer that the military has an ambivalent attitude towards foreign capital and technology. This "great ambivalence" is characterized, on the one hand, by the fact that the military fears the economic penetration by transnational enterprises, mostly from the United States, which is the secular hegemonic power in the region. National defence implies inter alia the existence of key economic sectors as well as internal control over strategic industries (including, arms production), which allow Brazil to have a "dissuasive capability". On the other hand, there has always been a feeling that the building up of a strong domestic economy depends on foreign capital and technology.

During the military regime (1964-1985) there was a permanent conflict between different fractions of the military establishment regarding economic nationalism. Notwithstanding this conflict, the "internationalists" were the hegemonic force among the Brazilian military. The fact is that transnational enterprises have played a major role in the different economic phases of the military regime, namely, the stabilization period (1964-67), the "miracle" phase (1968-73), the structural adjustment period (1974-79), and the "lost decade" (1980 onwards).

As far as the debt crisis is concerned, the main external determinants are the following: the deterioration of the terms of trade (because of the oil crises in 1974 and 1979 and the reduction of the prices of primary commodities); the sharp increase of international interest rates in 1980 (because of

changes in the US monetary policy); the increase of protectionist non-tariff measures in developed countries; the oversupply of international financial flows up to 1982; and the sharp drop of external financing from 1982 onwards. In the internal front, however, the debt crisis has its roots in the proper nature of the structural and adjustment processes implemented mostly during the military regime (that is, until 1985).

2.2. Military spending and foreign debt

In developing countries the military establishment has had a major responsibility in the external debt crisis. In this regard, the basic mechanisms are the following: "military expenditures - public deficit - external indebtedness"; and "military expenditures - arms imports - external indebtedness".

With respect to Brazil, the basic argument is that the military establishment has a major responsibility regarding the country's external indebtedness after the first oil shock in 1974. It should be emphasized, however, that the responsibility of the Brazilian military is due not so much to the levels of military expenditures and imports, but mainly to the nature of the adjustment process carried out during the military regime. It is by no means true to suggest that military expenditures had a minor influence. However, of foremost importance is the fact, usually neglected in the debate, that the structural reforms and adjustment process were subject to the military views about Brazil's security and its role in the international arena.

As regards to military expenditures, it is worth noting that Brazil has a different pattern from that usually found in most developing countries. Firstly, military expenditures accounted for 1.2% of Brazil's gross domestic product in 1989, and approximately 4% of government budget. There seems to have been no major fluctuations in these shares since the early 1970 inasmuch as they fluctuated around 1%⁵. It is worth noting that, in 1989 the average share of military expenditures in GDP for industrial countries and developing countries were 4.9% e 4.6% respectively⁶.

Secondly, arms imports represent a relatively small fraction of total imports (less than 1%) and about 8% of total military expenditures in Brazil⁷. There is no doubt that the existence of a national armament industry oriented to the production of conventional arms and equipments is a major determinant of this low import ratio of the Brazilian armed forces. In 1969 the Brazilian arms industry had a take-off with the set up of a state-owned enterprise (Embraer) by the Air Force Ministry to produce jet fighters and civil airplanes. In 1975 the Army created another state-owned enterprise (Imbel), which allowed the Army to have a major influence on the arms industry through R&D, coordination and planning activities, as well as arms production and exports. By the mid-1970s there was a production spurt of arms oriented to a large extent to export markets. Although Brazil accounts for approximately 1% of world arms production, it has a relatively diversified arms industry and it was already the largest arms exporter among developing countries by the early 1980s⁸.

Thirdly, Brazil is a net exporter of military equipment. Rough estimates indicate that Brazil exported US\$ 2.4 billion and imported US\$ 1 billion in the period 1977-85; that is, an annual average trade balance of US\$ 160 million⁹. However, it does not mean that military activities have no significant impact on the trade balance. In this regard, it is worth noting that since 1975 the nuclear programme, which cost approximately US\$ 7 billion, seems to have had a non-negligible impact on the trade balance¹⁰.

Lastly, total imports of armaments represented less than 1% of the change of external debt in the recent past¹¹. However, it should be taken into account the effect of arms production and military expenditures on the external debt service.

In this regard, it is worthwhile discussing the costs of the nuclear programme which were financed by foreign borrowing. It is likely that the annual external debt service of the nuclear programme cost a few hundreds million dollars since the mid-1970s.

It is not possible, because of the lack of information, to evaluate the overall impact of the nuclear programme, in terms

of its effects not only on the trade balance, but also on the external debt service. To illustrate, for each billion dollar of foreign debt associated with the nuclear programme the annual average cost during the 1980s was about US\$ 170 million¹². This cost is equivalent to the average trade balance of arms exports and imports mentioned above. Assuming that the value mentioned above (US\$ 7 billion) is correct and that half of this value involved foreign exchange expenditures, one may say that the foreign debt service associated with the nuclear programme cost more than US\$ 500 million every year during the past decade. Consequently, as regards the cost of the nuclear programme, in terms of foreign exchange used to import equipment and to pay the external debt service (nuclear programme plus foreign loans for the arms industry) between the mid-1970s and the mid-1980s, it is likely to have been several times greater than the trade balance brought about by conventional arms exports and imports.

Moreover, it is worth noting a second aspect, which is related to the debt service of the loans obtained abroad to finance the expansion of the domestic arms industry. To illustrate, EMBRAER had a total debt in foreign currency of US\$ 260 million in 1988, as well as the other leading arms producers had high levels of indebtedness due probably to foreign borrowing¹³.

On the basis of the above considerations, it can be said that, although Brazil is a net exporter of armaments, the overall impact of military expenditures on the balance of payments is likely to be negative. In this regard, a particularly important reason relates to the burden of the foreign debt, mostly from 1975 up to the debt crisis in 1982, associated with the financing of the nuclear programme and the expansion of arms production and exports. Notwithstanding the fact that military expenditures played a non-negligible role in the process of external-accounts disequilibrium in Brazil, it is important to point out that, in terms of relative importance, this role cannot be compared to the overwhelming influence of the deterioration of the terms of trade and the increase of international interest rates¹⁴. Thus, military spending was the handmaiden of the debt crisis.

