Anglo-German Commercial and Financial Rivalry in Brazil 1900-1929

C. Moller

A thesis submitted to the CNAA in partial fulfilment of the degree of Doctor of Philosophy.

City of London Polytechnic
School of Business Studies

March 1988.

To my parents

ACKNOWLEDGEMENTS

I would like to express my gratitude to Robert Greenhill and Colin Lewis for their continuous encouragement and guidance in this project.

At the same time I have to thank Gian Woodburn for her considerable efforts in typing this thesis.

Abstract

C. Moller - The Anglo-German Commercial and Financial Rivalry in Brazil 1900-1929

This thesis investigates the growth and character of British and German economic interests in Brazil with particular regard to the extent of their historical competition as well as respective economic performances. Being reminiscent of the continuous enquiries into the state of Britain's home industries, the thesis re-opens the complementary debate about British comparative efficiency in world trade and her ability to withstand Germany's expansion into new overseas markets. An examination of institutional structures and competitive behaviour in trade, banking and finance highlights intersectoral linkages, and broadens the conventional interpretations of historical shifts in relative market shares.

In reassessing the opposing views of the commercial rivalry debate through the case study of an independent market such as Brazil, the central question of relative competitiveness is further related to the concept of economic imperialism. The connection between the two issues is obvious. The growth of business and changes in market shares could have been the result of comparative advantages. Failing that, theories of imperialism and economic dependency implicitly suggest political pressures and restrictive market practices as alternatives.

In order to study this hypothesis, the project investigates the role of commercial diplomacy and business imperialism amongst Anglo-German interests in Brazil, while determining their alleged value as competitive substitutes in the European strive for market expansion.

TABLE OF CONTENTS

List of Tables

List of Figures

List of Statistical Appendices

Glossary of Abbreviations

AER	-	American Economic Review
BOLSA	-	Bank of London and South America
BHR	-	Business History Review
BCC	-	British Chamber of Commerce
BPP	-	British Parliamentary Papers
ECLA	-	Economic Commission for Latin America
EJ/UCLA	-	Edward Johnston Archive, University College, London
EHR	-	Economic History Review
EJ	-	Economic Journal
HAHR	-	Hispanic-American History Review
IBC	-	Instituto Brasileiro do Cafe
IAEA	-	Inter-American Economic Affairs
JLAS	-	Journal of Latin American Studies
JEEH	-	Journal of European Economic History
JEH	-	Journal of Economic History
LARR	-	Latin American Research Review
MT	-	Metric Ton
PRO FO	-	Public Record Office - Foreign Office
QJE	-	Quarterly Journal of Economics
SJPE	-	Scottish Journal of Political Economy

Glossary of Terms

CIF	-	Cost Insurance Freight
Comissario	-	Commission Agent
Fazendeiro	-	Estate/Farm Owner
FOB	-	Free on Board
Seringueiro	-	Rubber Collector

Introduction

This thesis arose out of a long-term interest in Brazil and economic history as related to international trade. Some undergraduate work on theories of economic dependency had already given me the opportunity to touch upon these topics through a study of Brazil as an example of a country on the periphery of the world economy. In this context, the focus of attention centred upon the economic and developmental consequences of the transmission of capitalism from the core to Brazil.

The present thesis, on the other hand, reverses this perspective and looks outward from the centre towards Brazil as a commercial and financial partner of European core countries. The emphasis has been shifted to the nature and extent of capitalist expansion into the periphery. At one level the thesis is, therefore, concerned with the growth of international trade and finance as European countries built up their economic links with the less developed world.

Two other important themes emerge from this study; first, the historical rivalry between Britain and Germany at the peak of Europe's scramble for economic and political expansion; and second, the widely debated issue of imperialism and economic dominance which accompanied the outward move of western capitalism.

Both topics are popular, and the subject of intense debate amongst economic historians who have generated a wealth of literature over the past decades. Concerns about the future of Britain and the performance of her economy in the face of new competition were raised as early as the 1890s when
E. Williamson painted a bleak picture of German manufacturers flooding hitherto safe overseas markets. Following a mass of supporting consular evidence and parliamentary investigations, post-war authors such as Aldcroft, Kindleberger and Saul, rediscovered the issue either in accounting for Britain's economic

performance or in the narrower framework of British overseas trade patterns. Generally echoing the pessimistic interpretations of Britain's economic performance at home, these writers criticised her external marketing structures and specific commercial strategies, both of which were seen as antiquated and inadequate. Indeed, Britain's share of world trade, particularly in the "new" manufacturing categories, was declining. In Brazil, British merchants had dominated the export-import complex since 1821. Their position was subsequently enforced by Britain's pioneering development of local financial and transport services, which afforded her considerable influence over the entire spectrum of commercial activities for most of the nineteenth century. Yet towards the 1890s that position began to wane. German merchants, who had previously formed part of the British marketing network, slowly substituted products from Manchester and Sheffield with cheaper articles from the up-and-coming industrial conglomerates in the Ruhr. Between 1870 and 1913 Britain's share of imports to Brazil declined from 52% to 25% while German traders, backed by their own shipping lines and newly established banks, raised their share from 7% to 18%.

Although statistics appeared to support the conventional notion of a competitive demise, subsequent investigations by Professor Platt and Stephen Nicholas initiated a revisionist trend in literature on the basis that previous evidence was considered unreliable and one-sided. British marketing strategies were, thus, rehabilitated as rational and more professional than hitherto assumed.

While this debate on comparative performances advanced, a quite distinct controversy arose out of the apparently overwhelming influence of European and still predominantly British capitalists over their Latin American host economies. Virtual control over commodity exports, manufacturing imports, their hegemony in financial and public utility services as well as significant investments in ports and railways obviously created a powerful expatriate interest group within the periphery. Under the banner of imperialism, numerous writers embarked on a study of this phenomenon.

Yet, one of the few common features of the ensuing wave of literature was the disagreement on what constituted imperialism. Following Robinson and Gallagher's views on informal or free trade imperialism, Richard Graham regarded the same as an unconscious policy of British capitalism, which was implemented in such a way as to create an asymetrical relationship in favour of the industrialised core. In both cases South America, therefore, became subject to Britain's informal empire of trade and finance. Similarly, for Stanley and Barbara Stein and, to a lesser extent, Cain and Hopkins, Britain's economic dominance in Latin America constituted infomal imperialism.

By contrast, Dr. Matthew, Professor Ferns and, most notably, Professor Platt confined informal imperialism to overt and covert governmental support of commercial activities. All three historians concluded that British foreign policy was essentially non-interventionist which precluded the presence of informal imperialism.

To lead the debate out of this stalemate, a further discussion emerged on the notion of business imperialism, that is the extent to which foreign businessmen took it in their own hands without official intervention to enhance their positions through exploiting economic power. Views, however, remained equally divided. Depending on whether imperialism meant the deliberate misuse of superior resources or mere domination, the two sides either negated or confirmed the presence of imperialism.

Essentially the two central themes emerging out of this thesis, therefore, remain controversial and unsettled. Britain's alleged overseas failures and the commercial rivalry debate point up the general question of her competitiveness in world trade. Trading and marketing strategies, together with the underlying institutional structures, have always been and remain a central feature of international economic studies whereby potential lessons from past experience may still apply today. While comparative advantage and marketing efforts are now clouded by increasing protectionist trends and political pressures, designed to compensate for a lack of competitiveness, in the historical context free trade maxims tended to prevail. This rendered the struggle for overseas markets equally, if not more, intensive. This applied in particular to a developing market such as Brazil as it was free of any empire links. In addition, its location did not confer any geographical advantages on either Germany or Britain, nor did its export pattern show any significant signs of being monopsonistic unlike in the case of Argentina and the Anglo-Argentine trade. For Germany, who could rely on few captive outlets, South America and Brazil represented perhaps one of the few remaining independent and impartial markets, where she could compete on a par with Britain. For the latter, on the other hand, Brazil was admittedly not as important as some of her dominion trade partners. Nevertheless, it still absorbed 3% of total British exports while sheltering close to 5% of London's foreign investments. As such, Britain had a not insignificant position to protect.

The investigation of the ensuing Anglo-German conflict further gains in scope since it deals with two rather different competitors. Britain was starting off from a position of strength, having been established in the market and known to consumers for a long period of time, whereas Germany was effectively a newcomer attempting to breakdown existing barriers to entry. Competition, while still being confined to the level of international exchange as opposed to multinational investment in the periphery, revolved around defensive and offensive strategies alike. Giving the scholar the opportunity to study the character of both tactics, the thesis re-examines the two extremes of the frequently over-generalised debate and uses Brazil as a case study to see whether the bleak notion of Britain's competitive failure was justified and, if so, for what reasons or whether indeed there were sufficient grounds for rehabilitation.
As the title suggests, the underlying time-frame of this work has been extended beyond the event of World War I, so as to include the much neglected 1920s up until the beginning of the depression in 1929. Material on trade rivalries in Brazil usually only resurfaces for the thirties, when the rise of Nazi politics came to direct

economic policies. However, Germany had to re-establish her commercial ties earlier and, as her domestic industry strove towards recovery, external representatives attempted to rekindle trade and thus competition. Just as the closely related discussion on Britain's domestic industrial efficiency spills over into the twenties, an analysis of comparative entrepreneurial effectiveness in marketing and commerce should also cover this decade, not least to question the war's long-term impact on European trade with South America and the extent to which it granted any relief to Britain's competitive position.

Finally, the thesis refers not only to the rivalry question but also to the issue of imperialism. It offers a case study of the relationship between core countries and the periphery of the world economy. The two themes are linked in that if imperialism could be perceived to be a guardian of overseas commerce, could it also yield any protection against unwanted competitors? Bearing in mind that any conclusion reached will be biased and limited by the particular definition of imperialism, it is still important to establish the extent to which not only Britain, but also Germany could avail herself of this instrument and, moreover, to what use. In large measures, the effectiveness of imperialism would have been determined by Brazil's reaction to the surge of expatriate business and one should, therefore, investigate the degree to which the host country aimed to preserve its national integrity.

The thesis is divided into two main sections. In Part I, the discussion will be confined to an overview of Anglo-German domestic economic development between 1900-1928. This survey highlights the salient features in British and German industry which not only underpinned their respective economic performances but also provided the basis on which both nations participated in international commerce. Part I thus ultimately portrays the dimensions of Anglo-German rivalry.

Anglo-German business in Brazil and the competition between its factions will be analysed in depth in Part II, which focuses on comparative performance and strategies in trade and finance. By means of a detailed statistical investigation, trends in the import trades into Brazil will be examined in terms of changing market shares and their underlying structural causes. Comparative marketing mechanisms and the effectiveness of the merchant house network will be studied separately to complement and further explain the relative growth of British and German imports into Brazil. This will be followed by a chapter on the export of Brazilian produce, the outcome of increasing foreign interest therein as well as the function of commodities in expatriate commerce.

Turning to the financial field, the thesis will differentiate between short-term finance and long-term capital investments. Dealing with each aspect in turn, the analysis will determine the extent of a rivalry between the financial circles of London and Berlin and highlight the differences in approach and emphasis. While considering banking and investment as competitive fields in their own right, the study will also stress their linkages to the trade sector as well as their role as an integral part of Anglo-German business in Brazil.

The closing chapters will probe into the allegations of informal and business imperialism so as to determine the extent of these claims and hence their potential impact on the competitive struggle for market expansion. A comparative study of commercial diplomacy will evaluate the willingness of officials to support compatriate interests and question the effectiveness of their efforts. On the basis of the foregoing analysis of trade and finance, the study will finally consider the extent and protective value of business imperialism in the form of restrictive market practices.

To cover the commercial, statistical and political aspects of the project, the thesis has been founded on a wide range of sources. This entailed a number of problems, however. The first one is simply of a geographical nature since the study deals with three countries, each offering independent research material. Research into Brazilian sources had to be confined to material available in Britain. Access to Germany, being within easier reach, on the other hand, enabled German sources to be incorporated into this work. Some deficiencies, nevertheless, still remained. A substantial part of the official files and correspondence concerning Teuto-Brazilian relations rests in the East German state archives in Berlin and access thereto was not possible. Further gaps in available material were obviously caused by the destruction of World War II. Turning to Britain, these problems are largely removed as documents have been conserved with far greater consistency, although in terms of private company archives, material was still found to suffer from major gaps. In addition, most of the original Anglo-Brazilian firms have long ceased operations leaving few traces.

To a certain extent, this lack of commercial intelligence could be compensated for by still existing trade and consular reports. Albeit these sources had to be examined with great care so as to eliminate obvious distortions arising out of the ignorance and patriotic bias of contemporary writers.

Despite these difficulties, research could still be based on a number of useful sources. The necessary statistical data was gathered from official publications of the Reichstatistikamt, British trade returns and various Brazilian ministries. Material on the financial aspects of Anglo-German commerce was taken largely from a study of the BOLSA archives at University College, London and the official Stock Exchange Intelligence.

The workings of the merchant houses, on the other hand, were established by means of the remaining private archives of Norton, Megaw Co. Ltd., Wilson & Co., and E. Johnston & Co., as well as a series of interviews with a surviving employee of Johnstons, who had worked at their Rio branch.

Research into the above areas, and the realms of imperialism in particular, was complemented by a review of the diplomatic files at the Public Record Office, the State Archive in Hamburg, the Chamber of Commerce and Weltwirtschaftsarchiv, Hamburg. In addition to a large number of contemporary consular reports and parliamentary investigations, publications of German and British trade associations and their respective chambers of commerce in Brazil provided further information. Of particular use were a series of reports of the US Department of Commerce in Latin America as well as the remaining issues of Wileman's Review, a weekly paper on trade and finance published in Rio. Finally, a wide range of secondary sources served to establish the different points of view governing the debates and to reinforce the primary sources.

Chapter 1.

The British and German Domestic Economies 1900 - 1929

The spread of industrialisation in Europe during the last quarter of the nineteenth century gave rise to a considerable stimulus to the volume of international trade. Growing incomes and new industrial requirements, stemming from increased manufacturing capacities and the application of technology, fostered the need to interchange goods and services at an external level, which in turn widened the range of opportunities in international commerce. Inevitably, this development attracted competition as more suppliers and merchants entered world markets. German industry and trade thus set out enthusiastically to exploit the possibilities of its expanding manufacturing base while the British, on the other hand, viewed these trends with some alarm, considering the growth in trade and competition a "direct attack on Britain's monopoly in some of her most important export markets".(1)

Their respective progress in capturing as well as defending overseas market outlets depended crucially on the organisation and efficiency of marketing networks as well as skilfully applied commercial know-how. At the same time, however, the export business equally reflected the development of the British and German home economies. The degree and character of domestic industrialisation determined comparative advantages in production and thus, ultimately, relative capabilities in trade. Similarly, competition was influenced by the range, quality and prices of exportable goods all of which were again a product of each nation's domestic economic performance.

A natural starting point in the analysis of the Anglo-German rivalry, therefore, lies in a review of some of the salient features of the British and German economies. Although this chapter, generally based on secondary sources, will not necessarily throw new light on the issues surrounding their domestic economic histories, it will nevertheless provide a useful and necessary basis for the subsequent analysis of their respective trade patterns with Brazil. For this purpose the survey will be divided into five parts. Britain's economic history will be highlighted in two sections, dealing with the pre and post-war years respectively. Literature on Britain's industrial and economic performance, in both periods, has conventionally been marked by ongoing controversies. Accordingly these two sections will provide a synopsis of the contrasting schools of thought. The discussion on Germany, on the other hand, will follow the same pattern, but will emphasise more the factual account of her economic development rather than any surrounding disagreements which are, perhaps, less marked.

Having outlined the evolution of the two competing industrialised nations, a concluding section will relate back to the concept of their international commercial rivalry and map out its origins and implications in order to put the main body of the analysis into perspective.

1. The British Economy 1900 - 1914

Traditionally, writings on the British economic experience of the late Victorian and Edwardian economy draw a picture of general pessimism regarding its performance. As early as the 1890s authors such as E. Williamson voiced fears concerning Britain's waning position on the world market.(2) A downturn in historical growth rates, particularly pronounced when cast in an international context, lay at the root of this perception of economic failure. As Tables 1.1 and 1.2 illustrate, not only were rates declining against earlier periods, but indices of industrial production and exports also compared unfavourably with other economies, which were apparently performing better, often at Britain's expense.

Table 1.1 Industrial Growth Rates in Britain
(% per annum)

	Output per man hours	Industrial production	Industrial productivity
1870-80	0.9	2.3	1.2
1880-90	3.8	1.6	0.5
1890-1900	1.3	2.8	0.2
1900-13	0.6	1.6	0.2

Source: D.A. Aldcroft, The Development of British Industry and Foreign Competition 1825-1914, (Glasgow, 1968) p.13.

Table 1.2 Long Term Rates of Growth 1870/71 - 1913

(% per annum)

	Total output	Output/ manhour	Ind. production	Ind. productivity	Exports (1880-1915)
UK	2.2	1.5	2.1	0.60	2.2
Germany	2.9	2.1	4.1	2.60	4.3

Source: D.A. Aldcroft, The Development of British Industry and Foreign Competition 1875-1914, (Glasgow, 1968), p.13.

After 1945 scholars sought to explain this 'stagnation' largely in terms of demand changes. W.A. Lewis unequivocally stated that "there can be little doubt that the main cause....was to be found in the lower export trade".(3) Reduced external demand was translated into a lower rate of output which in turn lessened the incentive for new industrial investment to the detriment of productivity as well as economies of scale and ultimately economic growth(4). Given that the growing international competition of newly industrialised nations was bound to affect British exports, this argument gained an almost fatalistic character indicating that deceleration was somehow inevitable. Yet inevitability was soon found to be unsatisfactory in fully explaining Britain's pre-war performance.

Subsequently, Aldcroft and Richardson developed the theme of industrial over-commitment, arguing that the economy was based on too narrow a foundation to sustain its long term growth in a dynamic surrounding.(5) By 1907, coal mining, steel and textiles represented

46% of net industrial output and accounted for over 50% of exports.(6) This excessive reliance on the old staple industries was considered unstable and a hurdle to economic growth in conditions of growing international competition, because it did not allow for sufficient alternative development of new export lines. As a result, Britain's strength continued to be anchored in the relatively slower growing trades rather than in the fast developing new industries. In addition, the large amounts of capital and human resources tied up, not only in the specific staple sectors but also in interrelated fields and complementary services, created a vast complex of virtually immobilised resources, the rapid switching of which into newer industries would have involved almost prohibitive economic costs. A recovery in staple exports after 1905 further aggravated the situation since buoyant demand masked the need for diversification and reorganisation, while discouraging investment in new industries where the returns were found to be too low relative to the risks involved.(7) Instead, entrepreneurs seemed to reinvest in traditional production facilities. The effects of this behaviour did indeed have a striking impact on Britain's international performance with regard to 'new' goods. Whereas her share of the world market for manufacturing goods as a whole fell only marginally from 33% in 1899 to 30% in 1913 (8), her share of world exports of machinery, chemicals and vehicles declined more markedly from 40%, 28% and 48% to 29%, 23% and 37% respectively.(9) A sub-division of these broad categories would further underline this point, since these industries focused on the relatively older sectors such as railway locomotives and heavy inorganic chemicals, rather than motor cars produced on assembly lines and organic chemicals, both of which offered greater growth potential for the future.

Implicit in the above argument is the theme of entrepreneurial failure. If the legacy of sunk costs in old equipment and the alleged affection for outdated technology was genuine and holding back progress, this was tantamount to the hypothesis that the industrialist was irrational in his investment decisions. The cost of existing assets should have been amortised and the opportunity cost of keeping it, rather than switching to newer modes of production, should have outweighed the expense of the latter. Reflecting the consensus of contemporary evidence brought forward by the various Parliamentary Committees on the state of industry in 1918 (10), economic historians increasingly focused on the theme of entrepreneurial deficiency as the ultimate reason behind Britain's economic malaise. While some sweeping generalisations concerning the professional decline of management, during the third generation following the industrial revolution, appear exaggerated,(11) more precise accusations were formulated. Firstly, industrial organisation was characterised by large numbers of small to medium-sized firms, which insisted on their independence and individuality instead of coordinating efforts. The firm's continued domination by the family allegedly prevented the drafting in of professional outside expertise in management and science. Consequently, potential economies of scale were frequently neglected, integration suffered from a lack of standardisation and overall productivity was said to compare unfavourably relative to the large combines in Europe and the United States.

Given the benefit of hindsight, a further accusation related to the entrepreneurial preference for short term solutions to overcome problems of competitiveness rather than sweeping change. Britain was considered to have the choice, firstly of developing new product lines, secondly of enhancing the competitiveness of existing exports, or alternatively of a simple geographical re-orientation towards new markets (12). Lewis and Kindleberger concur with Richardson's view that British enterprise took the third and easier option thus evading the exigencies of competition by retreating to the preferential treatment of Empire markets. Domestically, the same short-sightedness was observed (13). Instead of economising on inputs through organisational rationalisation and bringing down costs by means of technology, industrialists opted for short-term measures such as wage cuts which proved to have little effect.(14)

In fact the reluctance to respond to innovation and to invest in new technology, in line with the methods used by foreign competitors, was considered symptomatic of the entrepreneurs' irrational complacency. Specifically, the failure of the cotton textile industry to move away from mules to the more productive ring spindles (15) has been interpreted as a sign of backwardness, in the same way as steel makers had been condemned for not adopting the basic steel making process. (16)

Finally, a variation on the perceived lack of industrial investment somewhat exonerated the entrepreneur by postulating that the basic problem was one of supply as opposed to being demand-side orientated. Namely, capital markets were criticised for an apparent unwillingness to channel funds into domestic ventures. Financiers were regarded as biased towards external investment, which on the surface offered higher and immediate returns compared to the more distant and uncertain yields of new industrial projects. Thus, out of £200m new share issues launched on the London stock exchange, between 1911 and 1913, only 18% related to domestic investments.(17)

According to contemporary views, therefore, too much capital then left the country at the expense of industry and economic growth. Some calculations put the cost of neglected home investment in terms of foregone output growth as high as 25% by 1911.(18) Yet this may appear to be over-optimistic and one may well ask why the investor did not switch his portfolio if such returns had been obtainable. Was it because of the diminishing product of capital, as maintained by neo classical theory (19) or were the opportunities simply not realised? By the same token, research has not yet shown whether comparatively low investment rates were a function of deficient supply and City prejudice (20) or whether it was caused by a lack of demand on the industrialists' part. Cottrell and others maintained the latter view (21) on the basis that a recovery of industrial profits after the late 1890s reduced the incentive to re-invest. However, as Pollard recently put it, "potentially successful frustrated borrowers leave no trace"(22) and the question as to the extent to which the City's interest in foreign lending directly barred domestic borrowers from raising funds still remains as open for further research, as does the supposed causal relationship between capital exports and a "loss of industrial dynamism".(23)

Either way, the early fatalistic views of Britain's deceleration were firmly substituted by the hypothesis that a perceived economic failure had been self inflicted through industrial over-commitment and a lack of flexibility and innovation.

Yet was this overiding pessimism about Britain's economic performance appropriate and was a slowing down in growth rates tantamount to failure? To expect constantly rising growth would have been unrealistic. Table 1.3 shows that growth in Britain and Germany followed a very similar cyclical pattern before 1914, in other words a deceleration of growth rates was not unique to Britain. Furthermore, Britain was still at the head of Europe's economy. Her GDP stood at about US$ 42 b (measured in 1955 prices) as compared with Germany's GDP of US$ 37.5 b.(24)

Table 1.3 Selected Growth Rates

(%)

	Real GDP	Real NDP	Total factor productivity		Real Exports	
	UK	Germany	UK	Germany	UK	Germany
1890–1900	2.1	3.5	0.7	1.5		
1900–1907	1.5	2.7	0.1	0.7		
1907–1913	1.6	3.3	0.5	1.2		
1899–1913					58.0	115.0

Source: R. Floud and D. McCloskey, The Economic History of Britain since 1700, (Cambridge, 1981), Vol II, pp. 8,9 and 22; A. Maizels, Growth and Trade,(Cambridge, 1970), pp. 272 and 276.

Note: Instead of GDP, German historians tend to use the Net National Product i.e. GNP net of depreciation and investment for replacement purposes.
H.Kellenbenz, Wirtschaftsgeschichte, p.156.

British exports also grew sufficiently to maintain a margin of some £30 m over German exports. In addition, it has sometimes been overlooked that while her physical trade was slowing down, she had been rapidly developing into the world's main service economy, housing the major interests in international shipping, insurance and banking. Related invisible earnings together with the interest income earned on her growing overseas investment portfolio displayed a strong growth record, raising the nation's current account balance to an average annual surplus of £206 m between 1911 and 1913.(25) Although the relative decline in exports and the manufacturing industry was still by no means fully acceptable, the growing service sector had created a new British "invisible empire" which became a strong positive counterforce at home and abroad.(26)

Table 1.4 Annual Average Service and Interest Incomes

(£ m)

	Commerce	Insurance	Shipping	Interest Dividends	Current a/c Surplus
1896-1900	32	16	62	100	40
1911-1913	53	27	100	188	206

Source: A.Imlah, Economic Elements of the Pax Britanica, (Cambridge Mas., 1958), pp. 74 and 75.

Simultaneously, Britain still provided the key to the multilateral system of international trade settlements, by maintaining the link between Europe and the primary producing countries. Hence, whereas the former maintained an export surplus with Britain it also incurred continuous deficits with the latter who were, in turn, indebted to Britain.(27) By being the only nation to maintain a significant surplus with the developing world, Britain could recycle European payments, accruing to primary producers, so as to close the circle.

These general, more favourable observations on economic performance and the persistent criticism of British manufactures eventually called forth a radical reassessment of the entrepreneur's rationality and thus, implicity, of the economy's general performance. In questioning the failure of Victorian Britain, Donald McCloskey developed a comprehensive twofold critique.

Through the use of quantitative rather than just qualitative evidence, McCloskey found little support for a late Victorian failure either in terms of falling GNP or in declining productivity.(28) He admitted that a levelling off in growth rates did occur, but only after the turn of the century. Yet, even then, Britain's performance showed up relatively well in an international context, giving "no cause for alarm".(29) Furthermore, he concluded that the demand theory of failure was equally misleading since there was no unequivocal correlation between export growth and capital accumulation, on the one hand, and productivity on the other. The latter, for instance, fared worst between 1900 and 1913, precisely at a time when both exports and capital stocks recovered.