2.3. From "national security" to "unlimited vulnerability"

Indeed, as far as the responsibility of the Brazilian military is concerned, the fundamental point is not so much the overall balance-of-payments impact of military expenditures, but the nature of the adjustment process and structural reforms implemented under the military regime. Moreover, a particularly significant issue is the major role played by strategic-military considerations in the adjustment process.

According to the military view of Brazil as either a "great" or an "intermediate" power, the principal strategic element of the adjustment process after 1974 was to reduce the external dependence and vulnerability of the country.

The adjustment strategy was based on an import-substitution model, supported by export expansion (including armaments), and an increasing inflow of foreign financial resources¹⁵. The objective was to keep the economy growing and, at the same time, to implement some structural changes at the level of the productive system (mostly related to the domestic production of capital goods, key intermediate products and energy). Hence, the adjustment strategy followed the line of least resistance in so far as it drove the economy into the natural path of industrialisation in Brazil, mainly, import substitution in capital goods.

However, the strategy carried out by the military regime after the first external shock in 1974 implied a greater interaction with an increasingly volatile international economy, rather than lower dependence and vulnerability, as intended by the decisionmakers, military and technocrats alike. The strategy implied greater reliance on international economic relations because of the roles played by exports, imported oil, foreign technology, foreign direct investment and external financing.

It is worth noting in this connection that the trade balance became growingly dependent on the growth of manufactured exports in an increasingly protectionist world. By the early 1980s, the non-tariff measures applied by industrial countries affected more than one-fifth of Brazilian export products¹⁶.

Moreover, the structural changes in the energy sector were oriented to maintain a transport system highly dependent on imported oil. The import-substitution process in basic inputs and capital goods was also highly dependent on foreign technology and capital, through "joint ventures" and expansion of subsidiaries of transnational corporations. A lower vulnerability with respect to capital goods and inputs was followed by an even greater dependence on transnational enterprises because of their operations in strategic sectors and technology-intensive industries. This last issue is dealt with in greater detail in the next section.

Of foremost importance is the greater dependence on floating interest rates, so that by the end of 1979 approximately 70 per cent of the external debt was related to financial loans from commercial banks. In this regard, the Brazilian military and technocrats also followed the line of least resistance inasmuch as there was a relatively elastic supply of external loans, which was brought about by the recycling of the petro-dollars through the international financial system.

The substantial increase in foreign indebtedness was a noteworthy aspect of the period 1974-82, and the assumption of the decisionmakers was that the external debt could be rolled-over forever. Hence, it would be possible to get long-term loans from commercial banks and the cost of financing could be diluted over time. Of course, the financing of the adjustment process depended upon the performance of the world economy and, by that time, there seemed to exist a certain optimism in the sense that the world economic crisis was assumed to be a temporary and cyclical one. As far as the Brazilian military establishment is concerned, it is worth noting the lack of a "contingency plan" to deal the increasing uncertainty of the international economic system by the mid-1970s onwards!

By the end of the structural reforms in 1979, Brazil was facing strong balance-of-payments disequilibria on account of a cumulative process of indebtedness, and the debt service became the central issue for economic policy management. The rise of international interest rates in 1979 was a new important factor, which increased further the debt service. Moreover,

there occurred a sharp deterioration of the terms of trade due not only to the second oil shock, but also to the prices of commodities. Indeed, there was a sharp deterioration of Brazil's terms of trade between the early 1970s and 1982, when the debt crisis started¹⁷. This crisis implies inter alia that the external indebtedness process feeds upon itself and, therefore, the new loans are basically used to pay the debt service. Besides, it is the beginning of a process of net transfers of resources from indebted developing countries to industrial countries. Since 1982, Brazil's interest payments on external debt has been about US\$ 110 billion, that is, the approximate value of the debt outstanding by 1992.

With the debt crisis it became evident that a longer-term perspective related to development was gradually losing ground to the critical short-term problems of macroeconomic stabilization. The past decade, after the beginning of the debt crisis, has been characterized by a series of unsuccessful attempts to deal with the external debt service. In Brazil this phenomenon came together with the accelerating inflationary process, in the context of an increasingly unstable, vulnerable and decaying economic and social situation.

At this juncture, the main question is: Why the Brazilian military and technocrats carried out structural changes and policy reforms that, after all is said and done, implied opposite results from those they expected?

The answer is that they could not go beyond the limited interests of the dominant economic and social groups in the Brazilian society. There is no doubt that the lack of a democratic process was a fundamental determinant of the choice for the line of least resistance. Hence, the specific responsibility of the Brazilian military.

In this regard, after the first oil shock the Brazilian elites were faced with a "wrong question", namely, "To grow or not to grow?". Their choice was to have the economy growing based on external financing. However, by that time the appropriate question to be posed was the following: "What significant structural changes should be made not only to make the

economy more resistant to external shocks, but also to reduce the internal social and economic disequilibria?"

In other words, it was not only a matter of reducing trade vulnerabilities. Much more important than that, it was the need to reduce the "internal vulnerabilities". But, it would imply a significant change of the distribution of income, wealth and power in Brazil.

To conclude, the Brazilian society is still suffering from the failure of the adjustment strategy and structural reforms implemented under the military regime, in the period previous to the upsurge of the debt crisis in 1982. The main explanation is that, under an authoritarian regime, there was a natural convergence of "the all-consuming desire for profit" of the large economic groups in Brazil, national and transnational alike, and "the all-overwhelming desire for national security" of the Brazilian military (of course, with the amicable help of the technocracy).

The strategy of the Brazilian military backfired and since 1980 the per capita income in Brazil has been reduced by approximately 10%. There continues to exist the long-standing incapacity of the Brazilian elites (under the military regime until 1985, and the civil regime since then) to carry out effective structural changes, which are the necessary conditions for dealing with the macroeconomic stabilization problems, as well as to implement a "people-centred adjustment".

3. Transnational Corporations in Brazil

In the past decade there have been some important changes in the world regarding economic relations and ideas. The "new conventional wisdom" involves an almost absolute predominance of "free market" principles and values. In this regard, there are reasons for worrying about the apparent triumph of market and capitalist principles and rules vis-a-vis fundamental human values, such as, dignity, peace, freedom, solidarity and justice.

In the context of the "logic of the market" (supply versus demand) and the "logic of the capital" (maximum profits), the

most powerful economic agent on a world scale is the transnational corporation. In the past decade there have been some changes in terms of a greater internationalization of production and globalization. The first process involves the growing presence of transnationals in the international arena in so far as they become even more important agents of production, investment, trade, technological innovation and financial transfers. Moreover, there has been a greater competition on a world scale - globalization -, which has led to a greater interaction among transnational groups through inter alia fusions, acquisitions, and different mechanisms of cooperation¹⁸.

Of foremost importance is to know the consequences of this changing economic situation on the role of transnational enterprises in Brazil.

3.1. A Brief Historical Record

During more than four centuries Brazil had a primary-export economy. After the middle of the XVIIth century the country became integrated into the British economic system through the relation of semi-dependence of Portugal on Great Britain. In the colonial period all the decision-making was concentrated on the commercial sector of the economy, which was controlled by British and Portuguese enterprises. As has been argued, in the period prior to political independence from Portugal in 1822, "Brazil was a large plantation of tropical products, the colony was closely integrated into and depended upon the European economies. It was not, therefore, an autonomous system, inasmuch as it was a simple extension of other larger systems"¹⁹.

This integration persisted after the political independence from Portugal. Brazil could be considered as an unofficial member of the British empire²⁰. It is also worth noting that just after independence in 1822, Portuguese and British firms received privileged access to the Brazilian market, which was maintained until 1844.

In the second half of the XIXth century the Brazilian economy had a prosperous phase, characterized by the predominance of coffee in the export activities and the development of transport

infrastructure and public utilities. In this period the dynamic sector of the economy was still foreign trade, which was to a large extent controlled by British firms²¹. Most of the manufactured goods were imported, although there were some local workshops and factories of consumer goods. The open-doors policy involved a great presence of British firms, not only in terms of foreign trade, but also through investments in railways, shipping, insurance, port facilities, banking, public utilities as well as financial loans²². According to a British observer, in 1878 "The Brazilian loans [were] entirely in the hands of Messrs Rothschild"²³.

By 1914 the British pre-eminence in Brazil was over. At the same time, there had occurred the expansion of investments by the United States since the turn of the century. The acceleration of industrialization based on the import-substitution process implied an intensification of the foreign presence through direct investment, which in some cases received privileged treatment²⁴. In the initial industrialization spurts the foreign presence is consolidated through assembly plants, service organizations, sales offices and manufacturing plants²⁵. Although by the mid-1930s there were restrictions regarding the presence of foreign capital in some sectors, such as mining, petroleum and hydro-electric energy, these restrictions were due to reasons of national security²⁶.

By the second and third decade of the XXth century, firms like General Electric, Nestlé, Pirelli, Ford, General Motors, Chrysler, Rhone-Poulenc, British-American Tobacco, and Siemens had already established production units, service organizations or sales offices in Brazil. Hence, the spurts of import-substitution industrialization during the first three decades of the XXth century were accompanied by a flow of foreign direct investment, which was not only welcomed, but also received some government support. By and large, foreign capital was faced with a propitious and liberal environment.

After the World War II some of the restrictions imposed on foreign capital during the 1930s - because of military and strategic considerations -, were eliminated and, in general, Brazil had a liberal environment for foreign capital and

transnational enterprises until the period of political turmoil of early 1960s. The process of import-substitution industrialization of the 1950s was to a large extent centred on the expansion of sectors controlled by transnational enterprises.

Soon after the coup d'etat in 1964, the military government started to apply measures in accordance with an open-capitalist economy and, by and large, the government implemented a liberal policy towards foreign capital in general, and transnational corporations in particular.

To illustrate, it is worth mentioning that, in addition to the changes in the specific legislation on foreign capital, the Brazilian military government aimed at encouraging new flows of capital and showing its goodwill towards transnational enterprises, signed an investment guaranty agreement with the United States government on February 1965. This agreement states that, in the case of expropriation of US assets, which are guaranteed by the US government and, therefore, are entitled to compensation, the Brazilian government recognizes the transfer of such assets to the US government. Hence, the expropriation becomes an intergovernmental problem to be resolved in bilateral negotiations.

Indeed, as pointed out by a North-american expert on Brazilian affairs, "special concessions were made to foreign private investors, who were regarded as an indispensable part of Brazil's future. The military regimes spent much time renouncing the nationalist rhetoric of the populist era that preceded them"²⁷.

3.2. The Strategic Role of Transnational Enterprises

Since the liberal reforms of 1964 carried out by the Brazilian military, the basic policies regarding foreign capital have not changed in a significant way. In the context of a growing economy from 1968 until 1980, transnational enterprises have played a major role in the evolution of the Brazilian economy and the net flow of foreign direct investment have sharply increased in this period. However, since the debt crisis there has been a clear change inasmuch as the net flow of foreign direct

investment to Brazil has become growingly negative (annual average transfers of US\$ 1.1 billion since 1983)²⁸. It means that, as regards the net flows of foreign investment by transnational corporations, Brazil has been a net exporter of capital.

Nevertheless, Brazil is still one of the largest host economies among developing countries. As a matter of fact, Singapore and Brazil were the two largest host economies in the developing world during the 1980s, with annual average inflows of US\$ 1.95 billion and US\$ 1.85 billion respectively²⁹. The total stock of foreign direct investment registered at the Central Bank in Brazil is about US\$ 33 billion by the end of 1991. It is likely, however, that the effective value of foreign capital controlled directly by transnational corporations is well over US\$ 50 billion.