Once it had become acceptable to cast doubt over the whole notion of failure, most of its alleged causes were equally challenged. Perhaps, Britain's over-commitment to the staple sector was a rational decision which worked in the economy's favour. The negative aspects of industrial deadweight could have been outweighed by the technical expertise and liquid resources accumulated over time, allowing industry to maintain a competitive edge in this field.(30) In this scenario, Floud and Saul separately explained her concentration on the staple sector along the lines of the Leontieff Paradox whereby Britain, having a large skilled labour force, simply exploited her comparative advantage in this very sector, specialising in labour rather than capital intensive goods, which were left to the newly industrialising nations.(31) In the same vein, Lewis' study of international growth patterns indicated that the recommended introduction of American technology and mass production through mechanisation in Britain would have been less productive than assumed because of her lack of industrial integration and, moreover, because the presence of a skilled labour force would have rendered much of the new technology redundant.(32)

Given the integration of international trade and Britain's comparative advantage in terms of skilled labour, it may have been rational to forego specialisation in competition with the U.S.A. and Germany and to save the inherent development costs since certain new products could ultimately still be imported more cheaply from abroad.

The entrepreneurial neglect of innovation could, therefore, have been on economically sound grounds. Similarly, casual international comparisons of productivity and growth rates could have been misleading due to the different circumstances facing different nations. This point was brought out further by a number of case studies on selected industries. Comparing American and British productivity in coal mining and steel, so as to test the rationale behind the respective production techniques used, McCloskey found little wrong with Britain's approach. Differences in the coal output per worker could largely be explained in terms of geographical and geological variations between American and British mines,(33) while the total factor productivity in American steel making was also by no means consistently above Britain's level.(34)

Similarly, a comparative cost-benefit analysis of ring and mule spinning in America and Britain demonstrated that the latter was perfectly rational in continuing to use traditional mule spindles because it specialised in finer yarns requiring skilled labour. The comparative cost saving of the ring was therefore greater in the States and marginal savings generated in Britain would have been quickly absorbed by higher input costs required by ring production at the prevailing quality level.(35)

A considerable amount of the earlier criticism of British entrepreneurs and their performance could thus be deflected by means of a more sophisticated use of econometric tools and "hard evidence of entrepreneurial failure had seemingly become remarkably elusive" (36) leaving the industrialist "well on the way to redemption".(37) It is possible, however, that McCloskey and others, in their anxiety to redress the balance, overstate their case for rehabilitation.

While Lindhert and Trace were influenced by McCloskey's rehabilitation of the Victorian economy, they still cast some doubts on the validity of his conclusions. They thus developed an interesting quantitative measure of entrepreneurial deficiency, which they applied to the chemical sector, where Britain had lost her early lead to her competitors because of an alleged adherence to outdated production techniques.(38) By comparing the present value of expected profits derived from actual and alternative, updated, techniques they could measure the relative merits of the two and assess the rationale of technologies used in Britain. On this basis, it was established that manufacturers of alkali had foregone substantial profits by maintaining the Leblanc rather than the new Solvay process, which indicated the presence of managerial misjudgement in accordance with previous criticism.(39) Although this may have been an isolated incident, a similar approach in other industrial sectors may well be warranted to obtain further clarification on the issue. Alternatively, the revisionist school has recently been put into question for using total factor productivity (TFP) statistics as the basis for their conclusions on economic performance, since the underlying restrictive assumptions led to biased results.(40) Minor divergencies from constant returns to scale could change and reverse judgements of industrial productivity from success to failure.(41) By the same token, some recent general histories on the British economy, published by Kirby and by Elbaum and Lazowick remain equally critical of the redemptionist trend indicating that the debate still continues.(42)

While it is possible to subscribe ultimately to Floud's pragmatic view "that we do not know why Britain grew less than her competitors",(43) it appears, nevertheless, safe to maintain that none of the traditional hypothesis could singularly account for the falling back in growth rates but that it almost certainly was a combination of the various factors discussed above. In any event, the fact is that British manufacturers did lose grounds both in terms of industrial output and exports relative to the newcomers in Europe and America.

2. The British Economy 1918 - 1929

The controversy about Britain's economic performance during the pre-war period continued into the 1920s, which are again marked by a multitude of opinions regarding Britain's economic performance.

To some extent traditional views of pessimism were carried forward into the twenties, describing them as a period of stagnation and high unemployment.(44) In large measure this view reflected Britain's sluggish export record. Total exports stagnated and in real terms their annual average value between 1927 and 1929 represented 80% of the pre-war level.(45) While this could partially be attributed to the general worsening of international trade conditions and the over-valuation of the pound following the return to the gold standard in 1925, it was also a function of a further decline in international competitiveness. Being reliant on a narrow range of staple goods and to a lesser degree on the Empire markets, British trade suffered twofold. Firstly, the growth of indigenous industries in the Empire and the growing competition of Japanese exports seriously affected her Asian trade.(46) Exports of cotton cloth to India, for instance, had fallen from 3 b yards in 1913 to 1.5 b yards in 1924.(47) Overall exports of textiles dropped by £51 m between 1913 and 1928.(48)

Secondly, the continuing problems of the staple industries represented an additional burden on prices given the widespread presence of spare capacity and rising unit costs of production. The euphoria of the brief post-war boom had encouraged entrepreneurs to raise excessive amounts of new capital leaving large parts of industry over-capitalised and with unutilised production facilities.(49) The capacity of the steel industry thus reached 12 m MT in 1927 as compared to a production level of 9.2 m MT.(50) Similarly, the number of spindles and looms in the cotton industry had risen by 1.9 m and 6 m between 1913 and 1924, whereas production of yarn and cloth had fallen by 568 m lb and 2,004 m yds.(51) Under these circumstances and in the absence of regulated discriminatory price agreements, exporters were bound to suffer from high costs. It, therefore, seemed that Britain's over-commitment to the old industries had rendered her more vulnerable and that the consequences of an earlier lack of adjustment were borne out during the 1920s.

This view was drastically revised by Richardson and more notably Aldcroft, who swung from deep scepticism about the pre-1914 period to optimism about the inter-war years. In view of the vigour with which he condemned Britain's pre-war performance, it is tempting to speculate that Aldcroft had little choice but to promulgate a more positive stance for the 1920s as it directly reinforces his judgements on the earlier period. Indeed, if Aldcroft had further pursued his pessimistic views as far as the 1920s were concerned, it would have been difficult for him to explain how Britain could have survived at all as a major industrial nation.

On the basis of upward moving growth estimates as shown in Table 1.5, Aldcroft considered the twenties "as one of the most buoyant periods in recent history".(52)

Table 1.5 Average Annual Rates of Growth

(%)

	Industrial Production	Industrial Productivity	Net National Income per Capita
1901-1913	1.6	0.2	0.2
1920-1929	2.8	3.8	1.7

Source: D. Aldcroft,'Economic Progress in Britain in the 1920s, A Rejoinder' SJPE, XIV, (1967), p.190.

Much of this growth was attributed to the progress made in the new industries. While the war effort had already enforced greater efficiency in production and the standardisation of a wide range of tools and components,(53) rationalisation, also affecting old staples such as coal mining, continued during the following decade. In view of the limited scope for wage reductions, incremental competitiveness had to be gained by new economies of scale, which were in part derived from a growing industrial concentration.

The amalgamation of four leading firms into ICI in 1926, for instance,(54) streamlined production in the chemicals sector, while economising on capital expenditure through the avoidance of duplicated research efforts. Encouraged by a relatively more buoyant home market for some new products, industry also ventured to introduce more up to date technology. About 1/3 of the total gross capital formation during the decade was directed to electrical engineering chemicals, vehicles, paper and rayon (55) and the new industries' share in total manufacturing output had risen from 6.5% in 1907 to 16.3% in 1930.

Nevertheless, a brief glance at some export statistics (56) reveals that this heralded "rejuvenation of entrepreneurial flair" (57) had litte immediate impact on Britain's foreign trade. Save for electrical goods exports of which rose by 38% in real terms between 1913 and 1928, overseas sales of the new industries failed to register any real gains over the period. This raises the question as to whether the importance ascribed to the growth of the new industries had been exaggerated, as Alford's and Buxton's subsequent reappraisals of the inter-war years suggest. Given their relatively small role as an employer and the still minor value of their industrial output, their contribution to total economic growth must have been limited.(58) Furthermore, productivity gains were by no means peculiar to new sectors but could also be found in traditional areas of agriculture and textiles, while a simple ranking of sectorial productivity gains shows that neither chemicals and paper nor electrical engineering appear amongst the top ten performing industries.(59) Finally, as Dowie pointed out, when putting the 1920s into a historical perspective, industrial growth rates attained during that period were not extraordinary but merely signalled a return to the levels seen during the second half of the nineteenth century.(60)

Progress made in these fields may, therefore, have been overestimated and, in any event, it was still overshadowed by the severe crisis of the staple industries. On balance, it seems that only parts of the economy were making the necessary adjustments both in terms of developing new alternative products as well as a more updated and efficient industrial organisation. Such efforts, however, provided an insufficient basis for a long term recovery as long as the staple industries remained dominant and beleaguered by continuing problems of excess capacity and old equipment.(61) The resultant lack of international competitiveness continued to beset Britain's export industries, which fell increasingly outside the spectrum of growth areas in world trade. Finally, this trend also had important adverse implications for the economy as a whole because it meant a deterioration of its balance of trade. Since imports grew at a comparatively faster rate, the trade deficit rose from £32 m in 1913 to an average of £33.7 m between 1922 and 1929, increasing the country's reliance on earnings from external investments.(62) Yet, given that the current account surplus had fallen from £200 m in 1913 to an average of £87 m between 1922 and 1929 (63) the possibilities for foreign investment and future earnings thereon had also declined, moderating the expectations of London's service industry as an alternative to visible income sources.

In summary, it appears that just as some criticism of Britain's pre-war achievements may have been exaggerated, so Aldcroft and Richardson's optimistic account of the post-war years has probably been overstated. Some fundamental problems persisted in industry, compounding her external performance during a period when world trade was slack and the diffusion of technology gave rise to import substitution in major overseas markets, while Britain failed to develop sufficiently strong alternatives in production and exports.

It seems unlikely that the economy could have turned so swiftly from "bad to good". There were certainly adjustments and improvements within post-war industry. They appeared, however, to be part of a gradual restructuring process, traces of which were already visible before 1913.

Consequently, it may be more sensible to consider the first three decades of the twentieth century together as a time of considerable continuity. Apart from some obvious similarities embodied in the continued adherence to free trade doctrines and the gold standard , competition steadily cut into Britain's share of the world market. Although differences exist as to the extent and the underlying causes of this trend, there can be little doubt that British products were losing their status of supremacy, relative to the competition as well as in absolute real terms throughout the period. The over-commitment to the production and export of a narrow range of staple products and conversely the neglect of alternative product ranges, which embodied the technical progress made during the period, lay at the centre of this development. Less obvious during the years before 1914, when a recovery in exports deterred manufacturers from a redirection of their efforts, the war and the subsequent levelling off in world trade finally unearthed the issue again, exacerbating the existing weakness in the economy while speeding up the economy's gradual restructuring which had begun earlier.

3. The German Economy 1900 - 1914

By contrast, Germany's economic history appears relatively free of major controversies concerning her pre-war performance. Indeed, the general focus of attention centres on the chronological characteristics of economic growth rather than international comparisons aimed at establishing a standard of success or failure. Conventionally it has been accepted that the pre-war years were a period of dynamic and aggressive growth, which witnessed "Germany advancing to the forefront of the industrialised nations of the world".(64)

Tenfold increases in the output of coal and iron ore, an advance to Europe's largest iron and steel producer and a sixfold increase in total manufacturing output between 1870 and 1914 (65) were but some features of the economy's accelerating growth. Acclaiming these achievements, scholars, such as Saul and Milward, went as far as to maintain that "the economic history of Europe after 1870 was dominated by the persistent growth and development of the German economy."(66) While the diversity of forces behind this performance are the subject of debate, the general trends in German economic performance do not appear to be contested. This chapter cannot explore each factor in detail but certain main features can still be highlighted.

A fundamental factor underlying this trend was the steady increase in population from 47 m in 1885 to some 68 m on the eve of the war,(67) expanding both market demand and factor supply. While population growth might be expected to give rise to labour intensive methods, mechanisation and technical changes still made equally impressive strides so as to keep up with the pace of development. New urban centres began to emerge as the population moved out of predominantly agricultural areas. Whereas Germany counted a mere eight cities of no more than 100,000 inhabitants each in 1871, by 1910, 48 cities were housing about 14 m people and the overall proportion of urban population had risen from 36% to 64%.(68) Such large scale resettlements required extensive developments in housing, public utilities and urban, as well as national, transport. Investment in the latter doubled between the 1870s and the 1900s and the annual building expenditure quadrupled to about marks 2 b by 1910.(69) The process of internal transformation provided a powerful stimulant for the economy as a whole and industry in particular, encouraging it to expand in line with demand.

The liquidity to finance these investments came largely from two sources. First, the banking system, dominated by the large Kreditbanken, proved to be an important creditor to industry. Contrary to the high division of labour observed in British banking, Germany's large banks were of a universal nature.(70) They combined investment and commercial banking, thereby funding customers out of ordinary credit facilities as well as preparing and placing new share issues on the stock exchange. Concentrating particularly on the metal working and engineering sectors, which absorbed over 30% of total loans, bank lending rose from £54 m to £458 m between 1883 and 1910/12.(71) In addition, retained shareholdings and interlocking directorships further cemented the already close relationship between finance and industry. Despite the fact that the true impact of this proximity and the inherent bias towards heavy manufacturing companies on the economy's overall growth remains in dispute,(72) it is clear that in the absence of the bank's support "it would have been impossible to make available the financial means for the growth of industry".(73)

In parallel to this widespread interdependence, an increasing number of privately owned companies also turned to the stock market, foreshadowing the demise of the family owned factory and an important change in the country's industrial structure. Between 1896 and 1913 close to marks 5.2 b was raised by some 3,500 new joint stock companies.(74) In contrast to Britain, the new industries participated strongly in the quest for outside capital so as to finance their growing role in the economy.

One example of Germany's buoyant new industries was the electronics sector which increased its capital from marks 156 m in 1895 to marks 891 m in 1900.(75) At the same time, it was also amongst the main beneficiaries of the country's internal development. Boosted by large-scale public utility schemes, the electrical industry turned into a growth factor of more far-reaching consequences. The electrification and extension of tramway networks sparked off new demands for steel and iron, whereas the results of continuous research work stimulated the use and production of new types of machinery. The refinement of the electromotor thus paved the way for its widespread application in mining and industry where it substituted the steam engine and reduced energy costs by almost one third.(76) Similarly, the newly acquired knowledge was also put to use in the external field, allowing Germany to become the largest international exporter of electrical products.(77) By 1905 the electrical industry finally represented the economy's third largest interest group in terms of accumulated capital,(78) epitomising and supporting its overall growth.

In line with the other major industrial sectors electrical goods displayed a high degree of concentration after a series of protective acquisitions at the end of the cyclical upturn in 1900. Siemens and AEG virtually controlled the entire industry in the same way that BASF, Bayer and Hoechst gained a stranglehold over the chemical/pharmaceutical sector, while iron and steel production was dominated by a handful of large scale enterprises led by Krupp, Thyssen and the Thomaswerke.(79) High concentration, accompanied by a rationalisation of production facilities and greater economies on research efforts and bulk purchases of inputs, was a further characteristic feature of the German economy which also distinguished it significantly from the industrial structure of her main competitor, Britain. In part, this contrast was rooted in differences in ownership. Whilst privately run family enterprises were still relatively widespread in Britain, Germany's corporate landscape was increasingly dominated by joint stock companies led by hired managers. Business strategies varied accordingly. The family entrepreneur aimed at profit maximisation, mistrusting integration, which jeopardised his personal assets and, moreover, hitherto unrestricted control, whereas the hired manager in Germany, on the other hand, strove for expansion and larger market shares.(80)

As part of such corporate goals industrial takeovers also implied a growing capital intensity of the individual firm and encouraged it to take additional protective steps by means of vertical integration. The potential costs of upsetting production in a large scale concern such as Krupp, with a capital of marks 180 m invested in its manufacturing lines, were so enormous that it was preferable to control succeeding production stages together with the sourcing of the required inputs. A number of steel and iron manufacturers, therefore, decided to integrate into the mining of coal and iron ores. The discovery of the blast furnace as a source of energy further advanced this process as it induced foundries to merge with steel works in order to fully exploit their resources. Apart from securing a virtually autonomous production process, sheltered from outside shocks, the event of the integrated enterprise again encouraged mass production and new economies of scale. Enhancing productivity and international price competitiveness, on the one hand, Table 1.6 illustrates that the constant increase in concentration also led to a rapid increase in manufacturing output.

Table 1.6 Industrial Production Index
(1913 = 100)

1890	40
1900	65
1913	100

Source: D. Petzina, Die deutsche Wirschaft in der Zwischenkriegszeit, (Wiesbaden, 1977), p.14.

Consequently, a final and closely aligned feature of Germany's growth was represented by industry's efforts to improve its organisational structure so as to overcome pending threats of demand weaknesses. Unlike in Britain, this strategy aimed at the external relationships of manufacturers, which were frequently governed by collective agreements to limit competition. The degree of collusion varied from the swapping of patents and mutual licencing in the chemicals sector (81) to formal cartels where the collective output had to be surrendered to centralised selling agencies and annual profits were re-allocated in accordance with the market shares.

Production quotas and price fixing arrangements also covered corporate marketing tactics in an attempt to formulate more effective and coherent export policies. Easing the off-loading of surplus production and enhancing international competitiveness, export subsidies were introduced and financed out of domestic revenues, accruing to a centralised pool.(82) To a certain extent, collusion, therefore, enabled its participants to maintain relatively high levels of production. More importantly, however, it underlined the overriding trend to rationalise organisation either directly through the avoidance of duplicated research efforts, greater economies of scale or indirectly as it was the only way of raising profits under a fixed price regime.

Nevertheless, Germany's economic experience before 1914 was not flawless, but rather cyclical with interim slumps occurring in 1900-1903 and 1907-1908.(83) In both instances, deficient home demand resulted in production cuts and spare capacity. Rationalisation through reorganisation and higher concentration and to a lesser degree cartelisation were amongst the common remedies sought to overcome a crisis. Ironically, these measures, which were also perceived as the signposts and causes of industrial growth, finally seemed to fall victim to their own success, as they had relentlessly encouraged renewed expansion. By 1909 industrialists realised that these efforts no longer sufficed. In fact, the pig iron association, one of the strongest cartels, had just succumbed to a price war.(84) Production facilities had been expanded beyond the domestic market's ability to absorb the incremental output. Given that home demand remained constrained because of a liquidity squeeze imposed by hitherto unseen public sector credit demands,(85) producers sought an alternative solution and embarked on a vigorous export drive. This provided the basis for the final spurt in economic growth before the war. Total exports rose by an annual average of 11.1% between 1909 and 1913 as compared with an average growth rate of 4% achieved between 1905 and 1909.(86)
Characteristically, this boom was most pronounced in the capital intensive investment goods industry which was particularly affected by sluggish demand conditions at home.

Machinery exports grew at an average annual rate of 19.5% between 1909 and 1911 while the push onto the international market left German producers with 41% of world electrical exports.(87) Together they now accounted for 19.6% of total exports as compared to 6.8% in 1909. The share of metal products including iron and steel had also risen from 11% to 19%.

Hence the domestically dominant industries continued to act as the main force behind the economy's growth but, by now, this was achieved through the export sector the contribution of which to national income rose accordingly as indicated below.

Table 1.7 Exports as a proportion of N.D.P. (%)

1900	14.2
1909	14.9
1913	20.2

Source: D. Petzina, Die deutsche Wirtschaft in der Zwischenkriegszeit, (Wiesbaden, 1977), p.64; V. Hentschel, Wirtschaft und Wirtschaftspolitik im wilhelminischen Deutschland, (Stuttgart, 1978), p.251.

In summary, Germany's industrial rise, initiated by the powers of internal transformation, was carried through by her particular corporate structure which was characterised by growing concentration through horizontal and vertical integration and finally a considerable expansion of exports during the immediate pre-war years. It appears that these characteristics became succeeding economic necessities inevitably required to cope with an industrial capacity, which expanded ahead of home demand.

Despite an impressive performance, however, Germany still lagged behind Britain in certain aspects. By 1913, her GDP measured in constant prices stood at 89% of Britain's national income and on a per capita basis income only reached 61% of the level attained in Britain.(88) This was partly due to the fact that Germany derived a relatively large proportion of income, 23% as opposed to 7% in the UK, (89) from agriculture, where productivity was still comparatively low. Despite its protection, industrial productivity in Germany also remained, overall, some 11% below that of Britain's, because she employed almost 1/5 of her work force in low productivity areas, manufacturing basic consumer items such as glass, stoneware and woodwork.(90) Progress had, therefore, not been evenly distributed but it centred around the heavy and new industries which embodied the economy's comparative advantage before 1914.

4. The German Economy 1918 - 1928

Germany emerged from World War I facing "damages and loss of human life of proportions hitherto unknown".(91) Since 1913 she had lost 10% of her population, the availability of iron deposits was cut by 75% while the production capacity in pig iron, steel and coal had been reduced by 44%, 38% and 26% respectively.(92) In addition, the financing of the war had left the government with a debt of <u>marks</u> 150 b, the equivalent of three times the country's national income of 1913,(93) and monies in circulation increased twelvefold.(94) Although inflationary pressures were temporarily subdued by means of price controls, the external value of the <u>mark</u> fell from 4.2 to 99 to $1 in 1920,(95) further contributing to inflationary tendencies and the balance of payments deficit.

Concurrently, the reparation demands imposed an unrealistic strain on the economy. Leaving the country with a debt of <u>marks</u> 132 b,(96) payable in foreign exchange, as well as the obligation to surrender a proportion of industrial stocks and future production, the Allies also seriously curtailed Germany's ability to earn foreign exchange by enforcing a one sided most favoured nation treaty. Given that reparation payments made between 1920 and 1922 absorbed by far most of the state's ordinary revenues, it continued to resort to inflationary refinancing by means of bill discounting which further raised its floating debt to marks 800 b by mid 1922.

The crisis finally reached its climax in November 1923, when the Central Bank introduced the Rentenmark at a ratio of 1 b to 1. Rigid government controls over expenditure and the Dawes Plan signed by the Allies in 1924 further assisted by cutting reparation payments to more attainable levels, while granting a partial moratorium. Soon afterwards, the introduction of the Goldmark, the right to a reciprocal most favoured nation status and the renewed joining of the gold standard at the pre-war (and over-valued) parity signalled a partial return to normality and inspired optimism.
The subsequent resurrection of economic activity was widely carried out under the banner of rationalisation schemes. The stabilisation of money entailed a rapid return to cost consciousness amongst producers, who aimed at cutting costs through the use of new technology and a reduction of staffing levels.(97) Having been isolated from international developments during the war and the inflation years, numerous delegations of scientists and industrialists were despatched to the United States in order to catch up with the progress made there and to further improve upon new technologies already introduced during the inflationary years.(98)

The result was the adaptation of a mode of scientific management in production.(99) A rigid standardisation of production was introduced on the basis of unified industrial norms, so as to enhance the compatibility of new products. Rationalisation also implied the further evolution of large integrated enterprises, epitomised by the Vereinigte Stahlwerke founded in 1926 with a capital of marks 800 m (100) By managing the interests of the four largest steel producers, the association controlled 40%, 20% and 22% respectively of total steel, iron and coal output in Germany. The conglomerate thus encompassed the entire production process from the mining of coal and iron ore to the production and marketing of the finished products.

Similarly, the chemical and pharmaceutical industry was reorganised by means of the establishment of the IG Farben AG (capital, marks 646 m).(101) Although termed as an association of interests it was an effective cartel, determining production and sales of its members. The electrical industry also took further steps to rationalise its organisation. Having more than doubled its capital to marks 130 m in 1921 Siemens temporarily joined the Rhein-Elbe Union, one of the leading coal mining associations, and later founded the Stahl-Elektro Union to enhance the application of electricity in mining and to exploit joint research covering new electronic developments in steel making. Concentration was also further increased by the amalgamation of the AEG and Siemens bulb factories under the auspices of the newly founded joint venture company of OSRAM.(102)

As a result of these efforts and further encouragement from the government in the form of compensation payments to firms, which lost production units in the occupied territories,(103) industrial production began to recover from the turmoil of the previous years. The extent of rehabilitation, however, varied. The traditional heavy industries suffered considerably from the loss of Alsace-Lorraine and, but for pig iron output, failed to reach the pre-war level. To some extent the patchy character of the recovery in the staple sectors was also a result of lower demand rather than just the inability to rebuild supply structures. The steel industry thus suffered from overcapacity and even during the buoyant year of 1927, capacity was only utilised up to 77%.(104)

Table 1.8 Output of Selected Items
(MT 000)

	Crude Steel	Pig Iron	Iron Ore	Coal
1913	17.609	11.761	28.608	190.000
1925	14.517	11.804	6.475	177.000

Source: W. Hoffman, Das Wachstum der deutschen Wirtschaft, (Berlin, 1965), p.387; B.R. Mitchell, European Historical Statistics 1750-1975, (London, 1980), pp.421,409,410,414/5.

Progress was more noteworthy in the newer industries, where producers continued to exploit their comparative advantage with the help of the rationalisation programme. The production index for chemicals and metal working industries, including machinery, rose from 100 in 1913 to 161 and 163.5 in 1928 (105) while the index for electronics, mechanical engineering and optics doubled during the same period.(106)

The industrial recovery during the 1920s further entailed concerted efforts to foster exports so as to recoup the country's earlier position in international trade. The large trusts, in particular, relied increasingly on the export sector as a pressure valve so as to lessen their dependence on the domestic market.(107) Moreover, the importance of exports as a source of foreign exchange had grown significantly. Apart from having to meet reparation demands, as well as the servicing of the growing foreign debt, export revenues had to rise simply to close the historically large gap on the balance of trade where the import deficit had grown from marks 32 m in 1913 to marks 154 m in 1925.

A substantial revival of exports set in during 1925 when the obstacle of the one-sided most favoured nation treaty had been removed and the overhauling of production methods together with renewed cartelisation strengthened industrial price competitiveness. Nominally, exports grew by 30% between 1925 and 1928, by which time their value exceeded the pre-war level by some marks 2 b. In real terms, however, this gain was eroded by higher price levels and measured at constant prices (1913) total exports fell short of the pre-war level by 13%.(108) By looking at the distribution of Germany's exports (109) it becomes obvious that this real loss was linked to her trade with the less developed countries, where faltering commodity prices had restrained demand at the expense of imports. Her exports to semi and industrialised countries, on the other hand, did register real gains between 1913 and 1929.

The changing pattern of industrial production, observed above, equally left its mark on the export structure where sectoral performances varied again. Staple exports such as textiles continued to lose ground, while iron and steel exports slackened in real terms. Conversely, the new industries were able to expand beyond the pre-war peak. Measured in 1913 prices, exports of electrical equipment and machinery rose by 24.5% and 15.5% respectively, while the chemical industry managed to maintain constant real exports.(110) Accordingly, the combined share of these three product lines rose from 20% to 24.5%, reconfirming the direction in which the pre-war economy had developed, save for one important aspect. Industry became somewhat less dependent on the international market and the proportion of manufacturing goods exported fell from 31% to 27% between 1913 and 1928/29.(111) While reflecting the general deterioration in international trade conditions, the decline in this ratio was also due to a reduced export availability since a large share of production was required domestically for reconstruction purposes.