The available data also show that transnational corporations are responsible for approximately 11% of total capital stock of enterprises in Brazil (see Table 1). The United States is the largest investor in Brazil (approximately one-fourth of the total stock of foreign direct investment), followed by Germany, Switzerland, United Kingdom, France and Japan. The fragmentary empirical evidence does not seem to show a trend of increasing participation of transnational corporations in the Brazilian economy during the past decade³⁰. The main reason for this phenomenon is, of course, the sharp deterioration of the internal economic and social situation, mainly after the beginning of the debt crisis in 1982, which has significantly reduced investment opportunities and increased uncertainty.

The above findings about transnational enterprises in Brazil are meaningless if we do not know the main characteristics of foreign firms, their strategic position in the economy, and their participation in dynamic sectors. It has to be noted in this connection that about three-fourths of foreign investment is concentrated in manufacturing. Transnational corporations account for 32% of total manufacturing production and 23% of employment³¹. Moreover, transnational corporations have a significant participation in the production of durable consumer goods, capital goods and intermediate products, and in these sectors transnationals account for 56%, 46% and 35% of

production respectively. Transnationals operations in Brazil are carried out by majority-owned and whole-owned subsidiaries: only 8% of manufacturing production is accounted for minority-owned affiliates. It is also worth noting that the activities of transnational enterprises are very concentrated on technology-intensive industries, as well as on industries where there is a predominance of medium-size-to-large enterprises and large-size enterprises³².

At issue is the extent to which transnationals control the Brazilian economy. In this regard, it is worth pointing out that Brazil has one of the highest degrees of internationalization of production in the world. Only in a handful of countries transnationals control domestic industries to the same extent that they do in Brazil. To illustrate, let us compare the data on the share of transnational enterprises in total manufacturing sales and employment in Brazil and in the United States (see Table 2). In the former, transnationals account for 32% of sales and in the latter they represent 11%. Moreover, a notable aspect is that the degree of openness and internationalization in Brazil is higher than in the US in all industries, except in printing and publishing. This exception, which confirms the rule, is explained by the fact that publishing companies from Canada, United Kingdom and Australia have significant investments in the US so as to take advantage of the English language market.

3.3. Transnational Enterprises and External Adjustment

The balance-of-payments problem of Brazil during the 1980s has been characterized by an extraordinary trade surplus (US\$ 100 billion in the period 1981-90) and by an enormous external debt service (US\$ 110 billion in the same period). In this regard, from a financial standpoint, the external debt was "paid" with the trade superavit.

Transnational enterprises have played a significant role in the Brazilian foreign trade. From the late 1970s transnational enterprises changed their trade position, from deficit to superavit, owing to the sharp increase of their exports as well as to the government import controls. The data for the period 1978-86

show annual average exports and imports by subsidiaries and affiliates of transnationals in Brazil of US\$ 5.7 billion and US\$ 3.0 billion, that is, an annual average superavit of US\$ 2.7 billion, which corresponded to approximately 68% of Brazil's trade superavit in the period³³.

It is also worth noting that the available data for 1986 indicate that majority-owned subsidiaries in Brazil accounted for 18% of total exports and 26% of total imports, whereas the share of transnationals in total manufactured exports was 28%³⁴. If one takes into account enterprises that are minority-owned affiliates, the share of transnationals on manufactured exports is approximately 40%³⁵.

It is important to point out that since the mid-1970s the foreign trade behaviour of transnational enterprises in Brazil was characterized by the fact that they benefited from extraordinary export incentives and subsidies. Export promotion mechanisms have been extensively used from the early 1970s until the late 1980s, especially during the military regime³⁶. As a matter of fact, transnationals received special incentives through mechanisms that were created so as to stimulate the expansion of their exports. On the basis of the available empirical evidence, it can be said that the average subsidy/export ratio for transnationals was approximately 50%³⁷.

As a result, transnationals received export subsidies of at least US\$ 30 billion during the 1980s, that is, more than one-fourth of the total external debt of Brazil.

In addition to give a non-negligible contribution to the balance-of-payments adjustment through trade surpluses, transnationals have also played a major role in moving upwards Brazil's pattern of comparative advantage. Given the enormous incentives and subsidies given by the military governments and the overwhelming presence of transnationals in the most dynamic sectors, the outcome was that transnationals became responsible for a very significant share of exports of dynamic or technology-intensive products and for the upgrading of Brazil's export structure³⁸.

Moreover, the largest 53 exporters and importers among transnationals were responsible for 20% of Brazil's total

manufactured exports and total imports³⁹. There is no doubt that these aspects represent important economic sources of transnationals' power in Brazil. The extent to which the economic and non-economic power of transnational enterprises in Brazil is concentrated in a handful of enterprises is indicated by the fact that the 25 largest subsidiaries are responsible for more than 52% of the total sales of the 550 largest non-financial transnationals in Brazil⁴⁰. As a matter of fact, transnational enterprises have a great number of economic and non-economic sources of power in a developing country like Brazil⁴¹.

It is worth emphasizing that the trade performance of transnationals in Brazil was to large extent determined by policy measures implemented during the military regime. In the early 1970s, before the first oil shock, the motivation of the military regime to promote an outward-oriented model of economic growth - based on rapid export expansion and deeper penetration of transnational enterprises -, was determined by economic, political and military-strategic factors.

According to the traditional view, export expansion has some important direct and indirect effects in terms of foreign exchange, productivity, technology transfer and so on. Moreover, the outward-oriented model was also functional from a strategic-military and political viewpoint.