On the basis of the above, the extent of the post-war recovery had clearly been mixed and its course cyclical interrupted by two downturns in economic activity in 1926 and 1928/9.(112) Although the further specialisation in selected new industries yielded real growth in excess of the pre-war level, the slower rehabilitation of the staple sector and some problems of overcapacity, reminiscent of the situation in Britain, still overshadowed global performance, causing Germany to fall behind her competitors. Total industrial production in Western Europe rose by 24.6% between 1913 and 1929 as compared to 15.1% in Germany.(113) Her share of world industrial production, having fallen from 15.7% in 1913 to 8% in 1923, remained consequently below the pre-war level with 11.6%.(114)

Moreover, the way in which this partial recovery had been financed precipitated an increasing vulnerability of the economy's financial situation. Following a revaluation of balance sheets in 1924, banks' assets and capital had been reduced to about 20% of their pre-war value.(115) In order to mask their financial weakness and to rebuild their loan portfolio as the source of new earnings to replenish capital reserves, banks had embarked on an aggressive marketing course aimed at the large industrialists. Corporate planning, therefore, received generous financial support from the banking sector, which provided 68% of the total volume of industrial liquidity available (i.e. from share issues, government loans and other financial intermediaries) between 1925 and 1928.(116) This intimate interdependence between banks and industry itself was not peculiar, being a legacy of the pre-war years, but the fundamental weakness during the 1920s arose out of a blatantly dangerous disequilibrium between the maturities of the former's liabilities and assets. Creditors due after 90 days represented as little as 7% of total liabilities while industrial loans, although ostensibly on an overdraft basis, were tied up in long term investments in fixed assets.(117) The problem was further compounded by the fact that the banks' commitment to certain firms was such that, even in cases of pending bankruptcy, financial support continued in the faint hope of salvaging previous loans. Apart from implying an inefficient allocation of funds to the disadvantage of smaller enterprises without access to the large German banks,(118) this structural imbalance lay at the root of the banking crisis in 1930 when a number of financial institutions did not have the liquidity to meet their customers' withdrawals.

In a similar fashion, the recovery remained vulnerable since it relied on capital inflows from abroad. The need for political stability and relatively high interest rates encouraged foreign lenders and the United States in particular (119) to satisfy Germany's incessant credit demands, despite the fact that external financing soon exceeded the economy's capacity to earn foreign exchange for debt servicing.(120) By 1930 the debt amounted to about marks 26 b. To aggravate the pending crisis, marks 15-16 b had been lent on a short term basis, mostly in the form of deposits with German banks.(121) The fact that some of them sourced almost 50% of their deposits (122) externally rendered them highly susceptible to changes in lenders' preferences. In 1925, increased British and American interest rates thus led to a partial halt in foreign capital inflows, which caused an immediate tightening of the German financial markets. While the banks were clearly pressed for liquidity, interest rates rose marking the cyclical downturn of the following year.(123) The full consequences of this fragile situation, which affected the entire economy, were finally borne out following the end of the decade when a wave of foreign withdrawals seriously compounded the country's banking crisis. The principles upon which the post-war recovery had been based were, therefore, unsound as the required long term investments could no longer be sustained by means of short term financial support.

Having considered the years before and after the war, it is obvious that World War I represented a significant break in the earlier period of expansion and that its consequences continued to prove an obstacle to rehabilitation for almost half a decade. Yet, on balance, there still persisted a certain degree of continuity in that the rationalisation movement and further specialisation formed an extension of a trend already in existence before 1914. Industrial concentration, cartelisation, as well as the close association between banking and industry, developed further in a similar manner. Finally, despite a set back in world market shares, Germany remained a significant competitor in international trade and Table 1.9 demonstrates that in comparison with Britain, the post war decline in her share of the world market for manufacturing goods, had actually been less pronounced. As in the case of Britain, the breaks which the War created in 1914 may not be sustained by the long-run trends in Germany's economic performance.

Table 1.9 Anglo/German shares of the world market for manufacturing goods (%)

	Britain	Germany
1913	30.2	26.6
1929	23.0	21.0

Source: A. Maizels, Growth and Trade, (Cambridge, Mass., 1970), p.189.

5. The Anglo-German Rivalry in International Trade

In summary, the foregoing survey highlighted some major features of the German and British economies with special reference to industry between 1900 and 1928. This brief did not, nor was it intended to, reveal new findings about the industrial experience of either country. Instead, it outlined the comparative strengths and foundations from which two competitors were to operate internationally. Modern production technology used in highly organised and integrated systems were amongst Germany's strong points. Conversely, attention should be paid to the fact that despite the ongoing doubts about the British economy, her manufacturing base, external trading networks and, not least, the growing financial influence of the City represented a major obstacle to the ambitious expansion of German enterprise.

Nevertheless, a comparison of the growth of selected major manufacturing exports (Table 1.10) provides a preliminary indication as to the extent to which British producers increasingly faced German competition on the world market.

Table 1.10 (A) Selected Exports (£'m)

	UK			Germany		
	1900	1913	1928	1900	1913	1928
Iron/steel manuf.	45.4	62.1	75.9	20.0	65.5	78.5
Other Metals & manuf.	N/A	13.3	16.3	6.4	27.7	33.0
Electrical goods	N/A	5.4	11.6	15.3+	14.2	23.9
Machinery	19.6	37	53.7		33.3	52.0
Chemical/ Drugs/ paint	9.3	22.0	25.4	17.5	51.0	68.0
Finished textiles	147.6	195.8	144.0	38.7	56.2	65.0
Glass earth'ware	2.6	5.2	13.0	2.3	12.7	18.3

+ including machinery

Table 1.10 (B) Selected Exports continued.

	UK 1900-1928	Germany 1900-1928
	% Increase	
Iron/steel manuf.	67	292
Other Metals & manuf.	22	415
Electrical goods	115	68
Machinery	174	56
Chemical/ Drugs/paint	173	249
Finished textiles	-2	68
Glass Earth'ware	400	695

Sources: UK accounts relating to trade and Navigation of the UK-1900;
Annual Statement of the trade of the UK Vol. I 1913; Trade of the Uk with foreign countries 1929;
W. Hoffman, Das Wachstum der deutschen Wirtschaft, (Berlin, 1965), p.522.
Statistik des deutschen Reiches 1901 Vol 136
Vierteljahreshefte zur Statistik des deutschen Reiches 1914, Vol II;
Statistik des deutschen Reiches, der Auswartige Handel 1929, No.1.

Save for textiles, and to a lesser degree machinery, German manufacturers managed to establish a lead in numerous product ranges and successfully defended the same until 1928 when total exports measured in 1913 prices finally exceeded the level of British shipments. The immediate effects of the diverging industrial experiences observed above were, therefore, most visibly pronounced in international trade,

Table 1.11 Market shares of German and British Exports (measured in 1913 prices, %)

	Industrialised Countries		Semi-industrial Countries		Rest of the world		Total world Exports	
	Germany	UK	G.	UK	G.	UK	G.	UK
1899	15.8	14.7	9.7	63	20	32	17	25
1913	19.3	14.6	14	54	29	24	21	23
1929	16.7	9.6	11	34	20	20	17	16

Source: A. Maizels, Growth and Trade, (Cambridge, 1970), p.428.

where according to Table 1.11 market shares were moving in Germany's favour, especially before 1913. It was this development which gave rise to the long standing debate over factors of relative competitiveness and the Anglo-German commercial rivalry.

Originally popularised by a series of emotional articles in the contemporary press, (124) Britain's awareness and concern over the steadily intensifying competition between the two economies was vividly expressed by numerous critical consular reports which identified complacency and ineffective sales methods as the root of the problem. Official investigations into the perceived "attack on Britain's export markets", such as the "Worthington Report", the study of "Foreign Trade Competition" of 1899 and the d'Abernon Report published 30 years later, equally indicted Britain for her commercial weaknesses, and reached similar conclusions.(125) Although much of the cited evidence was impressionistic and one-sided, the general consensus of an "apparent incapacity to accommodate to local circumstances"(126) was remarkably consistent. Indeed, much work since 1945 seemed to confirm the idea of commercial deficiencies, documented "by an overwhelming mass of evidence of antiquated British commercial practices".(127) Yet, on the basis of earlier consular material, the debate soon assumed a somewhat derogatory character. The idea of a commercial failure seemed unquestioned. The blame was shifted almost exclusively onto the quality of management and marketing strategies which were criticised as "possibly the most outstanding area of neglect."(128) Thus, the concept of the Anglo-German commercial rivalry has periodically occupied economic historians for close to a century and, in fact, the present day concerns about competitiveness in international trade remain as topical as they did a hundred years ago.

The underlying debate, however, has tended to become oversimplified and its conclusions exceedingly negative. Moreover, notions of failure or success are relative and, their too frequent use adds little to the analysis of economic history. Instead, the subject matter encompasses two parallel, though ultimately converging themes. Firstly, the rivalry question casts doubts on the capability of British entrepreneurs. Bearing a striking resemblance in character to the discussion concerning Britain's industrial performance, the external trade issue does form a logical extension of the former debate beyond national boundaries. Changes in domestic output and industrial productivity were bound to reflect upon the pricing and availability of exports, in the same way that alleged entrepreneurial irrationality would have been translated into similar weaknesses in overseas marketing. By the same token, the allegiance to the old staple sector obviously determined the composition and possibly, then, the overall growth of exports. Although there are numerous ways in which the two issues interlock, a more detailed treatment of the commercial side of British enterprise appears to be conspicious by its absence in a debate which has focused on her industrial experience.(129) Whilst it may be correct to reject a weakening trade performance as the cause of industrial deceleration, it may well have, nevertheless, been symptomatic of the latter. A complete assessment of the adequacy of domestic managerial decision-making and economic structures should, therefore, give due consideration to the performance of exporting strategies.

To a certain degree, the widespread preoccupation with qualitative judgements on the entrepreneurial calibre distracted the attention from a second and more far reaching issue. The rivalry question should also be considered in isolation, both as an account of British and German overseas business during a period of intense competition for the newly developing markets on the periphery as well as the study of the methodology adopted by the market defender and the relative newcomer.

Anxieties concerning the marketability of exports should have been common on both sides. Exporting 45% of manufacturing output in 1913,(130) British producers should have had their minds on overseas markets in the same manner as their German counterparts strove to complement deficient home demand. Either side had to maximise comparative advantages gained in the production process so as to translate the same into a growing share of world trade. The question is in what manner did they proceed, how did they organise export trades and marketing structures, and to what extent did they adapt to changes in the environment? Finally, to what degree did domestic finance and even politics lend support to the enhancement of external interests?

On all accounts views remain divided. Defying convention, Professor Platt considered the traditional doom as exaggerated, or even unfounded. On the contrary, he argued that instances of alleged failure in Britain's marketing system were in fact part of a calculated strategy of withdrawal which rejected certain markets as being unprofitable.(131) More recently, S. Nicholas joined this revisionist trend by demonstrating that the merchant community was more sophisticated and innovative in its sales efforts than assumed hitherto.(132) Implicitly both writers upgraded the appraisal of Britain's commercial performance, revising some long standing views on the topic of Anglo-German rivalry.

Whilst such new contributions should be welcomed as providing some fresh thought on the matter, the debate still remains open. This is the case to overcome the sometimes subjective and stale quality of evidence used thus far and to analyse opposing opinions whereby any final conclusion cannot be merely based on an evaluation of performance in terms of industrial exports but it must appreciate the multitude of interlocking interests represented in international commerce. Mercantile business was a two way trade governing not only exports but also imports from abroad.

In addition, expatriate capitalism was equally involved in financial matters in banking and long-term capital projects, both of which again impinged on trade flows. It is, therefore, only after a review of these activities in conjunction with one another, that one can finally draw a conclusion as to the extent of a rivalry, evaluate comparative structures, strategies and moreover finally explain relative performances.

In order to do justice to this task, one should ideally seek out a situation of perfect competition and equal opportunities for both parties. This automatically excludes certain geographical locations. The Dominions and colonies clearly granted Britain an advantage, whereas Europe may have been more advantageous for Germany due to her geographical proximity. As Saul pointed out,(133) Latin America, on the other hand, does provide an interesting test case. To allow for a sufficiently detailed case study, however, one should go on to isolate one specific market sizeable enough to be of interest to both competitors. Under these circumstances I chose Brazil, Latin America's largest country, in preference to Argentina, since it seemed to be relatively more impartial to either side, in view of the latter's particularly close connections with Britain. Furthermore, this choice appeared simply more interesting as less attention has been devoted to Anglo-Brazilian relations. This is somewhat surprising because Brazil, although being less developed, was a fast growing economy which should have been attractive for any exporter. Classified as 'semi-industrial' (see Table 1.11) it in fact formed part of the world's most rapidly advancing import market. Finally, it was politically independent outside any protective sphere, denying preferential treatment to either party. As such it was one of the few remaining truly competitive markets. Indeed, during the course of this thesis, it will be shown that Anglo-German interests did compete in most segments of the Brazilian economy allowing for a thorough and relatively objective assessment of comparative strategy and performance, while also providing an instructive insight into the heyday of international business in a less developed market.

Chapter 1.

Footnotes

1. D.C.M. Platt, Finance Trade and Politics, British Foreign Policy 1815-1914, (Oxford, 1968), p. 366.

2. E. Williamson, Made in Germany, (London, 1896).

3. W.A. Lewis, Economic Survey 1919-39 (London, 1949), p.74.

4. D. Aldcroft, The Development of British Industry and Foreign Competition 1875-1914, (Glasgow, 1968), p.14.

5. D. Aldcroft and H. Richardson, The British Economy 1870-1914, (London, 1969), p.193.

6. Aldcroft, The Development of British Industry, p.23.

7. Aldroft and Richardson, The British Economy, p.193.

8. A. Maizels, Growth and Trade, (Cambridge, 1970), p.189.

9. Aldcroft and Richardson, The British Economy, p.72.

10. B.P.P. 1918 Vol XIII, Departmental Committees on the Iron and Steel Trades and Engineering Trade.

11. P. Payne,'Industrial Entrepreneurship and Management, in Great Britain', in P. Mathias and M. Poston (eds.), The Cambridge Economic History of Europe, Vol.VII, (Cambridge, 1978), pp. 202 and 203; for a more sceptical view about the benefits of mass production, see C. Sabel and J. Zeitlin, 'Historical Alternatives to Mass Production: Politics, Markets and Technology in 19th Century Industrialisation', Past and Present, No. 108, (1985).

12. Aldcroft and Richardson, The British Economy, p.18.

13. Lewis, Growth and Fluctuations 1870-1913, (London, 1978), p.121;
C. Kindleberger, 'Germany's Overtaking of England 1806-1914', Weltwirtschaftliches Archiv, Vol. 3, 1975, p.491.

14. Aldcroft and Richardson, The British Economy, p.182.

15. R. Robson, The Cotton Industry in Britain, (London, 1957), p.355;
C. Rockwood, Management, Industry and Trade in Cotton Textiles, (Newhaven, 1965); more recently W. Lazonick,'Industrial Organisation and Technical Change: the Decline of the British Cotton Industry', BHR., LVII, (1983).

16. Payne, 'Industrial Entrepreneurship', p.209.

17. S. Pollard, 'Capital Exports 1870-1914: Harmful or Beneficial?', EHR, XXXVIII, (1985), p. 500.

18. N. Crafts, 'Victorian Britain did Fail', in D. McCloskey (ed.), Enterprise and Trade in Victorian Britain, (London, 1984), p. 130.

19. P. Cottrell, Industrial Finance 1830-1914, (London, 1980), p. 263.

20. W. Kennedy, Industrial Structure, Capital Markets and the Origins of British Economic Decline, (Cambridge, 1987), pp. 120-147. In this section Kennedy illustrates how City institutions shied away from domestic share issues due to a lack of information, high risk perceptions and adverse experiences in the past.

21. Cottrell, Industrial Finance, p. 230.
Aldcroft and Richardson, The British Economy, p.119.
Lewis, Growth and Fluctuations, p. 115.
M. Kirby, The Decline of British Economic Power since 1870, (London, 1981), p. 15.

22. Pollard, 'Capital Exports', p. 501.

23. P. Cain and A. Hopkins, 'Gentlemanly Capitalism and British Expansion Overseas II, New Imperialism', EHR, XL, (1987) p.4.

24. Maizels, Growth and Trade, p.293.

25. A. Imlah, Economic Elements of Pax Britannica: Studies in British Foreign Trade in the 19th Century, (Cambridge, Mas., 1958) pp. 74 and 75.

26. Cain and Hopkins, 'Gentlemanly Capitalism', p.11.

27. S. Saul, 'Industrialisation and De-industrialisation. The interaction of the German and British Economies before the first world war', (London, 1979), p.8.

28. D. McCloskey, 'Did Victorian Britain Fail?', in D. McCloskey (ed.), Enterprise and Trade in Victorian Britain, (London, 1981), pp. 104 and 105.

29. McCloskey, 'Did Victorian Britain fail?', p.105.

30. Kirby, The Decline of British Economic Power since 1870, (London, 1981), p.6.

31. S. Saul, Industrialisation, p.23.
R. Floud and D. McCloskey, The Economic History of Britain since 1700, Vol II (Cambridge, 1981), p.68.

32. Lewis, Growth & Fluctuations, p.126.

33. D. McCloskey, 'International Differences in Productivity, Coal and Steel in America and Britain before World War I', in D. McCloskey (ed.), Essays on a Mature Economy: Britain after 1840, (London, 1971), pp. 290 and 294.

34. McCloskey, 'International Differences', p.298.

35. L. Sandberg, 'American Rings and English Mules, the Role of Economic Rationality', QJE LXXXIII, (1969), p.20; see also G. Saxonhouse and G. Wright,'New Evidence on the Stubborn English Mule and the Cotton Industry 1878-1920', EHR, XXXVII, (1984);
for the critique of their views;
W. Lazonick, 'Factor Costs and the Diffusion of Ring Spinning in Britain prior to World War I',QJE, XCVI, (1981);
Lazonick,'Stubborn Mules: some comments', EHR, XL, (1987).

36. Payne, Industrial Entrepreneurship, p.208.

37. D. McCloskey and L. Sandberg, 'Judgements on the late Victorian Entrepreneur', in McCloskey, Enterprise and Trade, p.69.

38. Lindert and Trace, 'Yardsticks for Victorian Entrepreneurs, in McCloskey, Essays, p.249.

39. Lindert and Trace, 'Yardsticks', p.260.

40. S. Nicholas, British Economic Performance and Total Factor Productivity 1870-1940', EHR, XXXVIII, (1985), pp. 576 and 577. In short total factor productivity represents growth in output not accounted for by the additional use of inputs. Apart from perfect factor/product markets McCloskey's view on productivity also assumed constant returns to scale, i.e. the sum of the elasticities of output with respect to capital and labour add up to 1. Nicholas argued that in the case of increasing returns to scale the index is lowered and vice versa. Marginal departures from homogeneity therefore alter the interpretation of Britain's growth record substantially.

41. Nicholas, 'British Economic Performance', p.580.

42. Kirby, The Decline;
B. Elbaum and W. Lazonick (eds.), The Decline of the British Economy, (Oxford, 1986).

43. Floud and McCloskey, The Economic History of Britain, p.25.

44. See for instance, Lewis, Economic Survey, pp. 41 and 42;
A. Youngson, The British Economy 1920-57, (Harvard, 1960), p.23.

45. Aldcroft and Richardson, The British Economy, p.234.

46. Kirby, The Decline, p.27.

47. Landes, The Unbound Prometheus; Technological change and Industrial Development in Western Europe from 1750-the Present, (Cambridge, 1969), p.452.

48. See page 41.

49. Pollard, The Development of the British Economy 1914-1957, (London, 1969), p.114.

50. Youngson, The British Economy, p.45.

51. Landes, The Unbound Prometheus, p.454.

52. Aldcroft, 'Economic Progress in Britain in the 1920s', SJPE, XIII, (1966), pp. 315 and 316; See also Aldcroft, 'Economic Progress in Britain in the 1920s, a Rejoinder', SJPE, XIV, (1967).

53. Pollard, The Development, p. 54.

54. Kirby, The Decline, p. 30.

55. Pollard, The Development p.105.

56. See Table 1.10.

57. B. Alford, Depression and Recovery, British Economic Growth 1918-1939, (London, 1972), p.19.

58. Alford, Depression and Recovery, p.21;
N. Buxton, 'Economic Progress in Britain in the 1920s', SJPE, XIV, (1967), p.185.

59. Alford, Depression and Recovery, p.21.
NB: Aldcroft's efforts could also be questioned on purely statistical grounds. His assertion that British Industrial growth over the decade, (22.5%) more or less matched that of Western Europe (24.6%) was found to be somewhat misleading. Given that she contributed close to a third to Europe's industrial production, her inclusion in the latter introduced an overall downward bias. A comparison of continental Europe and Britain thus yields a ratio of 30% to 22.5%. N. Buxton, 'Economic Progress', p.178.

60. Dowie, 'Growth in the Inter-War Period: Some More Arithmetic', in D. Aldcroft and P. Fearon, (eds.) Economic Growth in 20th Century Britain, (London, 1969), p.60.

61. N. Rosenberg, Inside the Black Box, Technology and Economics, (Cambridge, 1982), p.258.

62. Royal Institute of International Affairs, The Problem of International Investment, (Oxford, 1937), p.60.

63. Royal Institute of International Affairs, The Problem, p.60.

64. W. Henderson, The Rise of German Industrial Power, 1834-1914, (London, 1974), p.234. While there may appear little controversy about German growth before 1914, T. Kemp highlighted a number of aspects in which the German economy and society was still lagging behind Britain, giving the impression of a dual economy;
T. Kemp, Industrialisation in nineteenth-century Europe, (London, 1969), pp. 105-115.

65. H. Kellenbenz, Deutsche Wirtschaftsgeschichte, Vol II (München, 1981), p. 156;
B. Mitchell, European Historical Statistics 1750-1975 (London, 1975), pp 409,414,421 and 422;
Landes, The Unbound Prometheus, p.329.

66. S. Saul and Milward, The Economic Development of Continental Europe, (London, 1977), p.22.

67. G. Stolper, Deutsche Wirtschaftsgeschichte seit 1870, (Tübingen, 1966), p.26.

68. M. da Guia Santos, Aussenhandel und industrielle Entwicklung Brasiliens unter besonderer Berucksichtigung der Beziehungen zu Deutschland 1889-1949, (München, 1984), p.17.

69. R. Tilly, 'Capital Formation in Germany in the 19th Century', in Mathias and Poston, (eds.) *Economic History of Europe*, pp. 408 and 409.

70. For details on domestic banking in Germany and Britain, see Chapter 5.

71. R. Tilly, 'German Banking 1850-1914, Development Assistance for the Strong', *JEEH*, XV, (1986), pp. 135 and 141.

72. H. Neuburger and H. Stokes, 'German Banks and German Growth 1883-1913; An Empirical View', *JEH*, II,(1974);
Neuburger, 'The Industrial Politics of the Kreditbanken', *BHR*, LI, (1977);
J. Komlos, 'The Kreditbanken and German Growth, a Postscript', *JEH*, XXXVIII, (1978);
R. Fremdling and R. Tilly, 'German Banks, German Growth and Econometric History', *JEH*, XXXVI, (1976).

73. Kemp, *Industrialisation in 19th Century Europe*, p.96.

74. J. Kocka, 'Entrepreneurs and Managers in German Industrialisation', in Mathias and Poston,(eds.), *Economic History of Europe*, p. 567.

75. V. Hentschel, *Wirtschaft und Wirtschaftspolitik im Wilhelminischen Deutschland*, (Stuttgart, 1978), p.215.

76. Hentschel, *Wirtschaft*, p.238.

77. J. Wendler, *Deutsche Elektroindustrie in Latein Amerika*, (Stuttgart, 1982), p.11.

78. H. Nussbaum, *Wirtschaft und Staat in Deutschland vom Ende des 19. Jahrhunderts*, (Vaduz, 1978), p.58.

79. A. Fleischer, _Patentgesetzgebung und chemisch pharmazeutische Industrie im deutschen Kaisereich_ _1871-1918_, (Stuttgart, 1984), pp.328 and 333.

80. For more detail see J. Kocka, 'Expansion, Integration, Diversifikation, Wachstumsstrategien industrieller Grossunternehmen in Deutschland vor 1914', in H. Winkel, _Vom Kleingewerbe zur Grossindustrie_, (Berlin, 1975).

81. Fleischer, _Patentgesetzgebung_, pp.333-336;
Kellenbenz, _Deutsche Wirtschaftsgeschichte_, p.261.

82. B.P.P. 1918 Vol XIII, _Departmental Committee on the Iron & Steel Trades_, p.12;
W. Dawson, _The Evolution of Modern Germany_, (London, 1919) pp. 184 and 185.

83. Hentschel, _Wirtschaft_, p.212;
See also H. Aubin and W. Zorn, _Handbuch dar deutschen Wirtschaft_, (Stuttgart, 1976), pp.266 and 268.

84. Hentschel, _Wirtschaft_, p. 116.

85. Hentschel, _Wirtschaft_, p.243.

86. Mitchell, _European Historial Statistics_, p. 514.

87. Hentschel, _Wirtschaft_, p.254;
Wendler, _Elektroindustrie_, p.11.

88. Maizels, _Growth and Trade_, p. 293;

89. Saul, 'Industrialisation', p.11;
Kemp, _Industrialisation in nineteenth century Europe_, p. 107.

90. Saul, 'Industrialisation', p.12.

91. Kellenbenz, Deutsche Wirtschaftsgeschichte, p.318.

92. K. Hardach, The Political Economy of Germany in the 20th Century, (London, 1980), p.17.

93. Kellenbenz, Deutsche Wirtschaftsgeschichte, p.359.

94. Kellenbenz, Deutsche Wirtschaftsgeschichte, p.347; See also S. Pollard, Peaceful Conquest: the Industrialisation of Europe 1760-1970, (Oxford, 1981), pp. 280 and 288.

95. K. Born, 'The German Inflation after the First World War', JEEH,VI, (1977), p.112.

96. Kellenbenz, Deutsche Wirtschaftsgeschichte, p.360. Hardach, The Political Economy, pp. 29 and 32.

97. Hardach, The Political Economy, p. 31.

98. Contrary to the writings of Kellenbenz and Hardach, H. James recently pointed out that much of the technical advances classified under the post 1924 rationalisation had, in fact, already been introduced at an earlier stage; H.James, The German Slump, Politics and Economics 1924-36, (Oxford, 1986), pp. 151 and 153.

99. F. Wurm, Wirtschaft und Gesellschaft in Deutschland 1848-1948, (Opladen, 1969), p. 222.

100. Kellenbenz, Deutsche Wirtschaftsgeschichte, p.397.

101. Fleischer, Patentgesetzgebung, p.337.

102. Kellenbenz, Deutsche Wirtschaftsgeschichte, p.404.

103. Landes, The Unbound Prometheus, p.462.

104. James, The German Slump, p. 149.

105. W. Hoffman, Das Wachstum der deutschen Wirtschaft, (Berlin, 1965), pp. 362 and 380.

106. Nussbaum, Wirtschaft und Staat, p. 142.

107. James, The German Slump, p. 119;
see also R. Wagenfuhr, 'Die Bedeutung des Aussenmarktes', Sonderhefte des Instituts fur Konjunkturforschung, No. 41, (Berlin, 1936).

108. Maizels, Growth and Trade, p. 272.

109. See Appendix II.

110. The figures in Table 1.10 were deflated by Maizels' ratio of current to 1913 prices.

111. Maizels, Growth and Trade, p.223.

112. Nussbaum, Wirtschaft und Staat, pp 117 and 118;
M. Falkus, 'The German Business Cycle in the 1920s', EHR, XXVIII, (1975);
P. Temin, 'The German Business Cycle in the 1920s', a Comment and Reply', EHR, XXX, (1977).

113. Buxton, 'Economic Progress', p. 177. Growth rates covering the 1920s obviously depend on the base year. A choice of 1920/21 would put Germany in a far more positive light, emphasising the extent of her recovery although in an international context but this is misleading since her economy faced exceptional circumtances.

114. Nussbaum, Wirtschaft und Staat, p. 266.

115. Hardach, 'Banking and Industry in Germany in the inter-war period 1919-39', JEEH, XIII, (1984), p. 212;
H. Jones, 'The causes of the German Banking Crisis', EHR, XXXVII, (1984), p. 72.

116. Hardach, 'Banking', p. 217.

117. Hardach, 'Banking', p. 215.

118. James, The German Slump, p. 139, for the subject debate see also H. Neuberger and H. Stokes, 'German Banks and German Growth 1883-1913', JEH, XXXIV, (1977);
Tilly, 'German Banking 1850-1914, Development Assistance for the Strong', JEEH, XV, (1986).

119. Between 1924 and 1928 about 70% of German long term borrowings were raised in the States, Falkus, 'The German Business Cycle', p. 456.

120. Royal Institute of International Affairs, The Problem, p.239.

121. Jones, 'The Causes', p. 76.

122. Jones, 'The Causes', p. 76.

123. Falkus, 'The German Business Cycle', pp 456-459.

124. See for instance E. Williamson, Made in Germany, (London, 1896), which summarised a series of articles published in the New Review.

125. BPP 1899 Volume 96, Worthington Report, Parts 1 and 2;
BPP 1899 Volume 96, Foreign Trade Competition, Opinions of H.M. diplomatic and consular officers on British Trade Methods;
Department of Trade, Report of the British Economic Mission to Argentina, Brazil and Uruguay. (London, 1930).

126. D.O.T. Report of the British Mission, p. 6.

127. R. Hoffman, Great Britain and the German Trade Rivalry 1875 - 1914, (Philadelphia, 1933) p. 80.
See also S. Saul, Studies in British Overseas Trade 1870 - 1913, (Liverpool, 1960), as well as Landes, Aldcroft, Lewis and Kirby, op cit.

128. Kirby, The Decline of British Economic Power, p.8.

129. Payne, 'Industrial Entrepreunership', p. 207.

130. Maizels, Growth and Trade, p. 223.

131. D.C.M. Platt, Latin America and British Trade 1806-1914, (London, 1972).

132. S. Nicholas, 'The Overseas Marketing Performance of British Industry 1870-1914', EHR, XXXVII, (1984).

133. S. Saul, Studies in British Overseas Trade, p. 83.

Chapter 2.

Imports into Brazil 1900-1929

Along with the commodity trade, the Brazilian import business traditionally represented the main focus of foreign interests in the country. A strong export sector complemented by substantial inflows of overseas capital provided for liquidity and stimulated demand, while attracting widespread competition from overseas suppliers. By the early twenties, around 2890 merchant houses(1) contended for a share of this trade either independently or as agents for foreign manufacturers. As a reflection of the home industries' competitiveness, developments in the import trade were closely followed by diplomatic and other expatriate circles in Brazil, becoming a popular yardstick of relative performances and competitive efficiency. Import statistics were consequently seen to embody the key contention in the Anglo-German rivalry debate.

Nevertheless, subsequent comparative assessments in this respect have too frequently relied upon qualitative evidence derived from consular reports or, alternatively, in the absence of specific market studies, the material at hand often remained too scattered to be deterministic of particular trends and the conclusions reached could vary in accordance with the individual selection of data. Generally, with regard to South America, views differ. Contrary to the pessimistic outlook conveyed by contemporary trade reports,(2) research by Hoffman and later by Nicholas concluded that Germany failed "to make serious inroads into Britain's pre 1914 trading position."(3) Britain's overseas performance was thus on its way towards rehabilitation, principally on the basis that her marketing structures were more efficient and innovative than assumed hitherto. Professor Platt went one step further and cast serious doubts over the whole notion of a rivalry in Latin America.(4) His argument rests on the novel premise that South America was of relatively greater importance to the further expansion of German trade, because the lack of colonial territories required her to turn to the few remaining independent markets. British merchants, on the other hand, were "not under the same necessity of offering inducements to consumers"(5) since in comparison with the Empire, the South American republics were an unattractive market for "cheap and showy" goods hardly worth the effort. Consequently, "they naturally withdraw from [areas] where competition is severest"(6) in preference to the more profitable Dominions, attuned to the high quality of British goods. Platt briefly admitted that the main Argentinian and Brazilian ports were of sufficient importance to keep Britain's interest. His skilful use of the abundant examples contrasting the poverty of the smaller central and northern republics with the sophisticated centres of the Empire, however, led him to the conclusion that Latin America "must be struck off the list of truly competitive markets".(7)

If this was the case, diminishing rates of growth of British exports to Latin America and Brazil would no longer reflect the course of genuine market competition but rather different levels of motivation. By the same token it would also be incorrect to speak of any rivalry per se.

In the context of a particular host economy, Brazil, it is now possible to reassess the different views on performance by means of a detailed market study which also overcomes the potentially misguiding impressions conveyed by a lack of sufficiently consistent data. To this extent the following chapter will describe the evolution of the Anglo-German export trade to Brazil, thereby establishing a comprehensive statistical investigation as the basis for discussion. In doing so, it will trace the comparative growth patterns and changes in market shares. At the same time it will go on to identify and assess the importance of areas of comparative advantages as the underlying factors which determined overall performance. Largely discarding the quality of marketing at this stage, the focus will shift from circumstantial to quantative evidence as an indicator of relative competitiveness in terms of pricing and the ability to supply the market in accordance with changes in demand, both being criteria, which are reminiscent of the wider debate on the efficiency of Anglo-German industrial policies. On these grounds the analysis will be able to form a first judgement on the respective market penetration of British and German products. By breaking the conventional and possibly arbitrary time limit of 1914 used by Hoffman, Saul, Platt (8) and others the study will finally not only be relevant to an evaluation of existing views on the rivalry issue, but it will carry the same forward in to the much neglected 1920s.

The statistical material necessary to conduct this investigation has been mostly derived from official Brazilian sources published by the Servicio de Estatistica Comercial up to 1909/10 and later by the Departmento Nacional de Estatistica.(9) To overcome problems of discontinuity arising out of the reclassification of data, certain import categories, as defined in appendices VI - VIII, were constructed. In addition, both British and German publications were consulted so as to provide further detail on specific import items not identifiable in the Brazilian sources. While the latter has been translated into sterling thus avoiding distortions due to the volatility of the milreis, it must be borne in mind that European and Brazilian statistics are not compatible because valuations were undertaken on an FOB and CIF basis respectively. Furthermore, Brazilian statistics classified imports according to the last port of shipment irrespective of the initial origin. British and German entrepot trade, therefore, inflated Brazilian registrations.(10) The discussion of the material thus gathered will be divided into five parts. Following an opening survey of the general trend in total Brazilian imports between 1900 and 1928, the chapter will trace the growth of Anglo-German exports together with the resultant moves in market shares during this period. Their respective trade flows will then be analysed in detail, highlighting comparative performances in the major import categories prior to 1914. This will serve to determine particular areas of strength as well as their ability to conform to interim changes in market demand. A similar investigation will analyse the post war developments and compare their respective trade patterns with the pre-war period. Having explained the respective growth patterns in this manner, a concluding section will return to debate on commercial rivalry and formulate a final view on the outcome of the Anglo-German competition in the Brazilian import market.

I

The beginning of the twentieth century witnessed the end of a prolonged crisis in Brazil. Governmental efforts to set an end to the inflationary financing of its budget deficit and to stabilise the depreciating milreis entailed a severe contraction of the domestic economy.(11) Trading conditions had suffered accordingly, much to the chagrin of the merchant community which considered "business on the whole [to be] sickening".(12) After a 27% decline over the previous six years, imports finally reached a low point in 1901. The following year showed the first signs of trade recovery despite the fact that economic activity remained depressed, being further impeded by the large risks inherent in the volatility of the milreis.(13) The ground for a more substantial turn around in the economic climate was finally prepared by the government's initiation of the public works project in 1903.(14) Public investments in infrastructure and utilities, financed by domestic and overseas borrowing, caused imports to rise substantially. The impetus given to imports was simultaneously underlined by an appreciating exchange rate although much of the growth in trade was still directly related to government policies. This was reflected by the proportionately rising role of capital goods. Consul Bosanquet estimated that in 1907(15) imports of constructing materials for public works amounted to £18.47m., some 35% of total imports.

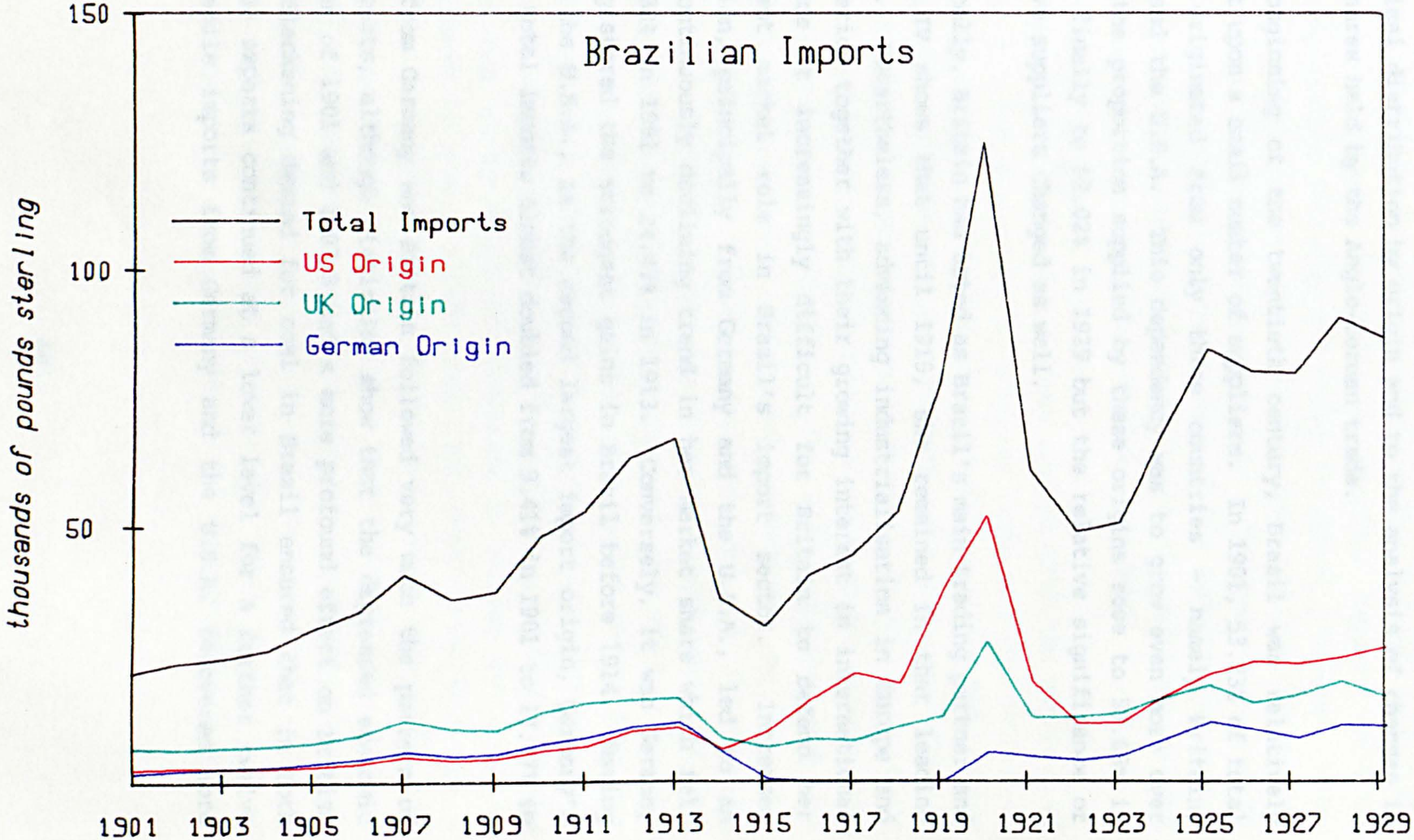
The impressive recovery in Brazilian imports faltered temporarily in 1908 when, as a result of the North American financial crisis of 1907, industrial production in Europe and the United States suffered a set back, while international demand for Brazilian coffee declined. Thereafter, imports once again rose rapidly. In money terms, values increased by 89% between 1908 and 1913 as compared with 67% between 1903 and 1907. The second period of growth was characterised by an acceleration of the official scheme to improve the country's infrastructure. Several ports were completed, facilitating imports, and the railway network was increased by a third of the trackage existing in 1907,(16) thereby improving the internal distribution of important goods as well as the flow of export products to the ports.

In view of Brazil's dependence on export earnings derived from coffee sales, which accounted for over half of export revenues between 1901 and 1910, a decisive variable allowing for the sustained growth in imports was the coffee valorisation initiated in 1906. Official purchases of surplus supplies accompanied by the stabilisation of currency by means of the issuance of monies backed by gold reserves through the Caixa da Conversão secured foreign exchange revenues, while protecting agricultural incomes in milreis from an appreciating exchange rate.(17) As coffee prices recovered export revenues increased by 48% between 1908 and 1912 and the terms of trade simultaneously improved by 67%.(18) Higher levels of overseas income, coupled with a steady rate of exchange thus enhanced market confidence and stimulated the import trade.

Total imports finally reached a peak of £67m in 1913, having more than trebled since the beginning of the decade. With the beginning of the foreign trade crisis that year, however, imports experienced a significant setback, to be further underlined by the outbreak of World War I. The sudden financial stringency in European money markets following the outbreak of the Balkan War (19) foreshadowed the end of the steady flow of credit to Brazil, leaving numerous firms and banks in an untenable position.(20) Declining demand in industrialised countries compounded the situation by leading to a drop in coffee and rubber prices(21) and, moreover, to Brazil's first deficit on the balance of trade for over a quarter of a century. The crisis finally reached its height in 1914 when the government recognised its inability to meet external obligations. The halt in capital inflows, together with a remittance of £10m in debt amortisations caused the collapse of the Caixa de Conversão and the exchange rate. The decline in imports continued until 1915, by which time they had fallen back close to the level of 1905. As exports finally recovered, on the basis of a diversification into basic foodstuffs,(22) total imports began to grow again slowly, albeit progress still remained impeded by the hostilities in Europe and, moreover, by a steady deterioration in the terms of trade. This trend was reversed in 1918 when a severe frost in Brazil damaged over a third of the coffee trees, curtailing world supply. Rising coffee prices, coupled with the short-lived but sharp demand recovery in parts of the industrialised world, boosted Brazil's exports to an all time high of £130m in 1919, thereby financing a pronounced revival in Brazilian imports during the same year. Yet such buoyant conditions were only of short duration as the situation changed drastically at the beginning of the 1920s. Speculation about a new bumper coffee crop (23) in 1920/21 and declining world demand led to a fall in coffee prices from £5.10/60 kgs. in 1919 to £2.19/60 kgs.(24) in 1921. Total export receipts fell to £58m in 1921. At first, however, declining exports concurred with a continuing upward trend in imports yielding a balance of payment deficit. As a result the ensuing devaluation of the milreis and a renewed deterioration in terms of trade led to a drastic cut back in imports in 1920/21.

Nevertheless, despite lower imports, substantial capital outflows in the form of debt repayments continued to depress the foreign exchange market. In an attempt to forestall a further deterioration of the balance of payments, the government resorted to new external borrowings to the extent of £38 m raised during 1921/22.(25) At the same time it reinstated its coffee valorisation scheme by purchasing 4.5 m bags, while limiting the entry of produce to the parts of Santos and Rio so as to disguise the extent of surplus stocks.(26) Institutionalising the coffee defence, the authorities were able to avert the consequences of a further record crop and prices were successfully stabilised at relatively high levels until the end of the decade. Similar to its pre-war efforts the government finally also engaged in a new exchange rate policy so as to dampen the volatility of the milreis. To this purpose, the sale of coffee receipts was regularised in a more balanced fashion, official purchases of currency were spread out in order to avoid the customary speculation in anticipation of heavy buying and a regulatory stabilisation fund, the Caixa da Estabilização, set up at the Banco do Brasil.(28) As a reaction to these reforms the milreis recovered from its low point in 1924 and, similarly, the terms of trade improved. As confidence returned, further underlined by a renewed inflow of foreign investment, the import business was steadily reactivated. Consequently, as illustrated by figure I, the average value of imports between 1923 and 1928 lay some 25% above the pre-war level, reaching a peak of £90.6 m at the end of the decade.

FIGURE I


Brazilian Imports
Total Imports
US Origin
UK Origin
German Origin
thousands of pounds sterling
150
100
50
1901
1903
1905
1907
1909
1911
1913
1915
1917
1919
1921
1923
1925
1927
1929

II

The foregoing outline of the broad trends characterising the movements of total imports into Brazil leads to the question of their geographical distribution by origin and to the analysis of changes in market shares held by the Anglo-German trade.

By the beginning of the twentieth century, Brazil was relatively dependent upon a small number of suppliers. In 1901, 53.23% of total imports originated from only three countries - namely Britain, Germany and the U.S.A. This dependency was to grow even more over time as the proportion supplied by these origins rose to 57.65% in 1913 and finally to 62.02% in 1929 but the relative significance of respective suppliers changed as well.

Traditionally, Britain had acted as Brazil's main trading partner and appendix IV shows that until 1915, she remained in that leading position. Nevertheless, advancing industrialisation in Europe and North America together with their growing interest in international trade made it increasingly difficult for Britain to defend her predominant market role in Brazil's import sector. Increased competition, principally from Germany and the U.S.A., led to an almost continuously declining trend in her market share which fell from 31.38% in 1901 to 24.47% in 1913. Conversely, it was Germany which registered the strongest gains in Brazil before 1914. Having replaced the U.S.A., as the second largest import origin, Germany's share of total imports almost doubled from 9.41% in 1901 to 17.47% in 1913.

Imports from Germany and Britain followed very much the pattern of total imports, although statistics show that the depressed economic conditions of 1901 and 1907/8 had a more profound effect on British trade. Slackening demand for coal in Brazil ensured that in both cases, her exports continued at a lower level for a further twelve months, while imports from Germany and the U.S.A. recovered more promptly. Otherwise, imports from all three origins rose steadily up to 1913 with British, German and American shipments having increased by £9.7m(145%), £9.7m(483%) and £7.9m(297%). Figure II, depicting moving average growth rates, highlights the differences in comparative performance. It is clear that, prior to 1914, the moving average for German goods continuously exceeded British rates, the acceleration in German as well as American imports becoming particularly evident following the trough in 1907/8. In other words, the proportionately higher rise in German trade was not confined to the early phase of competition, when such a performance was to be expected in view of the lower base value of her exports, but rather it developed into a persistent feature whereby the absolute increase in her pre-1914 turnover was matching that of Britain.

This steady advance suffered a serious setback with the outbreak of World War I. The disruption of shipping links and the subsequent blacklisting of her goods by the allies virtually eliminated Germany as a supplier. Contrary to expectations, this did not imply the complete removal of German business in Brazil. Consolidating their activities in internal affairs and inter-American trade, German banks continued to operate profitably. The Brasilianische Bank fur Deutschland, for instance, maintained a dividend of 8% until 1917,(29) when Brazil finally declared war on Germany.(30) Similarly, German merchants such as T. Wille traded until the same year. Even though business with Europe had come to a halt, they continued to deal with North America and further diversified into local enterprise. The Brazil house of Wille invested in a metalurgical scheme(31) and two textile companies, whereas Bromberg & Companhia had acquired majority interests in various textile mills and vegetable oil plants in São Paulo.(32) Other firms were able to escape the enemy blacklist by converting their enterprises into indigenous concerns and transferring shareholdings to Brazilian nationals. Although the trade with Europe was severely curtailed, institutional structures and marketing networks could thus be preserved to a large extent, forming the basis for a post-war recovery. The latter was facilitated by the fact that Brazil was one of the first nations to re-establish links with Germany in addition to which she refused to adopt a 50% optional import duty on German goods open to the allies.(33) Despite the obstacles imposed by the war and the reparation demands, by 1920 German exports to Brazil were already valued at a modest, although given the circumstances, impressive £5.9 m.

Trading conditions had changed considerably by this time. Having been cut off from German supplies and importing almost half the value of British goods purchased in 1913, Brazil had been forced to seek alternative sources to satisfy her import requirements. Given the hostilities in Europe, it had been natural for her to turn to the U.S.A., which was only too ready to expand its trade with South America.(34) U.S. imports into Brazil rose from £10.5m. in 1913 to £37.4m. in 1919, raising her market share to 47.85%.

American competition was clearly there to stay, to the detriment of the European suppliers. In the cement market, for instance, U.S. producers increased their share from 4.6% to 26.5% at the expense of Germany who had previously supplied almost half the Brazilian import requirements.(35)

In addition, a recovery of German trade was further distorted by currency factors as the mark was depreciating vis a vis the milreis. Initially its rapid devaluation actually represented an accidental competitive advantage for German goods, the average CIF values of which were far below those of her competitors. The following table, based on the calculations of Hambloch, the British Secretary at Rio de Janeiro, shows the average German price per metric ton to be 66% below British and 54% below American ones.

FIGURE II

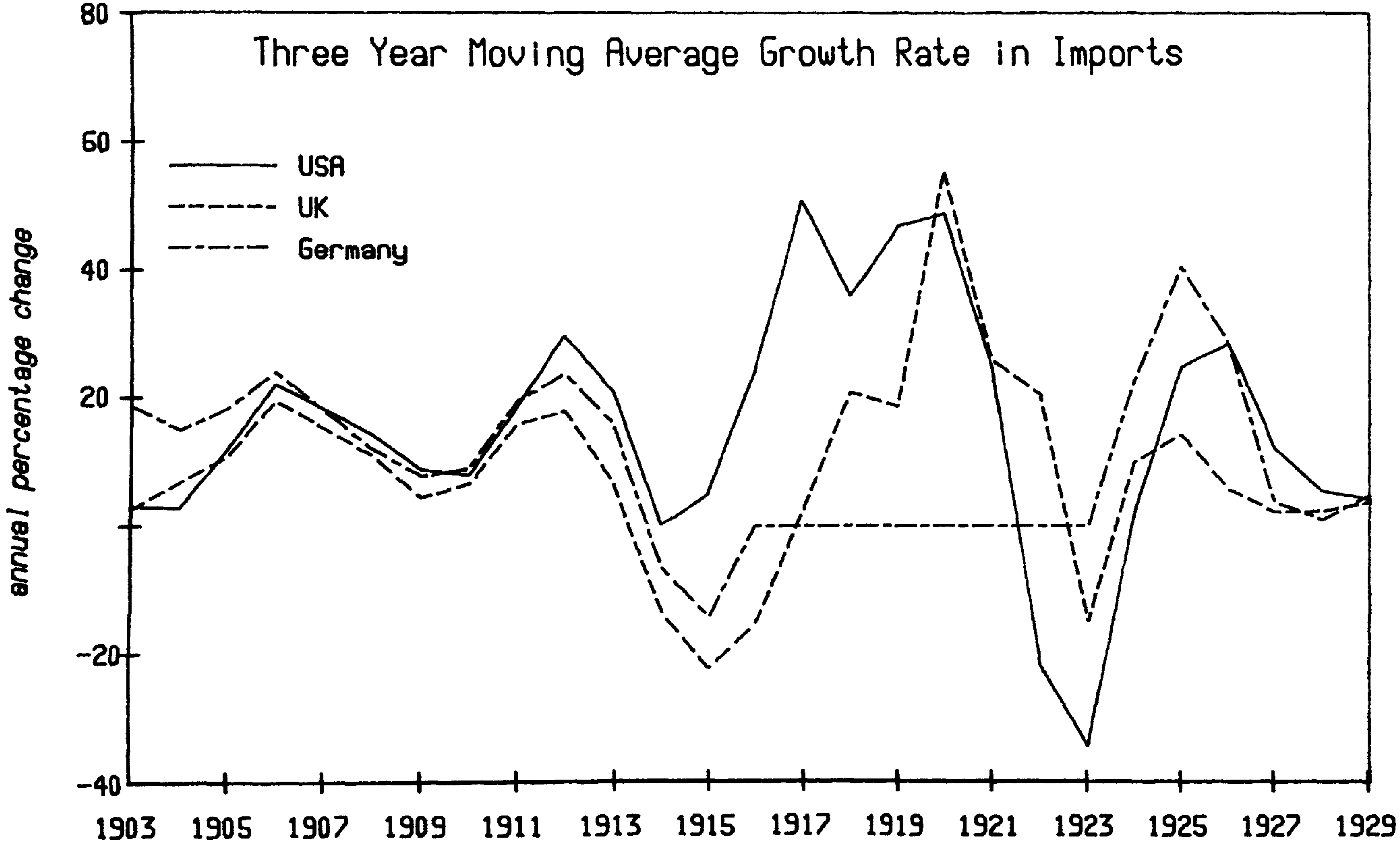

Three Year Moving Average Growth Rate in Imports
USA
UK
Germany
annual percentage change
80
60
40
20
-20
-40
1903
1905
1907
1909
1911
1913
1915
1917
1919
1921
1923
1925
1927
1929

Table 2.1 Totals and average CIF prices/MT for all articles in the category: Iron, steel, machinery and apparatus for 1922,

(£)

U.K.			U.S.A.			GERMANY		
Tons	Value £	£/Mt	Tons	Value £	£/Mt	Tons	Value £	£/Mt
51.938	3.372.300	65	73.922	3.560.600	48	74.300	1.620.100	22

Source: Department of Trade, Report on the economic and financial conditions in Brazil 1923/24, p. 43.