It is hardly possible to overrate the influence of political, military and strategic considerations. The reason for that was the "threat of communism" argument. A closer cooperation with the West, mostly with the hegemonic superpower, the USA, was a key element of the strategy of the military regime from the very first day after the coup d'état in March 1964. The investment guaranty agreement signed exclusively with the US government in February 1965 is just one example. The closer cooperation with the USA was important, for no other reason that the US had a very important bearing on the coup d'état.

The situation started to change with the disequilibria caused by the first oil shock in 1974. In the context of a deep disequilibrium in the balance of payments, the policymakers, military and technocrats alike, started to apply measures aiming at reducing "external vulnerabilities". As a result, they

began to use an enormous and complex set of incentives and subsidies to stimulate exports. In addition, there were important tariff and non-tariff barriers, which meant a strong control of imports, and these barriers were also very powerful instruments to promote the structural reforms. That is, the external disequilibrium of the second half of the 1970s and the debt crisis of the 1980s were the main determinants of government policies, which affected significantly the trade performance of transnationals in Brazil.

3.4. Foreign Debt, Arms Production and Transnationals

The external shocks of the mid-1970s and the strategies and policies of adjustment adopted by the Brazilian military relied to a large extent on export expansion. Brazilian export value increased from less than US\$ 9 billion in 1975 to more than US\$ 20 billion in 1980. The strategy of increasing trade surpluses became even more central to Brazilian policymakers after the beginning of the debt crisis.

In this regard, even though there were some important political-military motivations for building up an arms industry in Brazil, it is important to point out that one of the main economic motivations behind establishing an arms industry was the export promotion strategy⁴². The strong outward-looking bias of Brazil's arms industry is shown by the fact that between 80% and 95% of total production is exported. By mid-1980s Brazil became the fifth largest exporter in the world⁴³.

Arms production in Brazil is to a very large extent the outcome of a tripod strategy based on a close interaction between the Brazilian government, private local groups and transnational enterprises. The Brazilian military played a catalytic role through different mechanisms, such as, the military research and development institutes, the foreign trade and financing agencies, the direct production of military equipment, and planning. With respect to the structure of the arms industry, it is worth noting that there is high degree of concentration in this industry inasmuch as the three largest

producers (one state-owned enterprise and two private local enterprises) account for about 90% of total arms exports.

Nevertheless, there is no doubt that transnational enterprises play a major role in the Brazil's arms industry. According to a recent study, 159 subsidiaries of transnationals are involved in arms production in Brazil⁴⁴. By and large, transnationals produce both civilian and military products. To illustrate, Mercedes Benz and General Motors supply engines, parts and components to Brazilian manufacturer of military vehicles.

Transnationals have also joint ventures with state-owned enterprises and private local groups. This is the case of Volkswagen and Phillips. Moreover, transnationals have played a major role in the development of the Brazil's arms industry through licensing agreements and technical assistance. For instance, the largest arms producer in Germany (MBB) and the Italian Aermacchi had licensing agreements related to the production of training jets and missiles, respectively. The Swedish transnational enterprise, Ericsson, had a licensing agreement related to the production of radars by its subsidiary in Brazil⁴⁵.

It is also worth emphasizing that the supply, by subsidiaries of transnational enterprises, of parts, components and inputs to the local private and public enterprises is a fundamental feature of the Brazilian arms industry. This phenomenon is largely explained by the existence of a relatively diversified and complex industrial sector in Brazil as well as the dominant role of transnationals in the technology-intensive industries. In this regard, it is also worthwhile noting that North-american transnationals are the most important suppliers.

With respect to the transfer of military-related technology, the major role is played by European transnationals. Here, the military considerations have had an overwhelming influence, in part because of the strategy of the Brazilian military aiming at reducing the country's dependence on the United States and, in part, as a result of the restrictions imposed by the US government on the access to their military-related technology (what the Brazilian military call "technology apartheid").

4. Conclusions

The strategies and policies of the Brazilian military are closely linked to the external indebtedness process and the internal and external disequilibria, which are affecting the country since the 1970s. Here, the point is that the close links between the Brazilian military and foreign indebtedness are not so much related to military expenditures, but mainly to the influence of military conceptions, visions and projects about strategies and geopolitics on the process of external and structural adjustment. There was a strong military-strategic component in the process of adjustment. In this regard, the influence and responsibility of the Brazilian military go beyond their immediate capacity to increase military expenditures and carry out mega-projects, such as, the nuclear programme.

Moreover, the adjustment processes undertaken by both the military and civil regimes, have followed the line of least resistance in so far as they relied on an even deeper insertion in the world economy through counter-productive mechanisms. In this regard, the adjustment policies and strategies have strongly relied on transnational enterprises' investment and trade behaviour and on international financial flows as well. Moreover, the links between the Brazilian military, the external adjustment and transnationals have been important in so far as the building up of one of the largest arms industries in the developing world, with a very strong export orientation, was influenced by the need to generate foreign exchange - so as to pay the debt service and carry out the balance-of-payments adjustment. In Brazil the arms industry relies significantly on transnational enterprises' production and technology.

Indeed, the Brazilian elites in general, and the military in particular, have adopted a strategy on the basis of the line of least resistance, which involved the convergence of "the all-consuming desire for profits" of the large domestic groups and transnationals and "the all-overwhelming desire for security" of the military establishment. As a result, the country has had a process of maladjustment so that the social and economic disequilibria are increasing.

The most noteworthy issue is that the processes of structural reforms and adjustment, under the initiative and responsibility of Brazilian military, have backfired in so far as they increased the country's external vulnerability. Indeed, the strategy of reducing external dependence and vulnerability, which is fundamental for the military establishment, was a complete failure. Nowadays, Brazil has a pattern of insertion into the world economic system which implies not only an important degree of dependence, but a great external vulnerability in terms of technological, trade, and financial flows, as well as an extraordinary degree of internationalization of its production system because of the significant presence of transnational enterprises. By the end of the 1980s the failure of the adjustment process has implied inter alia a greater outflow of foreign capital and nearly the bankruptcy of the Brazilian arms industry⁴⁶.