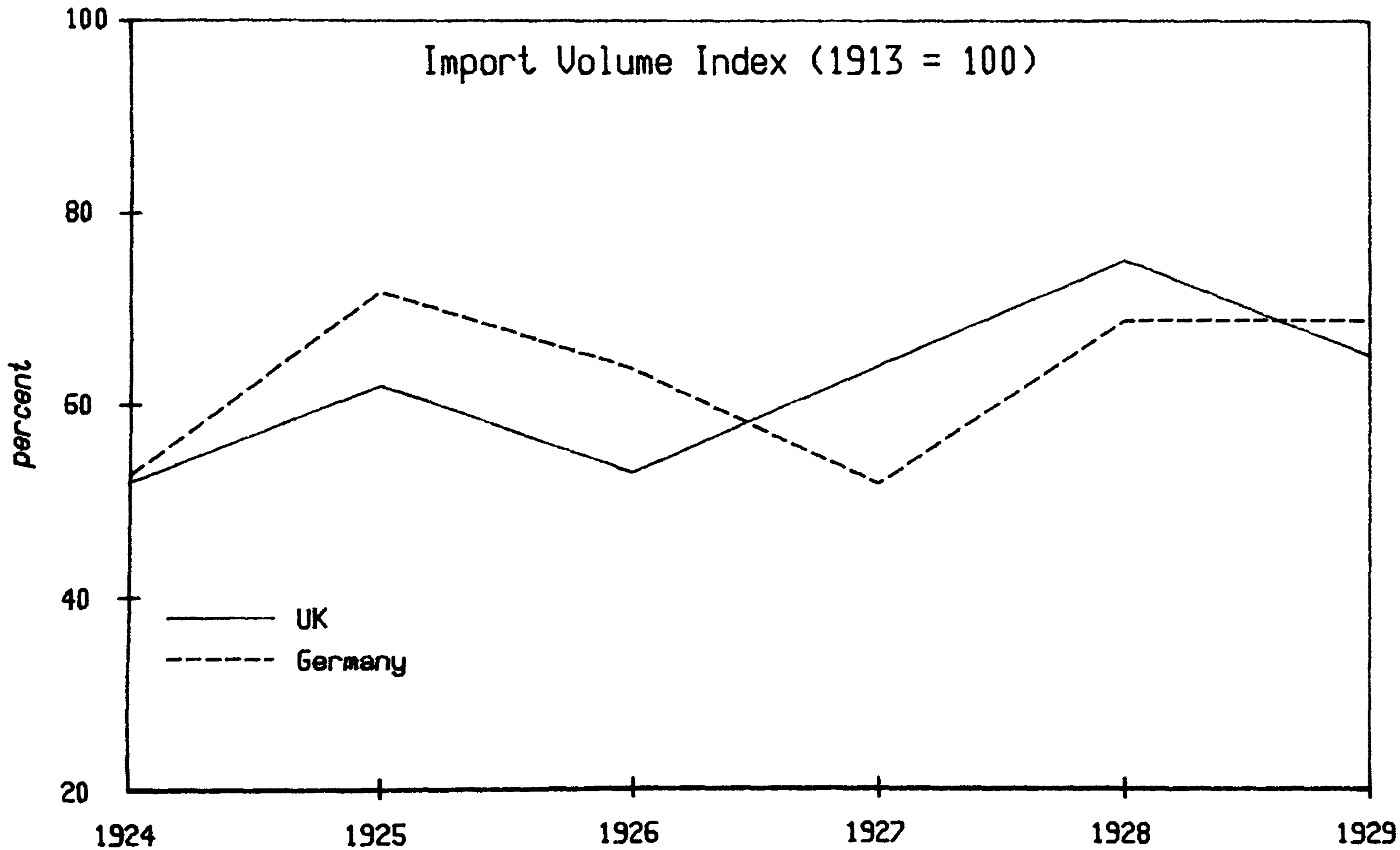
While the weak mark was the principal reason behind these differentials, part of the German price advantage may also have been due to the fact that goods produced immediately after the war were of inferior quality. In any event, such considerations only represented part of the picture since the fast eroding purchasing power of the mark made it increasingly difficult for manufacturers to procure the necessary inputs payable in hard currency. Profitability and production suffered accordingly. The ensuing effects were soon to be felt in Brazil and the association of German-Brazilian enterprises criticised the growing unreliability of German suppliers who cancelled supply contracts as the fixed sale price - in marks - could no longer compensate for the rising costs.(36) By the same token, sales on credit terms became untenable as the calculated interest factor was bound to fall below the loss in real value. Under these circumstances German trade remained hampered until the introduction of the Rentenmark in 1924.

Thereafter, exports to Brazil regained marked strength, rising by 41% in 1924/25 as merchants could exploit the fresh price advantages arising out of the rationalisation of home industry. Although, in money terms, average imports from Germany between 1925 and 1928 lay marginally above the average values of 1910-13, a renewed levelling off in trade prevented a consistent recovery and exports reached their pre-war peak only once in 1925. While reflecting a small decrease in the proportion of total exports directed to Brazil from 2% to 1.5%, it was obvious that her trade had lost ground in the light of America's competition and her average market share had been reduced to some 12.4% between 1924 and 1928.

British exports were also not left unscathed by the events of the war. The running of a war economy diverted substantial resources from the external sector and shipments to Brazil reached a low of £65m in 1915. In spite of the contraction in business, British officials considered the war as something of an opportunity to re-establish her previous stranglehold over the Brazilian market, since they hoped for a final elimination of German competition. Such optimism, however, was clearly subject to certain reservations, as consuls fully recognised the strong position and high reputation enjoyed by German business in Brazil.(37) They, therefore, cautioned British importers to do their utmost and to show a high degree of flexibility in order to properly exploit the situation.(38) Exports, indeed, staged a remarkable recovery rising from £12m to £27m in 1919/20. Yet the extent of this comeback was shortlived since the renewed depression in Brazil caused trade to fall back sharply the following year. Moreover, with the exception of 1922/23, American manufacturers permanently replaced Britain as the main import source. Her hopes of regaining the former position of supremacy were not fulfilled. Although nominally exports exceeded their pre-1914 level, the war did not have the anticipated stop-loss effect. On the contrary, it reinforced rather than halted the long-term drift in her market share, which failed to withstand the partial reinforcement of German supplies and the entry of American products. Despite an increase in total imports, the proportion consigned from Britain fell to an average of 21.5% between 1924 and 1928 as compared with some 26.7% between 1910 and 1913.

Finally, when undertaking an intertemporal assessment of import statistics it must be remembered that a considerable increase in European price levels inflated nominal export values during the post war period. In order to discount the inflationary impact post war values were deflated by the respective national export price indices.(39) As illustrated by the volume index, in figure III, measuring exports in constant, 1913, terms, neither party was actually able to achieve any real gains during the 1920s. Although the fundamental picture of comparatively higher British exports still prevailed, a proportionately greater increase in their prices implied that in real terms, German values represented 72% of British shipments as opposed to 57% measured in nominal terms. Consequently Germany's failure to recoup her relative position nominally was offset in real terms by virtue of a less inflationary price development. In either case the trends in aggregate imports provide sufficient support for a continuation of the Anglo-German rivalry beyond World War I. Whilst both parties lost approximately 5% of their market shares, German trade had not been eliminated as a competitor.

FIGURE III


Import Volume Index (1913 = 100)
percent
100
80
60
40
20
1924
1925
1926
1927
1928
1929
UK
Germany

III

Having established the growth pattern of total imports the analysis will now further investigate individual performances by studying the composition of the respective trade flows. To this end the following section will identify the major growth areas, which supported and determined the course of Anglo-German imports into Brazil.

Appendix V sets out Brazilian imports of raw materials (class II) and of manufacturing goods (class III) which on aggregate accounted for 62% of total imports in 1902. The balance can almost be solely accounted for by purchases of food-stuffs, the dependency on which fell over time, from 37% of total imports to 22% in 1913, as the agricultural sector in Brazil expanded and production diversified into other staple crops.(40)

For the purpose of this chapter, we shall concentrate primarily on imports of manufactured goods, which represented the focus of international competition between Britain and Germany. Nevertheless, in view of the not insignificant value of raw materials supplied by Britain, a brief look at same still seems warranted. Total purchases in this category more than doubled during the pre-war years, although proportionately, their share remained virtually stagnant. The main source of supply was Britain, who provided over 50% of the total raw material requirements in 1902, while Germany played but a minor role. By the same token, raw materials accounted for only 16-18% of total German exports to Brazil as compared with 38-39% of total British sales. The relative significance of this category for British exports to Brazil can be traced back to one single item, namely coal. Accounting for 6% of total imports into Brazil, it was the largest single raw material imported and of growing relevance as the major fuel for the expanding railway network. By means of long-term supply contracts between Brazilian railway companies and merchant houses such as Wilson & Co.(41) Britain had built up an impressive coal trade with Brazil, supplying 85% of her total requirements in 1913. Under these circumstances coal was of obvious importance for Britain, contributing no less than 20% to total export earnings.

Yet, as a result of the expansion of public work schemes, the growth in railways and the widening of Brazil's industrial base, the true potential for growth lay in the supply of manufacturing goods, the total value of which rose from £10m in 1902 to £37.5m in 1913, increasing its share in total imports from 43% to 56%. (see figure IV). Shipments from Germany and Britain grew by 353% and 146% to £9.4m and £9.5m respectively. Thus, while manufacturing imports from Britain were almost double those of her competitor at the beginning of the century, the latter's successful entry into the market rendered them virtually equal by 1913. This trend already indicates that Britain's overall lead in imports, amounting to £4.7m that year, was substantially dependent on coal. H.M. Consul Mark at Santos pointed this out in 1905 when he warned that in the absence of coal shipments, her superiority in the import trade was far less real than often assumed.(42) Conversely, Germany's strength appeared to be clearly linked to the manufacturing sector which continuously dominated her trade. In view of these developments in Brazil, there were also important shifts within her requirements for manufactures. At the beginning of the century these were still dominated by cotton articles which represented 28% of the total imported in this category. As a result of domestic industrialisation, further protected by a 50% import duty,(43) the relative growth of cotton purchases was declining steadily. As indicated by Table 2.2, non-traditional items such as iron, steel, machinery and electrical apparatus, on the other hand, experienced a significant boost as they provided the basic inputs for the modernisation of Brazil.

FIGURE IV

COMPOSITION OF IMPORTS INTO BRAZIL, 1902

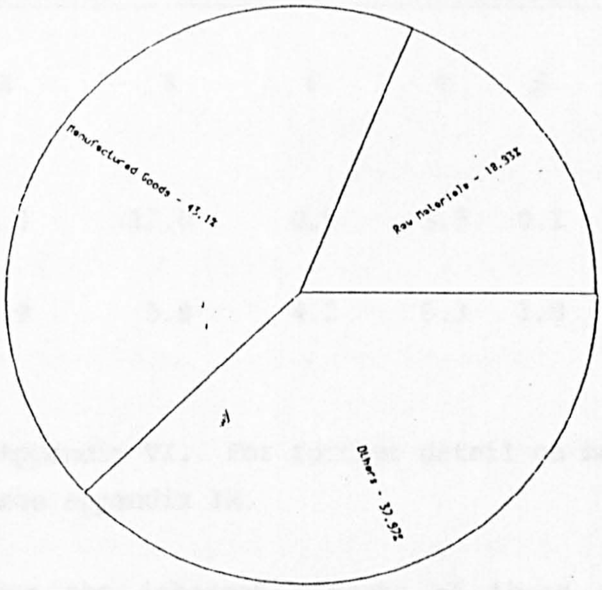


FIGURE IV

COMPOSITION OF IMPORTS INTO BRAZIL, 1913

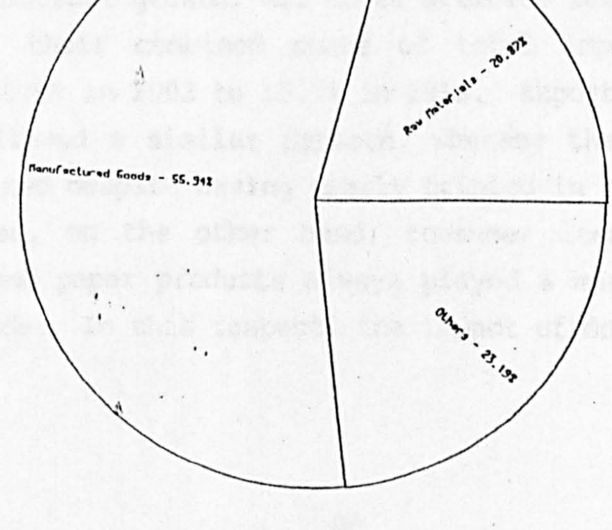


Table 2.2 Selected imports into Brazil

(£m : %)

	Cotton Articles		Machinery		Electricals		Iron/Steel	
	£	%	£	%	£	%	£	%
1902	2.8	12.0	0.9	3.8	0.1	0.5	1.4	6.0
1913	3.9	5.8	4.2	6.3	1.0	1.4	8.0	12.0

Source: Appendix VI. For further detail on manufacturing imports see appendix IX.

To analyse the inherent effects of these changes in demand, the discussion will now concentrate on the comparative composition of British and German exports as outlined in Appendices VII and VIII.

By the beginning of the century, German imports centred prominently on cotton textiles, which accounted for 16% of total exports to Brazil. At this stage, basic consumer goods such as woollen articles,' paper products, glass and earthenware still played a significant role in her trade. The progress made by the Brazilian infant industries, however, was soon to be felt by German exporters as it became increasingly difficult to compete with local production. In spite of absolute growth, all these articles fell back in relative significance, their combined share of total imports being nearly halved from 30.9% in 1902 to 15.7% in 1913. Exports of chemicals and medicines followed a similar pattern, whereby their share in total exports declined despite having nearly tripled in absolute terms. In Britain's case, on the other hand, consumer items such as glass, earthenware and paper products always played a marginal role in her Brazilian trade. In this respect, the impact of domestic competition was, therefore, negligible. Import substitution was much more visible in her textile business, which had traditionally represented Britain's largest single product range. In future, however, it was to offer little growth potential. As exports of cotton manufactures increased by merely 23% between 1902 and 1913, their share in total trade declined by 50%.

In light of these circumstances both competitors, and Britain in particular, had to study the market for alternative openings necessary to ensure a continued growth of business. Although, as will be shown in Chapter III, investments in local production facilities were premature at this stage, opportunities for expansion in trade were ample, since Brazil's industrialisation enhanced rather then limited the overall prospects for foreign suppliers. Imports of German machinery thus rose from £0.14m in 1902 to £1.2m in 1913.

While their initial growth was impeded by a discriminatory 15%, ad valorum import duty(44) favouring tax exempt American products, their selective abolition in 1907 encouraged German importers to market their goods more actively. Acknowledging the need to keep permanent stocks and to provide expert technical advice, they received strong support from home manufacturers which enabled them to upgrade their marketing capability.(45) Sales of sewing machines, for instance, trebled from £56,000 to £177,000 between 1909 and 1912, accounting for 37% of the total Brazilian requirement during that period.(46) Moreover, supplies of industrial machinery in general grew rapidly from £40.678 in 1906 to £367,530 in 1912. Table 2.3 shows that deliveries in this category were fairly well diversified in accordance with market demand.

Table 2.3 Selected imports of German industrial machinery

(£'000, average 1910-1913)

Textile	52	Printing	45
Metal working	56	Brewing	23
Woodworking	49	Refrigerator	18
Leather working	9	Internal Combustion engines	32

Source: Statistisches Jahrbuch des deutschen Reiches 1913 (Berlin,1914), passim.

Next to textile machines, apparatus used by the up and coming indigenous printing, metal and woodworking industries represented major items of significance. Exploiting buoyant demand conditions, German producers were able to raise their market share from 13.8% in 1906 to 31% by 1912, largely at the expense of British imports whose share dropped from 72% to 48%. Although British pre-war statistics do not reveal too much detail regarding her machinery exports to Brazil, they still indicate the strong role assumed by textile apparatus which accounted for 34% of total machinery shipments between 1910 and 1913.(47) In view of her expertise in this field, Brazil relied almost entirely on Britain for the equipment needed by her cotton industry. Conversely, the fortunes of the British machinery trade, having doubled during the decade, were closely related to the growing demand in this particular sector.

Outside the industrial market opportunities for Anglo-German exporters varied. According to Table 2.4, agricultural machinery was of little interest since Brazil's restricted demand was mostly satisfied by America. Contracts for the supply of railway locomotives and tractors, however, received relatively more attention and German manufacturers were able to raise sales above Britain's turnover.

FIGURE V

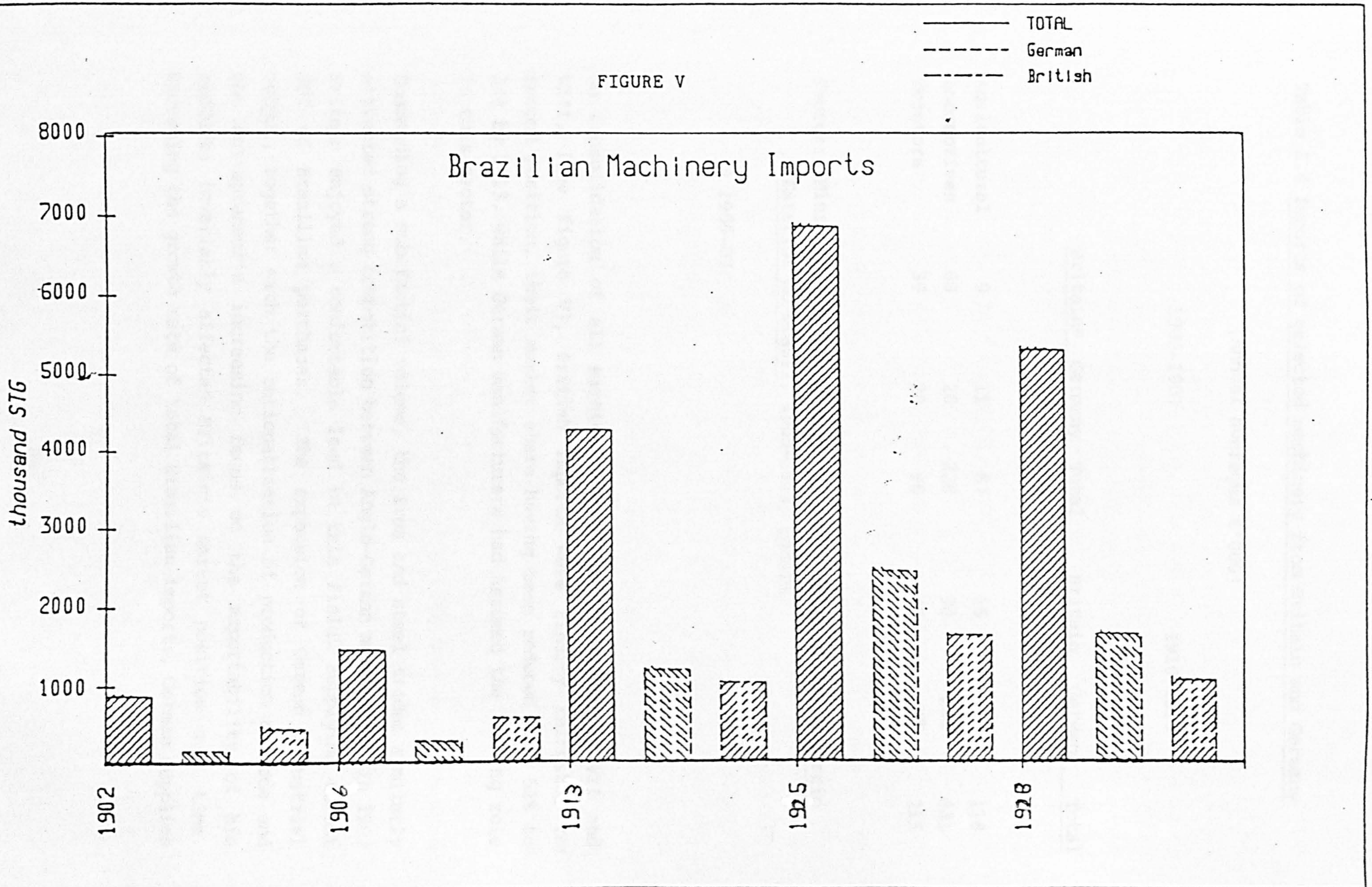

Brazilian Machinery Imports
TOTAL
German
British
thousand STG
8000
7000
6000
5000
4000
3000
2000
1000
1902
1906
1913
1925
1928

Table 2.4 Imports of selected machinery from Britain and Germany

(Annual averages £'000)

	1905-1907			1910-1913		
	Britain*	Germany	Total	Britain	Germany	Total
Agricultural	9	11	67	16	26	118
Locomotives	68	20	228	98	144	631
Tractors	39	20	96	47	85	215

Source: Ministerio da Fazenda, Servicio de Estatistica, Comercio Exterior do Brasil, 1905-1913, passim.

* 1906-07

On consolidation of all machinery types as in appendices VII and VIII, (See figure V), British imports were finally relegated to second position, their market share having been reduced from 52% to 24% by 1913, while German manufacturers had assumed the leading role in this sector.

Commanding a substantial volume, the iron and steel trades similarly attracted strong competition between Anglo-German merchants. In 1902 Britain enjoyed a comfortable lead in this field, supplying almost 50% of Brazilian purchases. The expansion of German industrial output, together with the rationalisation of production methods and the entrepreneur's increasing focus on the exportability of his products invariably affected Britain's market position over time. Exceeding the growth rate of total Brazilian imports, German supplies quickly enhanced their market share up to 1907 when the trade suffered a temporary set back.

To create additional revenue to fund its budget, the government decided to raise import tariffs on certain iron and steel products by 50% to 100%.(48) In addition, stagnating industrial production in Europe set a limit to exports. German exports of half finished iron products to Brazil fell from 45,000 MT to 26,698 MT between 1906 and 1908(49) and continued to decline until the following year, when, according to the secretary of the British legation, merchants lost substantial rail orders to American and Belgian competitors.(50)

While British exports, having been equally affected by these events, did not level out until 1910, German trade began an earlier recovery. As illustrated by figure VI, by 1913 it had finally assumed the dominant position as Brazil's largest source of iron and steel manufacturers, having grown over five times in value as compared to the tripling of British exports. This transition, however, was a gradual process which had manifested itself already, at the beginning of the decade. In 1900, the British Consul at Bahia noted the loss of barbed wire imports to American and German supplies.(51) Although he ascribed the decline in British products merely to careless packing by manufacturers at home, it was almost certainly also a function of prices. Ten years later changes in the supply pattern for wire imports were not unique to Bahia but covered total imports into Brazil. Between 1910 and 1914 Germany, therefore, supplied more than half of total wire imports. Table 2.5 demonstrates that in addition, German suppliers focused successfully on iron superstructure used for construction purposes, as well as rails and railway accessories. Including barbed wire, these three product lines accounted for 50% of total iron and steel exports which indicates a certain degree of specialisation in selective categories.

Table 2.5 Selected Iron and steel Imports,

annual average £'000

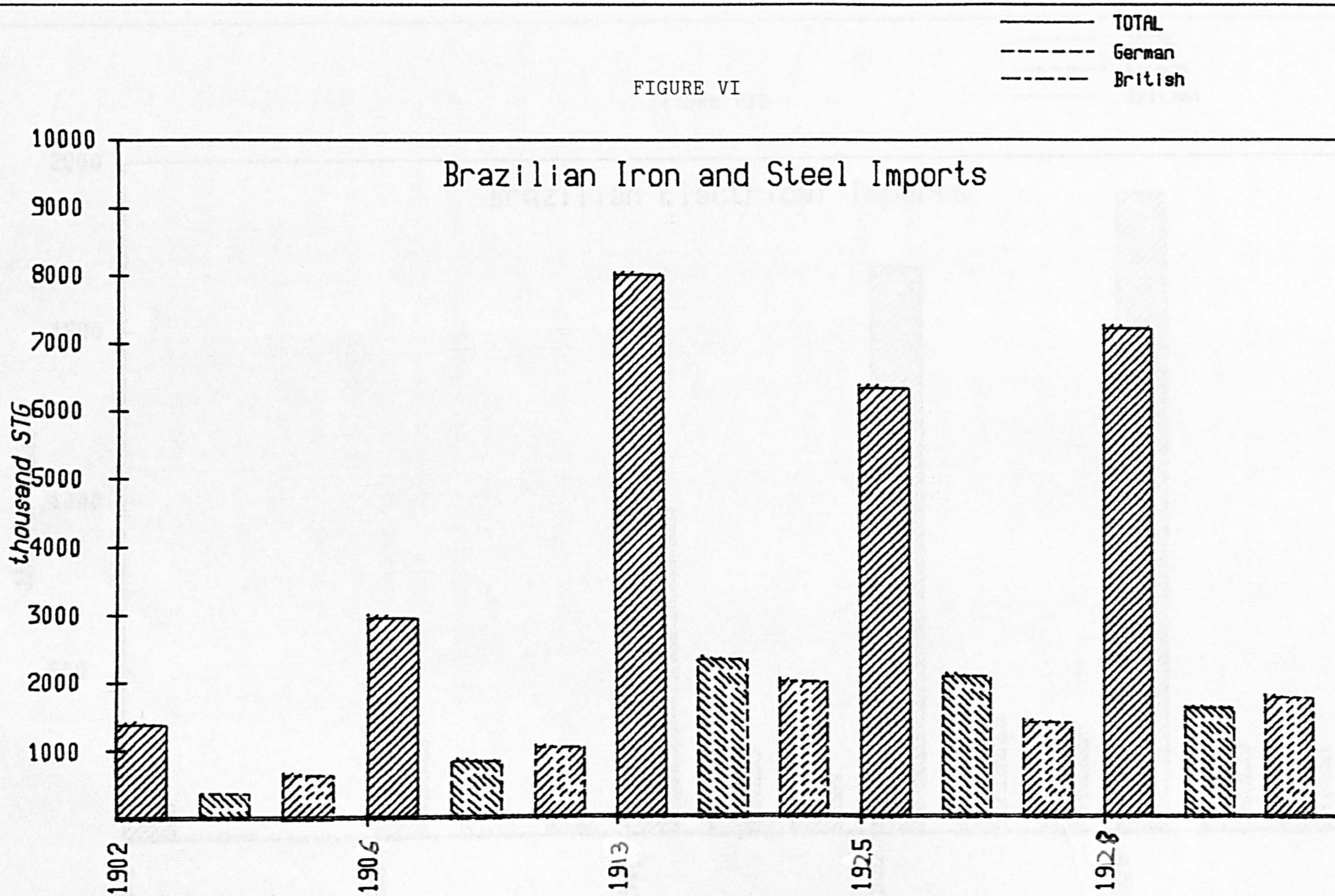
Average Years	Steel & Iron wire			Galvanised corrugated Iron sheets			Cutlery			Axles/Wheels for railway wagons			Tinplate sheets			Tubes/Pipes		
	G	UK	Total	G	UK	Total	G	UK	Total	G	UK	Total	G	UK	Total	G	UK	Total
1902-04	96	11	179	2	49	58	35	41	105	15	32	85	8	117	133	17	72	118
1910-13	289	48	523	19	247	315	109	63	236	49	60	199	7	299	348	193	295	665
1925-28	193	51	401	5	159	315	167	17	280	45	101	294	6	477	662	176	145	860

Table 2.5 contnd.

	Manuf. of enamelled Iron			Iron Superstructure for buildings			Rails fish plates railway accessories			Barbed wire			Unenumerated		
	G	UK	Total	G	UK	Total	G	UK	Total	G	UK	Total	G	UK	Total
1902-04		-			-		67	88	316		-		105	152	321
1910-13	80	12	100	242	120	634	250	155	1.720	110	4	379	271	341	804
1925-28	102	7	131	58	22	225	113	185	1.173	234	23	681	231	195	1.085

Source: Ministerio da Fazenda Servicio de Estatistica, *Comercio Exterior do Brasil*, 1905, 1914, passim; Ministerio do Trabalho, Industria e Comercio, Departamento Nacional de Estatistica, *Comercio Exterior do Brasil*, 1928, passim.

FIGURE VI


Brazilian Iron and Steel Imports
TOTAL
German
British
thousand STG
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
1902
1906
1913
1925
1928

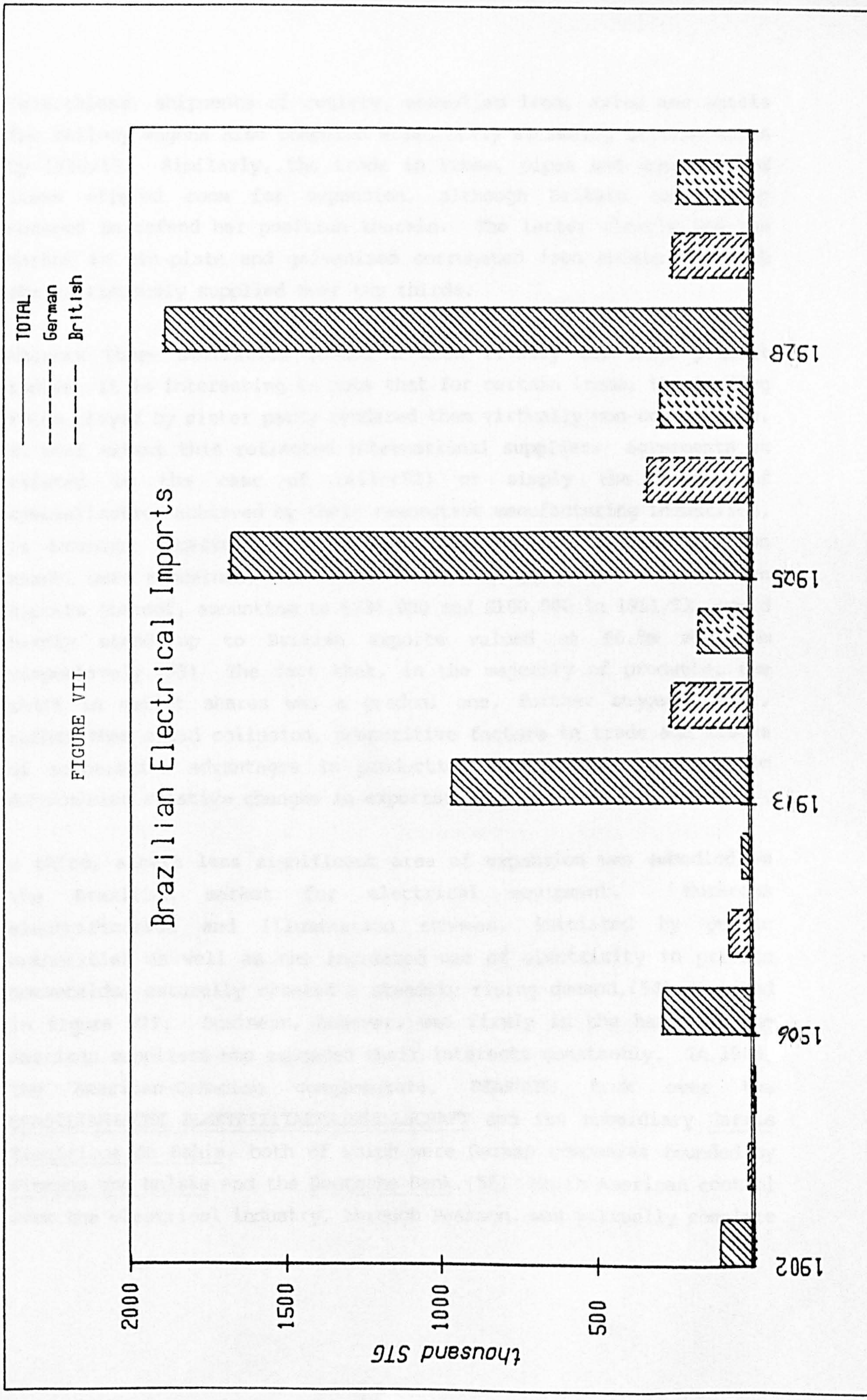


FIGURE VII

Brazilian Electrical Imports

Neverthless, shipments of cutlery, enamelled iron, axles and wheels for railway wagons also competed effectively exceeding British sales by 1910/13. Similarly, the trade in tubes, pipes and unenumerated items offered room for expansion, although Britain competently managed to defend her position therein. The latter clearly led the market in tin-plate and galvanised corrugated iron sheets of which she continuously supplied over two thirds.

Whereas these statistics reveal a keen rivalry for most product ranges, it is interesting to note that for certain items, the leading roles played by either party rendered them virtually non-competitive. To what extent this reflected international suppliers' agreements as existed in the case of rails(52) or simply the degree of specialisation achieved by their respective manufacturing industries, is somewhat uncertain. As far as tin-plate and corrugated iron sheets were concerned, the latter seemed to apply, for total German exports thereof, amounting to £236,000 and £100,000 in 1911/12, could hardly stand up to British exports valued at £6.8m and £8m respectively.(53) The fact that, in the majority of products, the shift in market shares was a gradual one, further suggests that, rather than rigid collusion, competitive factors in trade and issues of comparative advantages in production should have prevailed in determining relative changes in exports.

A third, albeit less significant area of expansion was embodied in the Brazilian market for electrical equipment. Numerous electrification and illumination schemes, initiated by public authorities as well as the increased use of electricity in private households, naturally created a steadily rising demand,(54) depicted in figure VII. Business, however, was firmly in the hands of the American suppliers who expanded their interests constantly. In 1905, the American-Canadian conglomerate, PEARSON, took over the BRASILIANISCHE ELEKTRIZITAETSGESELLSCHAFT and its subsidiary Carris Electricos de Bahia, both of which were German companies founded by Siemens and Halske and the Deutsche Bank.(55) North American control over the electrical industry, through Pearson, was virtually complete in 1912, with the amalgamation of the Rio de Janeiro Tramway, Light & Power Co., the São Paulo Tramway, Light & Power Co., and the São Paulo Electric Co.,(56) all of which worked almost exclusively with American supplies. Nevertheless, despite this strong influence, Germany succeeded in securing a share of this growing market. Electrical articles were largely channelled through the office of Siemens, founded in 1895.(57) To cater for markets outside the Rio area, the company had selected a number of representatives, German import houses such as Bromberg & Cia., which contracted their supplies, either from the extensive storage facilities of the Rio office or directly from Germany. The second largest manufacturers, AEG, on the other hand, worked exclusively through representatives until the establishment of a branch in Rio de Janeiro in 1912.(58)

Given the persistent efforts of Siemens and AEG, German exports grew from £22,000 to £262,000 increasing their market share from 20% to 27%. Conversely, British sales also claimed a greater proportion of demand, albeit exports, having risen to £172,000, continued to lag behind German supplies.

Having discussed the pattern of Brazilian imports in some detail it is clear that Britain's position suffered over time. There appear to be two reasons for this development. First it was a question of structural differences. Although Anglo-German exports underwent a similar restructuring in accordance with the changing market requirements, the outcome by 1913 was different. While German exports were now concentrated on iron, steel goods and machinery, accounting for one third of her total Brazilian trade at the expense of woollen and textile articles, the latter two still played an important role in British trade. Their combined share fell only marginally behind the less conventional product lines. Hence Britain was affected worst by the evolution of an indigenous cotton industry. Yet despite the obvious growth limitations she was unable to move sufficiently into the fast growing machinery, iron, steel and, to a lesser extent, the electricals sectors where, according to Table 2.6, Germany was steadily gaining ground.

Table 2.6 Anglo-German Market shares of selected imports into Brazil (%)

Britain

	Iron & Steel and manufactures thereof	Machinery	Electrical Goods
1902	46.40	51.90	10.00
1913	25.04	23.70	17.70
1925	22.15	23.60	17.83
1928	24.73	20.04	12.84

Germany

	Iron & Steel and manufactures thereof	Machinery	Electrical Goods
1902	25.20	16.40	20.00
1913	29.15	28.16	27.00
1925	32.86	35.85	20.20
1928	22.55	31.13	13.79

Source: Appendices VII and VIII.

In other words, as Brazil imported increasingly more manufactured goods outside the traditional cotton sector, the relative loss of opportunity incurred in the latter by Britain, could not be compensated for by additional sales of alternative goods. Germany, by contrast, was better equipped to diversify into the new sectors. Given her traditional bias towards manufacturing goods she was, therefore, able to exploit changes in demand to her advantage and to increase her share in total imports as a result.

Secondly, Britain seemed unable to compete effectively within these categories as she was almost consistently replaced as the market leader. The reasons behind this trend may have been partially rooted in her marketing organisation. Whilst this will be explored in the following chapter on the merchant houses, her performance also reflected some widely discussed observations on Anglo-Geman industrial development. Namely Britain did not substitute the declining staple sectors with new industries, thereby failing to comply with a necessary condition for growth in view of the international diffusion of technology within Europe and also on the periphery.(59) Moreover she was comparatively slow in exploiting new technologies at the expense of productivity and price competitiveness. As a consequence, British manufacturers commanded a declining share of world trade and Brazil proved to be no exception to this trend.

IV

Success in competition was thus determined by the ability to adapt comparative advantages to market demand and to show flexibility. The possibility to exercise these criteria was removed by the events of World War I, which deprived Brazil of its major supply sources.

For a number of economists the severence of the traditional external links represented more than just a temporary phenomenon. Instead they considered it to be an important watershed in the country's economic development because the reduction in foreign competition allegedly enabled domestic industry to progress significantly. If this was the case, the war could have had far-reaching consequences for foreign trade, since the novo surto industrial conceptualised by Normano and Simonsen and later reconfirmed by a series of writers including Baer, Prado, Fanganiello and Frank,(60) would have given rise to stronger domestic producers and potentially smaller outlets for foreign suppliers.

Although the topic of industrialisation lies beyond the scope of this thesis, its implications still have a direct bearing on the further evolution of Anglo-German trade and require some brief consideration.

The obvious question to ask in this context is - by what means did industry progress? Given its infant stage, it had to rely crucially on external supplies of inputs. Hence by postulating a positive relationship between the country's main foreign exchange earner, coffee, and industrial growth, Warren Dean argued that the war, with its adverse effect on international coffee prices, could not have been of any benefit. In view of the decline in imports of fuel, raw materials and machinery - all of which would have been necessary for industrial expansion, Dean concludes that "the challenge to industry posed by World War I, therefore, seems to have consisted mainly in the maintenance of equipment and production rather than in the expansion of domestic outlets".(61) Research by Villela and Suzigan substantiates this view by showing that indicators of industrial capital formation such as domestic steel and cement consumption and industrial investment itself fell off during the war period.(62)

More recently, Suzigan formalised this hypothesis when a regression of export revenues against industrial investment yielded a positive relationship.(63) Although a direct association between exports and industrial capital may still be questioned by some,(64) it seems that an income elasticity and a foreign trade multiplier of greater than unity would have translated the demand stimulus derived from export growth into domestic production gains.(65) Conversely, given that average export earnings during the war dropped by about 18.5% as compared to the 1910-13 level, the prospects for industrial expansion seemed remote. Indeed Suzigan maintains that the annual growth rate of industrial production fell from 9.1% between 1908 and 1913 to 4.4% during the war years.(66) Whereas recent research does not deny an expansion of industrial output during the war, on balance it seems that growth rates were smaller than assumed and furthermore, that they were largely linked to the utilisation of spare capacity rather than new investments.(67) Industrialisation should therefore be viewed as a continuous process having begun before the war. A war which in itself was not particularly stimulating to industry and more importantly, for the purpose of the present analysis, it was not particularly conducive to any large-scale import substitution. Under the circumstances, it is not surprising that manufacturing goods reclaimed their share of total imports as early as 1920.(68) In general, foreign products re-entered the Brazilian market unhindered by domestic industry, the value added of which was still mostly confined to the production of basic consumer items and the food processing industry.(69)

In broad terms, the subsequent recovery in imports continued to follow the pre-war pattern. According to Table 2.7 capital goods and raw materials claimed a growing percentage of the trade contrary to consumer items, the share of which declined proportionately due to increasing domestic competition.

Table 2.7 Import by type of Commodity
(% average for period)

	1901-10	1911-20	1920-29
Consumer goods	35.2	27.0	20.8
Fuels, lubricants	8.2	12.5	11.5
Raw Materials	47.1	50.5	53.7
Capital Goods	8.8	10.1	14.0

Source: A. Villela and W. Suzigan, Government Policy and the economic growth of Brazil 1889-1945, (Rio de Janeiro, 1975), p.128.

Characteristically, Brazil's ability to compete with foreign suppliers improved at a time when international trade re-opened, permitting the import of necessary equipment and inputs. Albeit there was an exception to this trend. Imports of cotton articles experienced positive growth rates, rising above the pre war level since an appreciation of the *milreis* and a concurrent decline in sterling prices brought about a reduction of the internal price of imports. In real terms prices of foreign cotton products fell by 50% between 1923 and 1926, allowing overseas producers to compete favourably with domestic industry.(70)

In order to consider the extent to which Anglo-German commerce adjusted to these changes we shall now continue the structural survey of the respective trade patterns. Specifically it will be of interest to investigate the basis on which German business re-established itself and to seek out any potential alterations in the character of competition with Britain.

Appendix VII indicates that basic consumer items continued to play a marginal role in imports from Germany. By 1925 cotton and woollen manufactures had been relegated to a minor position, representing merely 2.7% of total exports by the end of the decade. The downward movement in her textile trade, observed during the pre-war years, had been reinforced as merchants virtually abandoned this sector. Britain, on the other hand, moved in the opposite direction. Her cotton exports were revitalised under the protection of relative price shifts. Although in real terms measured in 1912 prices,(71) sales lay some 16% below the pre-war level, nominally exports had increased by 74%. As a result, the share of textiles in her total exports rose back to about 20%, which represented two thirds of Brazilian textile imports.

A further break with the past could be detected in the iron and steel trades. In the case of Germany, exports declined in absolute and relative terms, thereby reversing the previous upward trend. In large measures this was the outcome of two distinct developments. First, American producers had successfully expanded their presence in this market, and second, total Brazilian iron and steel imports remained below the pre war level in view of changes in demand as well as supply. Internal demand fell off. As seen in Table 2.8 the railway network, for instance, was being extended at a slower rate during the 1920s.

Table 2.8 Railway trackage in Brazil

(Km)

1900	1910	1920	1930
15.316	21.466	28.556	32.478

Source: Deutsche Überseeische Bank, - Festschift, (Berlin, 1936), p.140.

Supply conditions, on the other hand, were altered since Brazil's national iron industry, protected by heavy duties, slowly had an impact on imports. Some semi-finished iron products, cast iron and even turbines, were being produced in Rio de Janeiro, Sao Paulo and Porto Alegre, enabling consumers to switch to national products.(72) As total imports of iron superstructure and rails/railway accessories remained far below the values imported before the war, German supplies had declined accordingly. The decreasing role of German railway goods became even more pronounced when a slow recovery made by German suppliers came to a halt in 1925 as a result of increased competition. British sales of rails and accessories rose from £76,000 in 1925 to an average of £221,000 during the following three years, whereas Germany's turnover dropped from £263,000 to an average of £64,000.

Brazilian procurements of iron and steel wire, Germany's other conventional stranglehold, also fell off during the 1920s for demand shifted towards barbed wire, which was largely of American origin. Although German importers supplied around half and a third of both articles from 1924 onwards, the change in demand did not appear to coincide with their manufacturing pattern. Equally, sales of axles, wheels, tubes and other items all staged a recovery during the latter half of the decade, but still failed to attain their pre-war values despite relatively more buoyant demand in these categories. Finally, only imports of cutlery and enamelled iron showed an increase in excess of earlier values, albeit in the overall context this proved to be of minor significance. By 1928 German iron and steel exports had fallen to £1.6m, some 30% below the pre war peak.

Britain, on the other hand, continued to maintain her position in corrugated iron and tin-plate sheets, supplying 51% and 73% of total demand. Although she benefited from a general increase in tin-plate imports, on the whole, British manufacturers had also suffered from demand cut-backs and American competition, causing particular losses in tubes, pipes and other articles.

Yet, contrary to Germany's experience, her imports already reached their lowest point in 1925, subsequently regaining lost ground on the basis of larger rail shipments, which finally granted her a 2.5% lead over her competitor's market share.

Despite these changes in Brazilian demand, there were strong signs of continuity. In light of the growing emphasis on capital goods, procurements of machinery had risen by over 60% to a peak of £6.8m in 1925. While a subsequent decline in the demand for textile equipment resulted in a reduction in turnover, total imports still remained above the pre war level. This trend was of significant benefit to Germany because it offered the opportunity of an offset to the concurrent decrease in the metals business. In money terms, sales of machinery doubled between 1913 and 1925 which equated to an increase of close to 50% at constant prices.(73) During the following years exports continued in excess of pre-war values in spite of a fall back in line with reduced demand.

Given the renewed competitiveness of the increasingly important capital goods industry at home, the recovery of Teuto-Brazilian trade was most pronounced in the machinery trade. Enhanced credit availability from manufacturers simultaneously enabled merchants to expand storage facilities and to restore supplies of spare parts.(74) The renewed ability to grant credit to Brazilian customers in a stable currency environment further assisted marketing efforts.

Secretary Hambloch reported a £500,000 order for locomotives and wagons, secured by Germany on the basis of a five year credit.(75) By means of such incentives, the average value of locomotive exports rose from £144,000 between 1910 and 1913 to £399,000 between 1925 and 1928, further outpacing British sales which had increased from £98,000 to £154,000. At the same time, industrialisation continued to be a stimulus for the import trade. As seen in Table 2.9, Germany's progress was most visible in the marketing of textile and metal working machinery and, to a lesser extent, in the equipment required by the wood, leather and refrigeration industries.

Table 2.9 Selected exports of German industrial machinery
Annual average 1926-28,
(£'000)

Textile	285	Printing	69
Metal Working	108	Brewing	21
Wood Working	70	Refrigeration	37
Leather	37	Internal combustion engines	67
Cranes & hoists	78		

Source: Statistik des deutschen Reiches, Vol.366 Nos. I, II Der auswärtige Handel Deutschlands, (Berlin, 1929), passim.

Consequently, sales of industrial machinery recovered markedly, rising above the previous peak to an average of £236.000 between 1926 and 1929, when she became the largest supplier of industrial apparatus, outside the textile sector.

Table 2.10 Average values of imported industrial machinery and market shares

(£'000,%)

Period	1922-24		1925-29	
	£	%	£	%
Germany	169.0	27.0	236.3	28.7
Britain	177.0	28.6	209.0	25.7
U.S.A.	142.0	22.9	154.5	18.7
Total	618.0	100.0	824.5	100.0

Source: Ministerio do Trabalho, Industria e Comercio, (Rio de Janeiro, 1930), Departmento Nacional de Estatistica, Comercio Exterior do Brasil 1929, passim.

Britain also benefited from these developments, although the impact was selective and limited in time. British statistics indicate that by 1925, textile apparatus accounted for 61% of total machinery exports to Brazil. Apart from sugar refining equipment, other industrial machinery was left to play but a negligible role.

Table 2.11 Selected exports of British machinery Annual average 1926-28,

(£'000)

Textile	593	Railway/tramway motors	42
Metal Working	21	Boilers	36
Wood Working	10	Internal combustion engines	46
Sugar refining	64		
Cranes & hoists	70		

Source: Annual Statement of the Trade of the UK with foreign and British Countries 1928, Vol.III, passim.

The Anglo-Brazilian machinery trade was highly dependent upon the indigenous textile industry, the rising demand of which ensured a significant growth in sales up to a peak of £1.3m in 1925. Subsequent difficulties of local industialists to compete with foreign textiles, however, curtailed the demand for new equipment. Consequently, by 1928 Britain's exports had fallen back virtually to the pre-war level, entailing a real decline of 35%.(76)

Disparative performances were in part a function of the product mix and its degree of diversification. This may reinforce the earlier observation, that Anglo-German competition was not solely determined by pricing and marketing, but also a reflection of the accumulated experience and pattern of specialisation of the supplying home industries.

Table 2.12 Selected British/German machinery exports total world wide

Annual average of total 1926-28,

(£'m)

	Germany	Britain
Textile	2.6	11.0
Sewing Machines	2.5	0.2
Wood working	0.8	0.3
Leather working	0.6	0.2
Cranes, hoists	1.3	1.7
Metal working	5.8	1.6
Locomotives	1.5	3.7
Combustion engines	2.1	3.4

Source: Annual statement of the Trade of the UK with foreign and British Countries, 1928, Vol.III, passim; Statistik des deutschen Reiches, Vol. 366 Nos. I, II, Der auswärtige Handel Deutschlands, (Berlin, 1929), passim.

The above Table shows that Britain was simply not a prominent exporter of wood and leather working machinery and could, therefore, hardly build up a presence in these fields. Conversely, her position in textile equipment gave her an obvious advantage over Germany, the focus of which on sewing machines, secured her a position unchallenged by Britain.(77) In other words, each competitor maintained a particular niche in the market. Yet in the case of the other listed items, it appears more hazardous to suggest any natural advantages. Given that both sides exported sizable values, they should have equally competed for a share of the international market and differences in exports to Brazil were more likely to be determined by their respective competitiveness.

The remainder of machinery imports consisted of a wide variety of unenumerated items, which remain unidentifiable in both Brazilian and European statistics. Although on disaggregation, the results would vary from article to article, Table 2.13 re-emphasises that in this quantitatively substantial

Table 2.13 Average value of unenumerated machinery imports and market share

(£'000, %)

Period	1910-13		1922-24		1925-29	
	£	%	£	%	£	%
Germany	429.0	25.0	607.0	35.6	862.0	32.8
Britain	440.0	28.0	318.0	18.6	390.0	14.8
U.S.A.	481.0	28.6	495.0	29.0	867.0	33.0

Source: Ministerio do Trabalho, Industria e Comercio, Departmento Nacional de Estatistica, Comercio Exterior do Brasil 1929, (Rio de Janeiro, 1930), passim.

category, German products gained both absolutely and relatively to the detriment of British imports. In light of the above trends, the former had succeeded in claiming over a third of the total Brazilian machinery market, while Britain's performance continued to be relatively weaker, eventually falling victim to its skewed supply pattern, which caused her total market share to drop to 20% by the end of the twenties.

Outside the major product lines discussed thus far, imports of chemicals and electrical goods finally deserve a mention to complete the structural survey of the Anglo-German rivalry. Gaining in relative importance, German sales of chemicals rose from £380,000 to £548,000 between 1913 and 1928. Specific products, such as dyes, proved to be particularly successful because of the price advantages enjoyed by the large scale production units established by Bayer and other manufacturers.(78) Nevertheless, total exports of drugs and chemicals had still lost part of their previous market share and fell behind steadily increasing imports from Britain. The early gains registered by imports of electrical goods from both origins, on the other hand, were largely renounced during the late 1920s. Although sales of electric motors, electric and lighting machinery continued to grow at a reasonable rate, it was clear that Brazil's growing demand was increasingly being satisfied by the United States.

The foregoing analysis of post-war Anglo-German trade conveys two major findings. Firstly, Germany's partial recovery on the Brazilian market was firmly linked to capital goods. Iron, steel and machinery accounted temporarily for as much as 40% of total exports. In accordance with local demand, their respective importance had been interchanged, whereby iron and steel supplies still kept a competitively important market share. A well diversified spectrum of machinery exports was able to benefit from local industrialisation irrespective of the subsequently sluggish demand of the leading textile sector. The concurrent move away from consumer articles underlined both a continuation of the changing export pattern already observed prior to the war as well as of her tendency to match alterations in Brazil's import requirements. While the latter was also the outcome of the frequently commented upon conscious efforts of her merchants, the fundamental reason behind this perceived flexibility lay in the simple coincidence of shifts in Brazilian demand and German industrial production. Both tended to favour products of the newer industries and with the exception of electrical items, this constellation benefited the reinstatement of German imports.

By contrast, Britain's trade pattern diverted from its pre-war course. By virtue of a highly specialised character, British machinery sales declined in absolute terms and their share in total exports became smaller compared to that at the beginning of the century. Instead, her trade reverted back to staple products, securing the continued export growth. Iron and steel manufacturers regained some of their earlier importance but more importantly, there was a distinct shift back towards textiles. Yet, rather than being a function of increased demand, this represented a substitution of domestic with foreign products.(79) Exploiting relative price shifts, Britain's market position, therefore, moved to a renewed dependency on cotton and woollen goods as well as coal.

V

Having followed the development of Anglo-German exports from the beginning of the century until 1928, one recognises the extent of their continuous competition on the Brazilian market. As German industry was increasingly orientated towards international trade, producers encroached on practically all spheres of British manufacturing sales. Over time, their rivalry had crystalised most visibly in the non-consumer goods sector. Before reaching a final conclusion, however, on their comparative performances, it is necessary to assess Professor Platt's hypothesis of a voluntary British withdrawal as the main factor underlying her declining market share.