The Collor administration which started in March 1990 carried out a series of policy reforms aiming at an even deeper promotion of market forces and capitalist principles in the country. Hence, the government put forward policies to promote the market mechanism through, for instance, the greater openness of the economy, deregulation, and "denationalization" or "privatization" of public-owned enterprises. So far, this new set of neo-liberal policies in Brazil has increased further the social and economic disequilibria, whereas the macroeconomic stabilization seems to be far-away (inflation rates have been over 20% monthly during the first five months of 1992) and the recession is in its third consecutive year.

The most basic feature of this perverse situation is that the foreign debt crisis is still a critical problem in Brazil, and the Collor government, despite its clear neo-liberal initiatives, was able to sign an agreement with the international private banks since it came to power more than two years ago (March 1992). Just a few weeks before of the fall of the Collor government in late September 1992, the Ministry of Finance was in a hurry to negotiate a term sheet with foreign banks.

In the context of a crisis of government credibility in the last two years, transnational enterprises have increased their

pressures and exercising extraordinary power so as to get a more favourable treatment, including changes in the 1988 Constitution.

More over, it is worth noting that, despite the liberal policies, the Collor government was considered by the executives of transnational enterprises the most inefficient and corrupt government in Latin America and the Caribbean by the end of 1991⁴⁷. As a matter of fact, the political-economic process in the recent past has been influenced by the so-called "Collor Polynomial", that is, the administration of President Fernando Collor was characterized by five "variables" (1) the "bizarre" personality of President Collor⁴⁸; (2) the authoritarian behaviour and conduct of Collor⁴⁹; (3) the lack of political and ideological consistency of government⁵⁰; (4) the persistent fall of credibility⁵¹; and (5) the permanent risk of non-governance⁵².

To conclude, notwithstanding the fall of Collor and its catastrophic government, the level of collective despair in Brazil is reaching critical and unbearable levels, whereas groups of the military establishment start to abandon their low-profile attitudes of the past three years as a result, apparently, of low salaries and growing concern for national defense (probably, a more independent foreign policy and lower external vulnerability of the economy). The recent experiences of a coup d'état in Peru and the attempt in Venezuela in the first months of 1992, have shown that liberal economic policies may fail not only to bring about macroeconomic stabilization, but they may also increase further social disequilibria and political instability and, therefore, to be a menace to democracy.

TABLE 1:
The relative importance of foreign capital in Brazil, according to the sector: 1977 and 1985

Sector \	The percentage share of foreign capital in the total capital of the sector	
	1977	1985
Agriculture	5.0	1.7
Mining	8.6	8.2
Manufacturing	23.6	25.6
Nonmetallic mineral products	11.8	11.4
Metallurgy	15.1	13.7
Nonelectrical machinery	36.9	36.2
Electrical machinery	53.9	40.2
Transport equipment	51.8	50.6
Wood	5.1	4.5
Furniture	2.0	1.3
Paper	21.5	15.4
Rubber	56.4	62.2
Leather	9.2	5.3
Chemicals	16.0	15.4
Pharmaceutical products	70.2	67.7
Perfumery	48.3	34.7
Plastic products	10.2	13.1
Textiles	17.3	16.2
Clothing and shoes	2.9	3.3
Food products	11.9	11.5
Beverages	6.3	4.6
Tobacco	30.5	52.6
Printing and publishing	3.1	5.0
Miscellaneous	24.4	50.7
Construction		
Public utilities	3.0	2.2
Services	2.8	...
Transportation	4.7	6.9
Communication	0.3	0.2
Lodging and catering
Repair and maintenance	7.0	1.6
Personal services	13.5	8.6
Commercial services	0.7	6.8
Entertainment	16.1	12.7
Finance	1.6	4.2
Wholesale trade	2.4	6.2
Retail trade	23.7	22.2
Real estate	2.1	3.7
Unspecified	5.4	9.2
TOTAL	44.0	15.8
	11.1	11.0

Source: Author's computations on the basis of Finance Ministry, Brazil. Anuário Econômico-Fiscal 1979 and 1987.

Note: (...) Less than 0.05 percent.

TABLE 2:

The Relative Importance of Transnational Enterprises in Manufacturing: Brazil and United States

Sector\	The percentage share of transnational enterprises			
	Sales		Employment	
	Brazil	USA	Brazil	USA
Nonmetallic mineral products	23	22	12	12
Metallurgy	16	13	19	7
Nonelectrical machinery	34	6	25	6
Electrical machinery	83	12	68	9
Transport equipment	78	3	81	3
Paper	13	7	11	6
Rubber and plastic products	38	10	31	7
Chemicals and allied products	44	31	63	24
Textiles	16	4	13	3
Food products, beverages, tobacco	23	8	14	9
Printing and publishing	1	8	1	5
Miscellaneous	7	6	5	4
Total	32	11	23	7

Sources and notes: Author's computations based on data found in Reinaldo Gonçalves, "La presencia de las empresas transnacionales en Brasil", *Estudios e Informes de la CEPAL*, Santiago, No. 31, 1983, p. 66-7, and "U.S. affiliates of foreign companies: 1987 benchmark survey results", *Survey of Current Business*, Vol. 69, No. 7, 1989, p. 130-1. The data for Brazil refer to 1977 and for the USA to 1987.