At a general level, this argument raises the issue of the relative importance of exports per se for both the German and British home economy and, therefore, the latter's supposed ability to forego certain markets. It was already seen in the discussion of Germany's economy that industry seemed to rely considerably on exports as an outlet for surplus production and that the need to spread fixed costs encouraged an active drive on to the world market. The fact of being a relative late-comer also necessitated further efforts to break down existing barriers of entry. Germany then had "good reason" to compete(80) for Latin America, although it should equally be borne in mind that her considerable influence in East and South East Europe rendered the cited lack of colonial outlets and the associated need to search for alternatives less pressing. In any event, one should ask whether this implied that exports were less relevant to the British producer, particularly during the 1920s when problems of spare capacity plagued the staple industries.

Table 2.14 Proportion of domestic output of manufactures exported

%

	Britain	Germany
1899	42	31
1913	45	31
1929	37	27

Source: A. Maizels, Growth and Trade, (Cambridge, 1970), p.223.

The above Table appears to indicate the reverse. Britain constantly exported a higher percentage of her manufacturing production, almost half by 1913. In the case of cotton, a leading export item, the ratio was as high as 75% in 1913. In view of this export dependency, a deliberate neglect of Latin America seems hardly affordable and unlikely unless, of course, it was an unattractive market, worth little consideration.

Again, this view cannot be left unchallenged. While some of the smaller republics may have offered little opportunity for trade, the majority of the continent represented by Argentina, Brazil, Chile, Colombia and Mexico,(82) together with the main Empire markets, formed part of the group of semi-industrialised countries which was the fastest growing import market before 1914. During the two pre-war decades, manufacturing exports to this group rose by 14 7%.(83) Exports to Brazil, on the other hand, rose by 27 6%. In absolute terms, the South American main consumers were also not markets which could easily be ignored and their size compared reasonably well with the larger Empire markets.

Table 2.15 Total Imports from U.K. into selected countries in 1913
(£ m)

	£ m		
British India	125	Brazil	67
Australia	78	Argentina	77
South Africa	43		

Source: Accounts relating to the Trade and Commerce of certain foreign countries and British possessions - 1914, passim.

Moreover, the fact that 20% of total British foreign investment, some £750m in 1913, was located in the American sub-continent alone should have offered sufficient opportunity for industry.

A simple comparison of the geographical distribution of British and German exports further challenges Platt's argument since the former continuously maintained a closer link with South America and Brazil. The proportion of Britain's total exports destined for this market did indeed rise relatively faster and conversely it declined at a slower pace following the war.

Table 2.16 Proportion of Anglo-German exports to Latin America and Brazil

%

	Germany			Britain		
	1900	1913	1928	1900	1913	1928
Latin America	5.0	8.0	7.6	8.8	12.8*	10.6
Brazil	0.9	2.4	1.9	2.3	3.1	2.7

* - exports during 1910

Source: W. Schlote, British Overseas Trade from 1700-1930, (Oxford, 1952), p.157; W. Woodruff, Impact of Western Man, (New York, 1961), Table VII pp. 14 and 17; Wirtschaft & Statistik, (Berlin, 1929), p. 203.

Finally, British exports to Brazil increased by 145% between 1900 and 1913, while sales to the profitable markets of India and Australia grew by about 127% and 75% respectively.(84) None of the above, therefore, seems to indicate a lack of interest or a move away from Brazil. Rather the opposite may have applied, which does not appear surprising in view of these growth rates. Even though its vast interior was still under-developed, Brazil was no longer typical of a cheap and unsophisticated market. It maintained a sizable trade surplus, in addition to which it was one of the larger borrowers on the European financial markets. In terms of credit risk and liquidity it appeared free of the stigma of a poor under-developed country,unable to finance its growth potential. The latter was visibly underlined by the large public utility schemes and the advance of industrialisation. Although cheapness was still a priority, imports did clearly move away from showy, low quality items towards more demanding capital goods. In summary, there was sufficient room for development outside the "muck and truck trade"(85) shunned by British merchants and conversely, their alleged voluntary move up-market did not free them from competitive pressures. On the contrary, the statistical investigation showed that the Anglo-German competition was strongest in the capital goods sector, where Germany proved to be more successful.

Simple disinterest on the part of any merchant was then unjustified and irrational, particularly in cases of companies whose entire existence and expertise was based on Brazil. Whilst the Dominions were undoubtedly a profitable and easier market, in view of the natural preferences granted to Britain, Brazil still offered attractive opportunities. Even Professor Platt had to admit that "British engineers and industrialists were making increased efforts to hold on to the promising trade in engineering and associated goods."(86) Similarly, if Brazil was really perceived as being a waste of time, then why did the British government feel it necessary to commission the d'Abernon enquiry into the state of commerce in the more prominent parts of Latin America at the end of the twenties?

If there were still firms withdrawing from the market because of the severity of competition and their dislike of newly introduced business principles,(87) that decision reflected a basic unwillingness to change and an implicit admission of their inability to stand up to a faster pace of business. Under these circumstances, the line between a voluntary or a forced move to the comforts of the Empire becomes increasingly blurred.

Consequently, as far as Brazil was concerned, Platt's hypothesis appears doubtful and the republic should be reinstated on the list of truly competitive markets. As somewhat ironically pointed out by Gravil's analysis of the Anglo-Argentine connection, if anything it would be more appropriate to renounce this description of Latin America in the sense that Britain enjoyed unique advantages over her competitors by virtue of her longstanding relationship with this continent as well as her powerful position in investment and banking.(88)

In light of the above, the present analysis leads to the conclusion that relative shifts in market shares were in large measure a reflection of relative competitiveness. Any final evaluation of performance is certainly bound to be subjective in accordance with the standards applied. Hypothetically, if Germany's goal was in the overtaking of Britain in Brazil and conversely, if Britain merely aimed at defending an absolute lead over the former, Germany failed and Britain was successful. Yet, if the target of either party entailed maximum growth rates to achieve larger market shares, a judgement would have to be reversed. Germany virtually matched British manufacturing exports by 1913, assumed the leading role in iron, steel and machinery and continued as a competitive challenge in a range, albeit a more selective one, of capital goods, despite the setbacks suffered during the war and the subsequent hyper-inflation.

The basic reason behind the rapid growth of Teuto-Brazilian trade was its ability to respond to shifts in demand. In view of the emphasis on the heavy and later the non-staple industries and, given the diversified structure of her exports to Brazil, Germany was able to adjust by substituting declining with new products. In certain cases her, and indeed Britain's success in maintaining dominant positions was a function of comparative advantages and specialisation in production. More often, however, price competitiveness as a reflection of lower production costs and export subsidies, derived from industrial combines, assisted the expansion of turnover while marketing factors, yet to be discussed, should have also played a role.

Britain's commitment to the staple industries, on the other hand, meant that her exports were dependent on a few items and, as such, exposed to some degree of vulnerability. Prior to 1914, product substitution in response to local industrialisation and changes in import priorities had been comparatively slow to the detriment of her market position. Even in the so-called new categories, such as machinery, her growth potential was closely linked to a single product range, the sluggish performance of which, during the late

1920s, negated any previous gains. Moreover, a price orientated renaissance of textile sales finally re-emphasised the narrow basis on which British exports continued to rely, while moving the spectrum of her trade further away from concurrent trends in demand.

The height of the inevitable commercial rivalry occurred before 1914. At this time, Brazil's import trade centred prominently on Anglo-German interests, who were still competing on an equal footing, unimpaired by the effects of a war. Nevertheless, contrary to convention, this rivalry was seen to persist during the 1920s since the war's role as an accelerator of indigenous industrialisation and a lasting buffer for German exports, was of little long-term significance. Whereas the character of the ongoing commercial conflict had changed with the pronounced entry of America, competition may have actually intensified as Germany attempted to regain her previous status and Britain had to act to forestall a further decline of her market share. The fact that neither party was able to fulfil its ambitions did not alter their basic relationship.

Finally, with regard to Brazil, these findings reconfirm the traditional views on both the debates concerning relative industrial strategies and the Anglo-German rivalry. Britain's reluctance to rationalise production and to move away from the old industries in line with other major exporters, handicapped her long-term potential in trade. The temporary respite given to total turnover by higher textile sales during the late twenties did not change the validity of this situation since exports quickly resumed their proportionate decline during the following decade.(89) By the same token, the concerns regarding her flagging competitiveness in comparison to German exports remained justified throughout the period under review. After all, Germany's inroads into Britain's import trade with Brazil were serious indeed, causing the demise of her historical supremacy in this sector. The channels through which these inroads were built up will form the subject of analysis during the following chapter.

Chapter 2.

Footnotes

1. C. Cornelius, _Die deutschen im brasilianischen Wirtschaftsleben_, (Stuttgart, 1929), p. 46.

2. See for instance BPP 1899, Vol. XCVI, _Foreign Trade competition_; BPP 1903, Vol. LXXVI No. 3050 Consular report on the trade of Brazil.

3. R. Hoffman, _Great Britain and the German Trade Rivalry, 1875-1914_, (Philadelphia, 1933), pp. 174-7;
S. Nicholas, _The Overseas Marketing Performance of British Industry, 1870-1914_, _EHR_, XXXVII, (1984) p. 492.

4. D.C.M. Platt, _Latin America and British Trade 1806-1914_, (Edinburgh, 1972).

5. Platt, _Latin America and British Trade_, p. 121.

6. " " " " " " p. 141.

7. " " " " " " p. 313.

8. Hoffman, _Great Britain and the German Trade Rivalry_;
S. Saul, _Studies in British Overseas Trade_, (Liverpool, 1960),
Platt, _Latin America and British Trade._

9. _Comercio Exterior do Brasil_, Servicio de Estatistica, Ministerio da Fazenda, (Rio de Janeiro, 1901-14);
Comercio Exterior do Brasil, Departmento Nacional de Estatistica, Ministerio do Trabalho, Industria e Comercio, (Rio de Janeiro, 1921-29).

10. On this point, see D.C.M. Platt,'Problems in the Interpretation of Foreign Trade Statistics before 1914', JLA, III, (1971).

11. For a detailed account see A. Villela and W. Suzigan, Government Policy and Economic Growth of Brazil 1889-1945, (Rio de Janeiro, 1975), Chapter 3; J. Normano, Brasil: A Study of economic Types, (University of N. Carolina, 1935); pp. 180-183; as well as W. Dean, 'The Brazilian Economy 1870-1913, in L. Bethell (ed.) The Cambridge History of Latin America 1870-1930, Vol.V, (Cambridge, 1986).

12. EJ/UCL, letterbook Vol.I, Greene to London, 18 Nov. 1899.

13. B.P.P. 1902 Vol. CV consular report No. 2724 for Rio de Janeiro.

14. Villela and Suzigan, Government Policy, p. 68.

15. BPP 1907 Vol.88 consular report No. 4154, Supplement on Brazil.

16. Villela and Suzigan, Government Policy, p. 68.

17. Villela and Suzigan, Government Policy, pp. 254-6; see also D. Netto, 'Foundations for the Analysis of the Brazilian Coffee Problems' in Essays on Coffee and Development , Instituto Brasileiro do Cafe, (Rio de Janeiro, 1973), pp. 75-92.

18. Villela and Suzigan, Government Policy, p. 362.

19. BPP 1914-16, Vol. 71 consular report No. 5451 on Brazil.

20. For details surrounding the banking crisis see; BOLSA archives, LONDON and River Plate Bank, letter book D9/2.

21. Anuario Estatistico do Brasil, 1939-40, (Rio de Janeiro, 1940), p. 1378.

22. W. Dean, The Industrialisation of São Paulo 1880-1945, (University of Texas, 1969), p. 95.

23. Villela and Suzigan, Government Policy, p. 119.

24. Anuario Estatistico do Brasil 1939-40, p. 1378.

25. J. Normano, Brazil, p. 163.

26. C.M. Pelaez, 'An economic Analysis of the Brazilian Coffee Support Programme, Theory 1 Policy and Measurement', in, Essays on Coffee and Development, p. 192;
Netto, 'Foundations', p. 102.

27. Netto, 'Foundations', p. 104.

28. Villela and Suzigan, Government Policy, pp. 114 and 259.

29. K. Luck, Die Entwicklung der englischen, deutschen und nordamerikanischen Bankinteressen in Sudamerika, (Berlin, 1939), p. 97.

30. For an account of the events leading up to Brazil's declaration of war see; The Brasilian Green Book, Brazilian Ministry of Foreign Affairs, (London, 1918).

31. S. Zimmerman, Theodor Wille 1844-1969, (Hamburg, 1969) p. 148.

32. Dean, The Industrialisation of São Paulo, p. 101.

33. British Chamber of Commerce, Sao Paulo, monthly reports Vol.2 No. 15 April 1921.

34. The strong desire to expand America's share of the Brazilian market was clearly reflected by reports of the US Bureau of Foreign and Domestic Commerce, see for instance Special Agent Series No. 62, Foreign Credits, (Washington, 1913); Special Agent Series No. 90, Banking and Credit in Argentina, Brazil, Chile and Peru, (Washington, 1914).

35. Department of Trade Report on the economic and financial conditions in Brazil for 1921, p. 28.

36. Jahresbericht des Verbandes Deutsch-Brasilianischer Firmen in Brasilien, (Rio de Janeiro, 1922-23), p.33.

37. The importance of the German influence in Brazil is illustrated by the fact that, despite Allied pressure and the official enemy trading lists, a large enterprise, such as the Companhia Antarctica Paulista, the major brewer and manufacturer of soft drinks in São Paulo, owned by the German house of Zerenner & Bülow, was able to continue its business since a disruption thereof would have caused serious supply shortages in this sector.
Dean, The Industrialisation of Sao Paulo, p. 100.

38. BPP 1916 Vol. 24, consular report No. 5565 on Pernambuco; BPP 1920 Vol. 43, consular report on Brazil.

39. For Britain, see W. Schlote, British Overseas Trade from 1700 to the 1930s, (Oxford, 1952) p. 179;
For Germany, see W. Hoffman, Das Wachstum der deuschen Wirtschaft, (Berlin, 1965), pp. 606 and 607.

40. Anuario Estatistico do Brasil 1939-40, p. 1361.

41. Wilson & Co. Archive, letter book 1899-1900, 13 Oct. 1899.

42. BPP 1908 Vol.109 consular report No. 3952 on Santos.

43. K. Wyneken, Die Entwicklung der Handelsbeziehungen zwischen Deutschland und Brasilien, (Köln, 1958), p. 82.

44. BPP 1908 Vol. 109 consular report No. 3952 on Santos.

45. Wyneken, Die Entwicklung, p. 82.

46. M. da Guia Santos, Aussenhandel und industrielle Entwicklung Brasiliens unter besonderer Berucksichtigung der Beziehungen zu Deutschland 1899-1914, (Munchen, 1984), p. 144.

47. Annual Statement of the Trade of the UK with foreign countries and British Possessions, 1913, Vol. I.

48. Wyneken, Die Entwicklung, p. 81.

49. Wyneken, Die Entwicklung, pp. 80 and 81.

50. BPP 1909 Vol. 92 consular report No. 4358 on Brazil.

51. BPP 1902 Vol. CX consular report No. 4313 on Bahia.

52. Norton, Megaw Co. Ltd. archive, private letter book 1908-10, 7 Oct. 1908.

53. Accounts relating to the Trade and Navigation of the UK, Dec. 1913, pp. 163 and 165 Vierteljahresheft der deutschen Statistik (Berlin, 1913), Vol.II, p. 176.

54. Between 1900 and 1910, the annual rate of increase of electricity consumption in Brazil was 29.4% as compared with 11.3% in the preceding decade. N. Leff, Underdevelopment and Development in Brazil, Vol.I Economic Stucture and Change 1822-1947, (London, 1982), p. 171.

55. G. Wendler, Deutsche Elektroindustrie in Lateinamerika, Siemens und AEG 1890-1914, (Stuttgart, 1982), p. 132.

56. Wendler, Deutsche Elektroindustrie, p. 147.

57. Wendler, Deutsche Elektroindustrie, p. 137.

58. " " " p. 143.

59. S, Kuznet, Six lectures on economic Growth, (Glencoe, 1959), pp. 29-33.

60. Normano, Brazil; R. Simonsen, Brazil's industrial Evolution, (São Paulo, 1939);
C. Prado, Historia Economica do Brasil, (São Paulo, 1945);
W. Baer, Industrialisation and economic Development in Brazil, (Homewood, 1965);
H. Fanganiello'Roberto Simonsen e o desenvolvimento economico, (São Paulo, 1970);
A.G. Frank, Capitalism and Underdevelopment in Latin America Case Studies of Chile and Brazil (New York, 1967).

61. Dean, The Industrialisation of São Paulo, p. 95.

62. Villela and Suzigan, Government Policy, p. 109;
Suzigan, 'Investment in Manufacturing Industries in Brazil 1869-1939', discussion paper held at the Brazil workshop at the London School of Economics 9 Dec. 1983.

63. Suzigan, Investment in the Manufacturing Industry in Brazil 1869-1939, (London, 1984), p. 82.

64. T. Versiani, Industrial Investment in an Export Economy, the Brazilian Experience before 1914, (London, 1979), p. 25.

65. N. Leff, Underdevelopment and Development in Brazil, Vol.I Economic Structure and Change 1822-1947, (London, 1982).

66. Suzigan, Investment in the Manufacturing Industry, p. 43.

67. Dean, The Industrialisation of Sao Paulo, p. 95.

68. Comercio Exterior do Brasil, 1939-40, p. 1361.

69. C. Fishlow, 'Origins and Consequences of Import Substitution in Brazil', in L. Marco (ed.), International Economics and Development, Essays in honour of Raul Prebisch, (New York, 1972), p. 323;
Villela and Suzigan, Government Policy, p. 108.

70. F. Versiani, 'Before the Depression: Brazilian Industry in the 1920s', R. Thorpe (ed.), Latin America in the 1930s, the Role of the Periphery in World Crisis, (Oxford, 1984), pp. 172 and 173.

71. Versiani, 'Before the Depression', p. 172.

72. J. Fluck, Die Entwicklung der deutsch-brasilianischen Handelsbeziehungen von 1871-1939, (Koln, 1951), p.78.

73. Nominal figures were deflated by Hoffman's export price index for manufacturing goods. Hoffman, Das Wachstum, pp. 606 and 607.

74. Wyneken, Die Entwicklung der Handelsbeziehungen, p. 104.

75. Dept. of Trade, Report on the economic and financial conditions in Brazil, 1927/28.

76. The data was deflated by Schlote's export price index for manufacturing goods, Schlote, British Overseas Trade, p. 179.

77. Average sales of German sewing machines between 1925 and 1928 were valued at £158,000/P.A. as compared to some £9.000 purchased from Britain.

78. Dept. of Trade, Report on the economic and financial conditions in Brazil, 1922/23.

79. Versiani, 'Before the Depression', p. 173.

80. Platt, *Latin America and British Trade*, p. 102.

81. S. Pollard, *The Development of the British Economy 1914-1967* (London, 1969), p. 126.

82. A. Maizels, *Growth and Trade*, (Cambridge, 1970), p. 272.

83. S. Saul, *Industrialisation and De-industrialisation, the Interaction of the German and British Economies before the first World War*, (London, 1929), p.22.

84. Platt, *Latin America and British Trade*, p. 319; B. Mitchell & P. Deane, *Abstract of British historical Statistics*, (Cambridge, 1962), p. 517.

85. Platt, *Latin America and British Trade*, p. 122.

86. " " " " " " p. 292.

87. " " " " " " p. 141.

88. R. Gravil, *The Anglo-Argentine Connection, 1900-39*, (London, 1985), p. 85.

89. Wyneken, *Die Entwicklung der Handelsbeziehungen*, p. 163. By 1935 Britain's share of the import trade had fallen to 12.4% as compared with 20.4% coming from Germany.

Chapter 3.

The Import Merchants in Brazil

The foregoing statistical investigation into the growth of Anglo-German exports to Brazil highlighted the importance of comparative efficiency and market orientation in production as major determinants of performance. Yet this only represents part of the picture for it is equally necessary to recognize the significance of marketing networks through which exports reached the consumer. Essentially the marketing function entailed the promotion and selling of goods in an efficient manner with a view to achieving competitive sales terms, while its task further encompassed research into changing demand patterns so as to provide suppliers with the information needed to adjust production accordingly. The success in any export market was thus, and still remains, a function of both production and marketing.

Traditionally, the latter was largely carried out by merchant houses, who acted as intermediaries between consumers and manufacturers. As such they were at the core of the Anglo-German rivalry, and the surrounding debate on comparative performances. Originally this took the form of an almost unanimous condemnation of British commercial practices, which was constantly contrasted with the achievements of upcoming competitors. However, in comparison to the well researched activities of produce traders (1), relatively less has been subsequently written about the workings of the import merchants. For some considerable time post-war literature accepted these early views and authors such as Hoffman, Aldcroft and Kirby (2) generally endorsed them in their assessments of Britain's economic history.

Declining exports were considered to be the result of complacent and amateurish marketing methods which remained behind contemparary practices (3). The case for a lack of competitiveness in trade fell into two parts. First, the quality of her merchants was regarded as poor and second, the merchant system per se was viewed as being outdated and an obstacle to growth, since it was too slow in communicating market information back to the supplier, whilst being unable to cope with the technology embodied in new exports (4). Kindleberger and Kirby attributed Germany's export drive to her decision to switch to a direct sales system towards the close of the nineteenth century (5). Although the latter hypothesis contained an inherent contradiction of contemporary evidence, which rarely refered to any direct contacts between consumers and producers, the validity of this two-tier attack appeared unquestioned and the lack of criticism featured as a surprising omission in light of the recent efforts to rehabilitate the British entrepreneur.(6)

In his revision of the Anglo-German rivalry debate Professor Platt broke this convention (7). While pointing to the poor quality of consular evidence he defended the British overseas merchant by virtue of the supposed voluntary withdrawal. Alleged complacency was interpreted as a logical cost-benefit calculation (8). Similarly, Nicholas questioned the "consensus view" (9) of marketing failure while also re-establishing the mercantile system as a viable and effective form of marketing.

Nevertheless, the fact that the traditional complaints about sales practices were by no means isolated incidents, but could be traced with an astounding consistency over more than forty years still suggests that there may be a case to be answered. Furthermore criticisms were not only raised by ill-trained consular services but also by professional trade associations which had a daily insight into commercial matters.

Completing the review of the Anglo-German rivalry in the Brazilian import sector the analysis thus requires a careful examination of their respective trading networks. The ensuing discussion will complement and further explain the preceding statistical work while shedding some new light on the current status of the debate. Within this framework two particular issues will have to be addressed; namely, did Germany shift its marketing to direct selling and by implication did any resulting difference in approach prove to be more effective? Alternatively, one has also to question the early criticisms of British salesmanship and to consider whether disparative performances were the result of managment quality and differences in policy rather than institutional selling modes. Almost by definition the focus will have to revert to the circumstantial evidence of contemporary reports as the major source of information. Whilst their frequently subjective character may render the argument less tangible in comparison to a firm quantative basis, a more in-depth analysis will, nevertheless, be provided by means of the use of some less publicized reports issued by trade organizations as well as the research findings from the private company archives of Norton, Megaw Co Ltd.

The analysis will be based on two main sections leading up to a conclusion on the issues involved. At the onset it will be necessary to trace the development of the German marketing structures in Brazil and to determine the extent to which these moved to a direct sales system. Having established the institutional framework used by German manufacturers to compete with Britain a second stage will finally review and evaluate the conventional accusations raised against British salesmanship, while seeking out the basic causes behind the alleged deficiencies.

I

Germany's commercial links with Brazil date back to the end of the sixteenth century (10), when the Hanse cities, Hamburg, Bremen and Lubeck, traded wheat, iron and copper products in exchange for Brazilian tobacco, sugar and madeira purchased via Portuguese commission houses in Lisbon and Oporto (11). It was not until Brazil's independence in 1822 that German merchants finally settled in the country. Having signed a commercial treaty in 1827 to obtain the most favoured nation status, Germany was able to take full advantage of Britain's Navigation Acts and the prohibition of imports of non colonial produce (12). As a result, Brazilian exports were diverted to Hamburg, which developed into a major entrepot market, while founding the basis of a growing return-trade unhindered by discriminatory import levies. Nevertheless, given the relative backward status of her domestic industry the bulk of exports from Germany actually consisted of British articles sold either to English commission houses or German agents in Brazil. Although the inflow of German immigrants enlarged her business community, the representatives of which exceeded the number of British (13) houses by the second half of the century, the import trade remained firmly under the control of British firms.(14) They generally commanded a higher turnover and, favouring larger transactions, assumed a relatively more specialised character. German merchants, by contrast, still dealt in a wide variety of products and operated on a smaller scale, accepting both retail and wholesale orders (15).

Essentially most of the nineteenth century represented an apprenticeship period for German commerce. Whereas business should have been profitable to attract a growing number of firms, the wider benefit for German trade lay not so much in the selling of domestic exports, but rather in the experience and knowledge gained on commercial practices, the Brazilian customership as well as the customs of the market place.

Competition finally entered a new, more intensive phase during the last two decades, as German industry expanded at home, increasing its efforts to export on the basis of the already existing merchant network. Initially, the underlying marketing chain consisted of a number of intermediaries. Export agents acted as middlemen between industry and the merchant houses situated in the main ports. Performing a purely domestic role, the agent organized the inland transport, maintained sample rooms from which the exporter could choose and finally, negotiated prices and sales terms on behalf of both parties (16). With the increase in volume, however, manufacturers became more sophisticated, realizing that they could save on commissions. Consequently, they founded in-house trading departments, which were responsible for domestic commerce and liaised directly with the specialist export houses (17). The latter, in turn, despatched goods to the importer in Brazil on a commission basis or sold them outright if the Brazilian counterpart traded on his own acount.

The commission trade or encomenda business, handled usually within the framework of an agency agreement, was either prompted by firm contracts secured by the importer or it was handled on a consignment basis, whereby the importer agreed to hold stocks for reasons of speedy delivery to his customers as well as for the implementation of a control mechanism through which the exporter could monitor and enforce performance by his agent.(18) The commission charged by importers depended upon the transaction frequency as well as the time committed to particular product line. The British firm, Norton Megaw, for instance, charged 3.5-4% on yarn and general items, whereby the more complex efforts involved in selling machinery and locomotives attracted higher fees of 5% or more (19).

Alternatively, if importers acted as principals, vendors, they paid their suppliers on average 90 days from invoice date (20) either stocking the goods or selling them onwards on arrival. In this case, the importer anticipated higher profits because, apart from covering sales expenses and overheads, he assumed the liability and risk of late shipment, damage and quality claims as well as outright rejection of the goods.(21) In addition, he may have been required to put up cash deposits with the buyer's bank as a performance guarantee, thus further raising his costs (22). Liquidity constraints and the higher risks, therefore, forced smaller merchants to deal almost exclusively on a commission basis and even larger importers preferred to handle a mix of vendor and encomenda business so as to maintain an acceptable overall risk level (23).