5. Notes

- 1- UNDP, Human Development Report 1992, New York, United Nations Development Programme, p. 3.
- 2- Reinaldo Gonçalves, "Distribuição da riqueza e retomada do desenvolvimento", *Teoria & Debate*, (São Paulo) No. 14, May 1991, p. 60.
- 3- For a discussion of the macro-level relationships between disarmament, external debt and development, see Roger Williamson, "What hope is there for the South as the East is transformed? Prospects for disarmament and development in the 90s", *Life & Peace Institute*, Uppsala 1991.
- 4- Geraldo Lesbat Cavagnari Filho, "Autonomia militar e construção da potência", in *As Forças Armadas no Brasil*, São Paulo, Espaço e Tempo, 1987, p. 57-99.
- 5- Alfred Stepan, *Os Militares: da Abertura à Nova República*, Rio de Janeiro, Paz e Terra, 1986, Table 4, p. 88; and José Drumond Saraiva, "Ligações perigosas: despesas militares, produção de armamentos e dívida externa", PACS-PRIES/CS, Rio de Janeiro, Documentos de Trabalho No. 37, 1989, Annex II.
- 6- UNDP, op. cit., Table 41, p. 200.
- 7- Saraiva, op. cit., Annex II. The data presented by Saraiva refer to the period 1977-1985, when the average arms imports/total imports ratio was 0.6%. It should be recalled that data and information on arms production and imports are always based on rather fragmentary empirical evidence. To illustrate, data from UNDP, op. cit., Table 20, p. 166, show an arms imports/total imports ratio of 8.2% for Brazil in 1989. In this case, it is worth noting that the corresponding ratio for all developing countries is 7.2%, according to this source.
- 8- Riordan Roett and Scott D. Tollefson, "Brazil's status as an intermediate power", *Third World Affairs*, 1986, p.104. According to this study, the Brazilian arms industry is made up of 23 producers, but it also includes more than 300 firms as suppliers of inputs. Total employment related to arms production was estimated at 100 000 people. Arms production and exports include tanks, armoured cars, jet fighters, turboprop trainers, patrol planes, patrol boats, missiles, grenades, mines, pistols, guns and ammunition.
- 9- Saraiva, op. cit., Annex II. According to Roett and Tollefson, op. cit., Brazil has exported military equipment to more than 40 countries.
- 10- Military analysts in Brazil indicate that the nuclear programme signed with Germany in 1975 cost about US\$ 6 billion, whereas the nuclear programme of the Navy, which started in 1980 cost US\$ 700 million. The former is considered as a complete failure, whereas the latter can be considered as a relative success. This information was given by Geraldo L. Cavagnari, head of the Center of Strategic Studies of the University of

Campinas, São Paulo, in a conference made at the "International Seminar on Brazil-United States Relations", organized by the Center of Strategic Studies of the Universidade Federal Fluminense, Rio de Janeiro, 15 May 1992.

11- Saraiva, op. cit., Annex I. The data refer to the period 1981-85.

12- These calculations are made on the basis of an average real interest rate of 17%, which is the nominal interest rate adjusted by the rate of change in the dollar export prices. The average rate refers to the period 1982-85. UNDP, op. cit., p. 49.

13- Saraiva, op. cit., Annexes III-V.

14- It should be mentioned that the increase of international interest rates during the 1980s was to a large extent the outcome of the public deficit of the United States. US military spending increased sharply during the 1980s (up to 1987) and had an important bearing of its public deficit. In 1989 the overall budget deficit of the US government was 2.8 of the country's GDP, whereas the military expenditures/GDP ratio was 5.8%; UNDP, op. cit., Tables 41 and 46.

15- The next paragraphs rely largely on Reinaldo Gonçalves, "Brazil's search for stabilisation", Third World Quarterly, Vol. 7, No. 2, April 1985, p. 279-300.

16- Reinaldo Gonçalves and Juan A. de Castro, "El proteccionismo de los países industrializados y las exportaciones de la América Latina", El Trimestre Económico, Vol. LVI (2), No. 222, April 1989.

17- UNCTAD, Handbook of International Trade and Development Statistics, 1990, New York, United Nations Conference on Trade and Development, 1991, p. 546.

18- Frederic Sachwald, "Les accords dans l'industrie automobile. Une analyse en terms de coûts de transaction", Economie Prospective Internationale, No. 41, 1er trimestre, 1990, p. 45-68. See also, Reinaldo Gonçalves, Empresas Transnacionais e Internacionalização da Produção, Rio de Janeiro, Editora Vozes, 1992.

19- Celso Furtado, Formação Econômica do Brasil, São Paulo, Cia. Editora Nacional, 1959, p. 95.

20- J. F. Normano, Evolução Econômica do Brasil, São Paulo, Cia. Editora Nacional/Instituto Nacional do Livro, 2nd edition 1975, p. 145.

21- See M. G. Mulhall, The English in South America, London, Standard Office, 1878. According to this author, "The chief export of the country, which is coffee, may be said to be a monopoly of a few British Houses", p. 345.

22- Richard Graham, Britain and the Onset of Modernization in Brazil, 1850-1914, United Kingdom, Cambridge University Press, 1968, chapter 4.

23- Mulhall, op. cit., p. 538.

24- George Wythe, Industry in Latin America, New York, Columbia University Press, 1945, p. 153.

25- Dudley M. Phelps, Migration of Industry to South America, Connecticut, Greenwood Press, 1939.

26- Wythe, op. cit., p. 185.

27- Thomas E. Skidmore, "Politics and economic policy making in authoritarian Brazil, 1937-71", in Alfred Stepan (ed.) Authoritarian Brazil. Origins, Policies and Future, New Haven, Yale University press, 1976, p. 41.

28- The net flow of foreign direct investment is equal to inflows less outflows less remittances of profits. If debt-conversion investment is included, the negative annual average transfer is US\$ 360 million in the period 1983-89. Data from the Central Bank of Brazil, Monthly Bulletin, several issues.

29- UNCTC, Transnational corporations and international economic relations 1991: the Triad in foreign direct investment. Implications for developing countries", New York, United Nations Centre on Transnational Corporations, 1991, p. 9.

30- Maria H. Zockun, A Importância das Empresas Brasileiras de Capital Estrangeiro para o Desenvolvimento Nacional, São Paulo, Federação e Centro das Indústrias do Estado de São Paulo, 1987. See also, Quem é Quem na Economia Brasileira, São Paulo, Editora Visão, 1991.

31- Reinaldo Gonçalves, "La presencia de las empresas transnacionales en Brasil", in Dos Estudios sobre Empresas Transnacionales en Brasil, Santiago, Chile, Naciones Unidas, Estudios e Informes de la CEPAL No. 31, p. 51-96. See p. 66-7.

32- Reinaldo Gonçalves, "Small and medium-size transnational corporation in Brazil", Report prepared for the United Nations Centre on Transnational Corporations, New York, 1991.

33- BNDES, O Capital Estrangeiro na Indústria Brasileira: Atualidade e Perspectivas, Rio de Janeiro, Banco Nacional de Desenvolvimento Econômico e Social, 1988, p. 111.

34- Zockun, op. cit., p. 21. The data on imports excludes oil, given that oil foreign trade is a state monopoly.

35- Larry N. Willmore, "Controle estrangeiro e concentração na indústria brasileira", Pesquisa e Planejamento Econômico, Rio de Janeiro, Vol. 17, No. 1, April, 1987, p. 161-89.

36- Renato Baumann, "Comportamento recente do capital estrangeiro: algumas considerações gerais", in IPEA/IPLAN, Para a Década de 90: Prioridades e Perspectivas de Políticas Públicas, Setor Externo, Brasília, Instituto de Planejamento Econômico e Social, 1989, p. 55-72.

37- Renato Baumann, "Ajuste externo: experiência recente e perspectivas para a próxima década", in IPEA/IPLAN, Para a Década de 90: Prioridades

e Perspectivas de Políticas Públicas, Setor Externo, Brasília, Instituto de Planejamento Econômico e Social, 1989, p. 12. The average export subsidy/manufactured exports ratio was 59% during the periods 1969-78 and 1978-88. According to data from Zockun, op. cit., p. 57, manufactured products represented 85% of total exports by transnationals in 1986. Applying this ratio to the export subsidies/manufactured export ratio (59%) and assuming that non-manufactured exports received no subsidies, one finds an average ratio of export incentives and subsidies to total exports for transnationals of 50%. Data found in BNDES, op. cit., p. 111, indicate that transnational enterprise exported an annual average value of US\$ 5.75 billion in the period 1978-86. For the 1980s, it is possible to say that total exports by transnationals was over US\$ 60 billion.

38- Reinaldo Gonçalves, "Competitividade Internacional, vantagem comparativa e empresas multinacionais: o caso das exportações brasileiras de manufaturados", Pesquisa e Planejamento Econômico, Rio de Janeiro, Vol. 17, No. 2, August 1987, pp. 411-436.

39- Zockun, op. cit., p. 21.

40- Balanço Anual 1991, São Paulo, Gazeta Mercantil, 1991.

41- Reinaldo Gonçalves, "Uma estrutura geral para a análise da base de poder de empresas multinacionais em países subdesenvolvidos", VI Encontro Anual da Associação Nacional de Pós-Graduação e Pesquisa em Ciências Sociais, Friburgo, Rio de Janeiro, 1982.

42- Raul de Gouvea Neto, "How Brazil competes in the global defense industry", Latin American Research Review, Fall 1991, p. 85.

43- Ibid., p. 91-92.

44- Raul de Gouvea Neto, "El papel de las empresas transnacionales en el tripode de la industria militar brasileña", El Trimestre Económico, Vol. LVIII, No. 230, Abril-Junio, 1991, pp. 357-404.

45- 2. Ibid., p. 383.

46- On 25 May 1992, EMBRAER the largest arms exporter in Brazil dismissed 2800 employees, that is, employment fell by one-third, from 8200 to 5500 employees. The total debt of EMBRAER is over US\$ 800 million, whereas the production has fallen by 50% in the first months of 1992, and total losses were US\$ 235 million in 1991. It seems that the Collor administration was sabotaging EMBRAER so as to include it in the privatization programme. Jornal do Brasil, 26 May 1992, p. 7.

47- Latin Finance, No. 33, December 1991, p. 20. For an evaluation of two years of liberal policy reforms by the Collor Administration and its complete failure to deal with macroeconomic and social problems, see, Reinaldo Gonçalves, "Política econômica: da mediocridade à desesperança", Política Governamental (IBASE, Rio de Janeiro), No. 78, March-April 1992, p. 9-15.

48- By the end of May 1992, the brother of President Collor de Mello accused him of being a consumer of cocaine (when he was younger!), using traffic of influence, and being responsible for widespread corruption in government. See VEJA, Ano 25, No. 22, 27 May 1992, p. 16-33. The Congress opened a Inquiry Commission to investigate these accusations and a new cycle of political crisis started in Brazil that, at last, led to the impeachment of Collor in late September 1992.

49- The violation of the constitution was a permanent feature of the Collor administration. See, Herbert de Souza, "Os limites do poder", Política Governamental, Vol. 8, No. 78, March-April 1992, p. 7-8.

50- João P. Nogueira, "Política e ideologia: um discurso ambiguo e conservador", Política Governamental, Vol. 8, No. 78, March-April, 1992, p. 50-55.

51- It is worthwhile mentioning that the percentage of Brazilian congressmen who found that the performance of the Collor administration was mediocre jumped from 30% in 1990 to 59% in 1991, whereas the percentage of those who thought that the administration was good or very good fell from 34% in 1990 to 6% in 1991. See Reinaldo Gonçalves, "Política econômica: da mediocridade à desesperança", op. cit., 1992, Table 1, p. 9.

52- According to a Gallup poll carried out by Folha de São Paulo, 26 May 1992, just before the beginning of the political crisis that led to the impeachment of Collor, 61% of people found that the Collor government has had a mediocre performance. By that time, 43% of people shared the opinion that Collor should be sent away because of the recent scandals involving his personal life and the public administration. At last, the movement towards the impeachment of Collor gained impetus. For an analysis of the recent political dilemmas, see, Raymundo Faoro, "O desafio pessoal e o constitucional", ISTOÉ, No. 1182, 27 May 1992, p. 25.