While the relationship between the export and import companies worked satisfactory, the marketing chain was frequently further cut, as the larger Brazil houses realized that the growing turnover required a direct representation in Germany. Companies such as H. Stolz and Bromberg, founded in 1836 and 1884 (24) respectively, established their own buying houses in Hamburg before the turn of the century. Through the formation of this backward linkage, importers cut out middlemen to save costs, while getting closer to a wider spread and free choice of manufacturers with whom they could negotiate improved contract terms.

In addition, it also enabled them to build up a two-way trade marketing Brazilian commodities through their German affiliates. This had two advantages. First, it provided them with some element of protection against currency risks in trading since they could attempt to balance receivables and payables in milreis to mitigate the effects of a devaluation. Second, it should have also allowed for the repatriation of profits. The correspondance between the firm of Hasenclever & Sohne in Rio and its head office at Remscheid showed that around the turn of the century import houses were not attracted by the prospect of reinvesting profits locally due to an unsatisfactory risk-reward ratio (25). Using a simple mechanism of transfer-pricing importers could either over-invoice imports or undervalue exports reducing local income in both cases. The principle behind this exercise was, again, insurance against the vagaries of the foreign exchange market rather than local taxes, which were still in an embryonic state, as federal income tax was not introduced until 1924 (26).

Apart from improvements made in the communication systems and the handling of exports by means of the institutional streamlining, local operations on the ground also adapted to changes in the economic environment of the market place. Whereas the increasing volatility of the milreis at the begining of the twentieth century caused merchants to keep local stocks to a minimum so as to protect their assets from devaluation,(27) the renewed confidence in the currency market following the establishment of the Caixa da Conversão in 1906 encouraged companies to build up their inventories. They rapidly recognised the importance of permanent stocks as well as showroom facilities in Brazil because these helped to overcome problems of long waiting periods and a lack of spare parts, which caused customers to turn towards the competition (28). To overcome financial constraints smaller importers, who could not fund the inherent expenses on their own, combined their resources to rent storage and showroom facilities, where they displayed complementary rather than competitive goods (29). Although being of a seemingly basic character, these steps contributed significantly to the expansion of German trade as they enabled it to found a permanent market presence which was ready to receive customers at any time.

A further move in the transition of the small-scale importer to a large international house, which could compete more effectively with the established British firms, was directly connected to the progress of German industry. Its enhanced capacity to produce a greater variety of more sophisticated goods necessitated an improved overseas marketing network. In many instances German manufacturers forged direct links with the old established importers in Brazil, normally via their branches in Hamburg or Bremen. Contacts between merchants and producers were fostered through professional associations, such as the Deutsch-Sudamerikanische Gesellschaft Hamburg or the Conselho do Comercio Brasileiro na Alemanha, which was sponsored by shipping lines and merchants such as Wille, Bromberg and Stolz (30). Maintaining an active dialogue between importers in Brazil and business interests at home, these organisations acted as a clearing house for information so as to bring together potential counter-parties and to provide details about overseas market requirements.

Once a merchant became the direct, though independent, representative of a manufacturer, business was handled in one of two ways depending on the nature of the goods involved.

Standardised products such as cement, barbed wire and simple iron and steel goods were mostly subject to cartelization in industry and, thus, by necessity little differentiated in terms of quality and price. Given such homogeneity their successful marketing depended on skillful commercial handling. In addition, their potential profit margin was too small to warrant the expense of representative agreements abroad and finally they required no after-sales service nor any specialised knowledge to sell, thereby further limiting the role of the producer in the marketing stage. Hence, the importance of an experienced merchant who had close connections with foreign banks and shipping lines in order to secure the smooth execution of an export order.

Less homogeneous goods, however, requiring specialised attention and servicing, necessitated a higher degree of co-operation between producer and merchant by means of the appointment of direct representatives which had the financial and administrative capacity to handle such imports.

One of the best known representatives of German industry was the house of Theodor Wille. While importing produce from the Far East, as well as American and British manufactures, the emphasis lay on German products. Altogether the company handled about 18 agency agreements (31). Depending on the agreement reached, they were either handled on a pure commission basis such as existed with Henschel & Sohn GMBH, manufacturers of locomotives (32) or, alternatively, Wille acted as a principal. In this case, the company paid for the goods in Germany, thereby relieving the supplier of the financing burden and foreign credit risk while obtaining more flexibility in the negotiation of sales conditions in Brazil. Consequently, they were able to present more attractive offers by accommodating clients to a greater extent than they would have done if bound by the interests and cash flow requirements of manufacturers. This independence allowed them to maximise the benefits of their commercial expertise, trading off gains made in the financing, transport and storage of goods against concessions on sales terms.

Although importers could choose between different types and degrees of backward linkages, the connections between the supplier and the merchant were frequently reinforced by the despatch of engineers and technicians who were responsible for the demonstration, installation and servicing of machinery and equipment. Providing the manufacturer with the knowledge that his products were handled in a correct manner, a technical representative also embodied a useful control device over the performance of his commercial partner. Conversely, for merchants in the machinery and engineering trades, specialist employees became almost inevitable if they wanted to remain competitive. Wille engaged engineers from Hentschel and Voith to look after sales of locomotives and turbines, whereas Bromberg went a step further by founding an engineering subsidiary (33).

The success of these measures was significant. Within four years Wille managed to sell 56 locomotives and Bromberg's machinery turnover rose from 3.5m marks to 50 m marks between 1902 and 1912 (34). Local engineers on hire from manufacturers proved a valuable asset. Not only did they advise customers on technical aspects but they installed the machinery and provided after sales services securing additional orders for spare parts and inputs when required. Having concluded an initial sale, the import house could then negotiate a multi-year servicing contract obliging his customer to procure additional auxilliaries or new parts from the same source. In addition, in-house technical expertise enabled the merchant to appreciate new developments of the competition as well as to evaluate public tender requirements for the supply of technical equipment, allowing the trader to formulate an attractive and, moreover, correct offer.

Closer co-operation between supplier and importer was a necessary but also mutually beneficial condition for the further growth of trade. The move into auxilliary services was finally further underlined by the establishment of controlled chains of distribution. Bromberg's engineering firm, for example, set up four sales branches covering Bahia, Bello Horizonte, Rio and Santos.

Wille, in his capacity as agent of Pfaff, established a chain of retail outlets to boost sales. By opening 14 shops the company succeeded in selling more than 1,000 sewing machines per month (35). The advantages of an affiliated chain of distribution were obvious. Apart from being closer to the customer and thus enhancing sales, it was a means of controlling distribution and transport costs and thus ultimately the price paid by the consumer (36). Conversely, an efficient distribution network generated savings, which could have been passed on to the buyer in the form of lower prices, thereby improving the competitiveness of sales.

In view of these developments the character of Wille and other German import firms in Brazil had changed substantially by 1914. Essentially, three major changes had taken place. First, the marketing chain had been curtailed and unnecessary intermediaries eliminated to the extent that manufacturers could be in direct contact with the merchant houses in Brazil, although it remained more convenient to deal with their branches in Hamburg. Then, the role of the Allesimporteur who had started off by selling cheap consumer articles, supplying anything from matches and bottles to motors, had declined steadily as he could no longer satisfy all the requirements of his customers (37).

Similar to British companies, merchants had found it more profitable to consolidate their activities and to abandon less remunerative lines. Instead, they now devoted their resources to a better defined range of activities. Efficiency and profitability were enhanced through the economies obtained by bulk handling. By ensuring a steady stream of repetitive trades, transaction costs were further cut, and the re-application of the knowledge gained on previous contracts allowed for organizational improvements and savings in terms of time and labour invested (38). Simultaneously, they expanded their organisations by founding affiliate companies in Germany, assuming direct representations of manufacturers to facilitate access to the supply source, while developing the marketing side in Brazil through improved customer service by means of technical advice, permanent stocks and showrooms.

Hence, German merchant houses had evolved into a position where they represented a genuine competitive challenge of equal standing to the British trading companies. Being further supported by centralized organizations in Brazil and Hamburg, they provided the fundamental infrastructure by means of which German exports could gain and maintain a foothold in the Brazilian market, both before and after the war when trading links were resumed.

Having traced the evolution of the German mercantile system it is now possible to form a judgement on the view that her marketing performance was allegedly the outcome of direct selling methods. Although it was seen that her strategy underwent a number of important changes, rationalizing its character, ultimately this was still far from a direct sales mode.

The presence of some 350 German import firms in Brazil by 1922 (39) underlines their continued existence and Allen's claim,(40) that German merchant houses were virtually unknown, has to be categorically rejected. Similarly, Aldcroft's and Kindleberger's criticism of the merchant house cannot be upheld. Trading companies were very much aware of their lack of knowledge about technological developments and sought to overcome this problem by inviting the assistance of suppliers. If there existed conflicts of interest it was up to the manufacturer to avoid them, first by choosing a company capable of handling different principals and, second, by structuring the agency agreement so as to demand exclusivity in a particular sector, while ensuring an adequate income and incentives for the merchant. Moreover, the critics of the merchant house failed to appreciate its functions, which could not be fulfilled directly by exporters in Europe. Research shows that German manufacturers were normally dependent upon the merchant abroad.

There were, of course, exceptions. Some large industrial conglomerates such as AEG or Siemens went directly to the market by founding branches in Brazil (41). Alternatively, the international trade for rails and railway auxilliaries also deserves a brief mention as, in this case, the concerted action of manufacturers left little room for the merchant. The house of Norton, Megaw, therefore, found that the rail trust prefixed bids submitted internationally in response to tenders called in Brazil, thereby directing orders in such a way that little profit was left over for merchants (49). Yet, even in this case, the bidding and subsequent execution of contracts was still left to the merchant.

In general, however, British and German advice governing both the pre-war period and the 1920s was usually against direct trading between manufacturers and consumers as the inherent risks were too high and a direct relationship between the two parties was frankly considered to be "unthinkable" (43). Only when large transactions with government entities were at stake, where the payment risk was acceptable, was it desired to trade directly (44).

Nevertheless, import houses still played an important role, even in government dealings. The ignorance of European producers about local customs could often jeopardise their business. Henschel's comment that the payment of "commissions" to Brazilian officials could not be regarded worthwhile since experience in other countries showed such efforts to be futile, illustrates well this lack of knowledge (45). Commission houses actually had to make it their tasks to stay in close contact with government officials and ministers, to resolve disputes as well as to remain informed of public supply requirements as not all government contracts were put up to public tenders but were awarded privately against adequate "favours"(46). Such, for the European mind, unconventional ways of conducting business and the Brazilian's insistence on personal contacts (47) could not be catered for from Germany or Britain. If it was not for Wille's efforts, Hentschel would have certainly not had the same success. Furthermore, the execution of a contract entailed a number of pitfalls. The complexities of tariff regulations and the need for properly planned financing, credit risk assessment and foreign exchange cover, made it imperative to have a reliable medium in Brazil. The regulations on import tariffs, which changed almost annually in line with the government's budgetary needs, alone required an expert as non-compliance with the rules resulted in heavy fines and the goods being confiscated for lengthy periods (48). Being on the spot merchants were also better equipped to forecast future foreign exchange developments, while their dual activity as importer and exporter gave them a natural ability to reduce currency risks. The head of the foreign department at Siemens admitted in 1910 that "for the company, it is most advantageous to sell through the export merchants as it incurs the least risk and prompt payment is received which, for a manufacturing concern, is the most comfortable way of selling." (49)

In terms of Nicholas' classification of the development of overseas investment, trade between Germany, Britain and Brazil from 1900 to 1929 was, therefore, still firmly in the second category, that is, handled on agency agreements (50). As long as producers were not able or willing to accept the burden and potential dangers of a direct relationship, there remained an important place for the merchant, whose main asset was the local expertise and a more acceptable credit risk to the seller. By the same token it would therefore be erroneous to ascribe the disparative performance of Anglo-German trade to any material institutional differences in the overseas marketing structure. Both relied on merchant houses, which were established in a similar manner, performing equal tasks.

II

In view of the above, why was it then that German merchants appeared to be relatively more successful or why, in the words of Lord d'Abernon - were "the others getting the trade?" (51). Contemporaries left little doubt about an answer to this question pointing to the quality of management. One should be cautious when examining the vast supply of criticisms and unfavourable comparisons contained in consular and trade reports. To a certain extent the advance of German imports was a natural function of her expanding network as well as the growth and organizational upgrading of individual firms. At the same time, observed differences in business conduct should not be categorized purely in terms of nationality, but rather according to the circumstances facing the party concerned.

Although being often of similar age, German merchant houses effectively played the role of a newcomer when they started to market German products, which were unfamiliar in comparison to the renowned articles of British origin. As such they were obliged to be more innovative so as to overcome barriers of entry. Consular reports seemed to overlook these factors, drawing too much of a bleak picture. A comment of the Foreign Office, on a report sent by Consul Cheetham, emphasises this point when it correctly noted that the loss of small orders should cause no concern nor should give it rise to exaggerated and misleading worries (52).

The quality of consular advice also seemed doubtful at times as consuls lacked commercial understanding and interest. Edward Greene of E. Johnston's learnt this during his travels through Rio Grande do Sul when he compared "the extreme interest of the German Minister [Treutler] in everything relating to German trade with the indifference of the English Secretary of Legation on any trade question at all" (53). According to Platt, this behaviour was the result of "traditional snobbery and prejudice against commercial affairs" (54).

American and German observers found equal deficiencies in their own commercial diplomacy (55). When comparing British, German and American sources, it appears that all contained complaints of a similar nature (56). For example, in writing to Bülow, the German minister criticised the lack of interest and commitment shown by German officials in matters of trade with Brazil, (57) a complaint all too familiar from British sources.

Nevertheless, it may be equally misleading to completely discount thirty years of consistent criticism in the manner advocated by the revisionist school of thought. On the contrary, in order to answer Lord d'Abernon's question for the purpose of the present analysis, as well as to continue the general subject debate, it is appropriate to re-examine the major aspects in which the quality of Anglo-German mercantile systems allegedly differed.

One factor not particularly related to the actual conduct of German merchants but which certainly influenced their performance favourably, was their large numerical representation as a reflection of the size of the German community in Brazil. By the end of 1920, 690,000 people of German background were estimated to be living in Brazil with the bulk, 360,000 of them, being situated in Rio Grande do Sul (58). Out of 4,081 retailers registered in this state in 1922, 2,387 were, of German origin (59). The impact of this community on German exports to Brazil, however, has frequently been misunderstood. As statistics show, its true significance lay not in being a secure consumers' market. The proportion of German imports into Brazil going to Rio Grande do Sul actually declined from 19% in 1902 to only 9% into <u>all</u> three southern states in 1913, (60) that is, the German stranglehold weakened in importance as a consumer of German imports. Its value lay rather in the existence of a large number of distributors and carriers of German merchandise which had been recruited from the immigrant community.

Although Germany enjoyed a definite advantage over Britain at the retail level, the inherent benefit should not be overestimated, since its strength was confined to the southern states, which accounted for a declining proportion of German trade. Cornelius' study (61) of Teuto-Brazilian relations noted that very little was known about retailers outside the south, suggesting that they would have been small in numbers, because the captive audience of a close-knit community was largely absent. The role of the retailer was further limited by the fact that he handled simple consumer and hardware goods rather than iron and steel manufactures or machinery, which were increasingly becoming responsible for the growth of German imports. In a way, the retailer was far more suited to distribute textile and clothing items, which featured prominently in Britain's trade.

The smaller than assumed significance of retail outlets was compensated for by a widespread representation at the import and wholesale level. Unfortunately, available statistics remain somewhat vague in differentiating between the two. Cornelius estimated that 350 German import houses were active in 1923, while a different source listed 259 out of 2890 whole sale merchant houses as being German (62). Allowing for some overlap it still appears that the trade could rely on a significant number of domestic representatives as a direct extension of the chain of importers. Representation therefore certainly acted as an important tool in Teuto-Brazilian trade, although it should also be borne in mind that national preferences remained subject to competitiveness. German merchants in Manaos, for example, did not hesitate to switch their supply source to London and Paris, whenever they found that they were being overcharged by the traditional contacts in Hamburg (63). To survive in the long run profitability had to have priority over patriotism.

In Britain's case, on the other hand, the lack of a resident community implied a virtual absence of any meaningful retail organisation while there was also concern about under representation at the import level. In 1903 Consul Chapman remarked that, regretfully, the number of British companies was steadily declining (64). That same year E. Johnston also decided to pull out of the import business in preference of produce exports (65).

Table 3.1 British Import Houses at Rio de Janeiro & São Paulo

Rio de Janeiro

Company	Founded	Activity
Davidson & Pullen & Co.	1820s	Machinery, engineering articles
Norton Megaw & Co. Ltd.	1850s	General imports, railway materials
Clayton Olsburgh & Co.	1911	Machinery, engineering
Ashworth & Co.	1840	Cotton, wools
Hime & Co.	-	Hardware, construction materials, railway
Upton & Co.	1875	Machinery
Soc. White Martins	-	Chemicals, machinery
O. Philipp & Co.	1886	General manufacturers, cotton
Hardman & Co.	-	General manufacturers
J. Moore & Co.	-	- n/a
Nicholson & Co.	1824	- n/a
Overseas Exports Ltd.	-	General manufacturers
H. Rogers Sons & Co.	-	Engineering, machinery
Stowall & Co.	-	General merchants
R. Whichello & Co.	1870s	Textile machinery, electricals
Dickenson & Co.	1878	General Importers
Edwards & Cooper & Co.	-	ditto
Hopkins, Causer & Hopkins	-	ditto
Knowles & Fosters	1828	Cottons, general importers
J. Barton & Co.	-	Machinery, hardware
Schill & Co.	-	ditto
J. Walter & Co.	-	General importers
J.G. White Commercial Co.Ltd.	-	Engineering articles
Willis Ellis & Co.	-	Textiles
C. Walker & Co.	-	Textile machinery, railway auxilliaries
Anglo Brazilian Commercial Agency Co. Ltd.	1918	General importers

26

São Paulo

Company	Founded	Activity
Wilson & Co.	1844	Coal
H. Bott & Co.	1914	General Importers
R. Lathan & Co.	1913	ditto
MacDonald & Co.	-	ditto
Lion & Co.	1911	ditto
Whately & Co.	1917	Railway aux., hardware
Baggot, Maine & Co.	1886	General provisions
7		

Source: Commercial Encyclopaedia, British and Latin American Chamber of Commerce, (London, 1922), passim; A.G. Bell, Rio de Janeiro, (London, 1914), p.62.

Contrary to Platt's conclusion, however, this did not imply that British merchants lost interest in the Brazilian market as some of the oldest trade houses such as Davidson Pullen & Co., of the 1820s and Upton & Co., of 1875, listed in Table 3.1., still featured prominently in business in the 1920s. Chapman's comment was also not entirely correct as new firms such as Clayton, Olsburgh & Co.,were not founded until 1911. Referring to the British commercial encyclopaedia, it seems that there was a wave of new foundations prior to World War I. Britain's continued interest in Brazil was further underlined by the establishment of the "Anglo-Brazilian Commercial Agency Co. Ltd" in 1918, a foundation of the British Trade Corporation and the London & Brazilian Bank (66). Nevertheless, there still remained a case for under-representation. While the commercial encyclopedia for Latin America detailed 26 British companies operating in Rio and 7 in Sao Paulo, Cornelius' listing of 65 and 56 German firms (67) indicates a decisive majority for the latter, underlining the comment of the d'Abernon mission that Britain's lack of representatives was a serious impediment to her marketing capacity (68).

These concerns were futher amplified by certain misgivings about the quality of existing representations. Importers acting on behalf of numerous manufacturers frequently did not have sufficient time to give due attention to any particular client. Overextending themselves in this manner they could not gather the information required to establish a depth of expertise in any one field.

The British Engineering Association (BEA) noted that in these instances agents did not assemble proper market surveys (69), omitting to inform their principals about the current market requirements. The failure to communicate the correct signals back to the producer, then, obviously hampered the latter's ability to adjust his consignments in accordance with market demand. As a result, the Chamber of Commerce pleaded "if it were possible to enforce on the mind of the British exporter the necessity of sending goods to Brazil which the Brazilian wants and not what the exporter thinks he should have it would be an excellent thing for British interests in this county" (70). Conversely, Lord d'Abernon concluded that "too many traders experiment in South America without much conviction .... they are dilatory rather than determined, they trifle with the market" (71). The consequences of his behaviour, being reflected in falling market shares, were painfully illustrated by Consul Hambloch, who reported a number of incidents where Brazilian purchasers of British machinery had to scrap it, unused, because of the importers' inability to mount and operate it (72). Lack of concerted effort and knowledge thus affected the quality of supplies as well as customer services.

Although these shortcomings substantiate Aldcroft's views on the usefulness of merchant houses, they are nevertheless insufficient as a case against the mercantile system, for the fault lay partially with the manufacturer as opposed to the trading company. One reason behind this unsatisfactory situation may well have been inadequate remuneration and assistance offered by the producer and, consequently, the merchant's attempts to supplement income by an increased number of agencies. Indeed, the Chamber of Commerce in

Brazil found that, overestimating the saleability of their products, producers were reluctant to invest sufficient money in agencies (73). It, therefore, recommended the guaranteeing of a minimum return of £300-500 per annum plus the financing of expenses such as duties and warehouse rent, so as to relieve smaller agents of this burden.

Other foreign manufacturers, by comparison, seemed to be more accommodating in order to induce good performances from their agents. The American Baldwin Locomotive Works, for instance, paid Norton, Megaw a fixed commission of £1000 per annum (74) in addition to granting them a profitable financing option, which ensured the continued interest of the agent. German manufacturers of dyes, provided extensive financial support to their agents,(75) while Hentschel and Voith dispatched full-time engineers to Wille. Given proper support and an organization of sufficient size, multiple agencies, as handled by Wille or Norton, Megaw, could work well. This was particularly the case when the company handled complementary products, as marketing and market research were essentially aimed at the same segment, where sales of one product, say iron rails, could trigger off new business in a related line such as switches or signals.

Whilst the agent's basic remuneration was certainly a function of sales expectations and the sharing of financial expenses could enforce a degree of discipline on the agent, encouraging him to move stocks swiftly, underpayment still discouraged initiative to the detriment of marketing efforts. British trade sources consequently warned producers about the drawbacks of false economies, finding it hard to sympathise with the complaints that agents appointed in Rio de Janeiro were reluctant to go to the expense of exploring new markets in Rio Grande do Sul given that they should have been catered for by an additional local agent in the first place (76).

An effective agency was also a question of available resources. Marketing by catalogues, many of which were not even translated into Portuguese, proved to be futile when compared to the sales efforts of some German houses equipped with stocks and showrooms and staffed with engineers. In a survey of the food processing industry in Rio Grande do Sul the BEA noted that out of 42 rice mills in the state at least half of them had purchased machinery from German houses (77), since their comprehensive representation ensured quick deliveries and after-sales services by resident experts. An inter-parliamentary conference held at Rio in 1928 reconfirmed this finding when noting that, amongst other things, German trade continued to owe much of its post-war recovery to prompt deliveries to customers (78).

Some British companies certainly recognized the importance of auxilliaries. Norton, Megaw received the assistance of a permanent technician from the London based Vacuum Brake Co., while firms such as Davidson Pullen, White Martins and Upton & Co. maintained engineering shops (79). Yet both the Chamber of Commerce and the BEA still complained, possibly in a somewhat exaggerated manner, about the lack of facilities and stocks kept by English firms, either because of their own unwillingness or out of deficient support from their suppliers (80). Similarly, being left with the burden of financing advertising campaigns out of commissions rather than being refunded by the principal, British import houses were forced to economize on their expenditure to the detriment of their marketing profiles (81). According to the British legation in 1927 her "trade propoganda could only be described as deplorable".(82) This was underlined by the fact that but 10% of the advertising space in a major Sao Paulo newspaper was devoted to British products as compared to 40% occupied German and US goods (83).

Under these circumstances it is not feasible to solely blame the merchant for declining sales. By the same token, however, if exporting manufacturers were not willing to spend more on proper agencies they would have hardly invested in a full time overseas representation as a substitute of merchant houses which, therefore, remained the only alternative.

The issue of the neglect by the principal again raises the question of whether this represented intentional disinterest, as proposed by Professor Platt. As on previous occasions the answer should be negative on two accounts. First, if a producer was genuinely not interested in Brazil he would refrain from appointing any agents at all. Yet the Chamber of Commerce could not complain about a lack of British trade enquiries nor agency requests. Second, given the size of the market and the turnover achieved by competing importers as well as the better backed British houses such as Norton, Megaw and Walker & Co.,(84) disinterest out of a lack of opportunity would have been misplaced. Moreover, one may tentatively speculate that insufficient concern on the manufactures' part may have reflected commercial inexperience given that domestic trading matters in Britain were still largely handled by independent intermediaries, while in Germany commercial in-house departments took care of these functions and were more attuned to the tasks and problems facing an agent. Even Platt had to admit that the lack of vigour and understanding had to be partially ascribed to "ignorance and apathy"(86). Ironically, steps taken to remedy this situation, in the form of specialized governmental agents being appointed abroad to enhance the communication of commercial intelligence, only served to underline this complacency as the reaction in Britain was again one of complete disinterest (87).

Having viewed the quality of representation in the light of backing received from the manufacturing principal, there still remain a number of criticisms of the merchant's management policy. The d'Abernon mission concluded that "English traders are notably behind their competitors [who] look further ahead, organize more and take larger risks".(88) This appeared to apply to even seemingly minor issues such as the use of the imperial rather than the metric system, FOB price quotations in £ sterling rather than CIF prices in milreis and English instead of Portuguese catalogues, all of which were more difficult to appreciate for a Brazilian customer, leading to irritation and, ultimately, the loss of orders (89).

Platt's justification of a reluctance to adopt these basic measures in terms of long-standing experience and sound conservatism does not seem appropriate.(90) As long as other importers were willing and able to do so it meant that Britain was not following market practices, leaving the former with a competitive edge on which they could easily capitalize by offering their goods on terms readily understandable to the customer. After all, it was a main task of the merchant to arrange transport and currency conversions in order to relieve his clients of these duties. It was also in his own interest to do so, since his experience in these areas afforded him definite advantages and more room for profitability. Britain's approach may have well worked during the nineteenth century when she benefited from a quasi-monopoly. However, with the advent of new market players competition naturally intensified and importers sought new ways of accommodating the buyer.

To a certain degree this alleged misguidance may have been rooted in a continued adherence to old standards and a reluctance to adopt to change, this having been observed by the Worthington report as well as thirty years later by d'Abernon(91). The resistance to change, based on risk aversion, was openly criticised amongst the British community in Brazil. A discussion paper held by a member of the British Chamber of Commerce in Sao Paulo (92) made this point clear when it attacked merchants for their undue conservatism. Commercial policy was found to be traditional and out-dated, particularly in the case of old established firms where the management had been under the control of the same individual for twenty or thirty years. In these cases, the incentive to change was small as the directors led a comfortable and risk-free existence which was not to be jeopardised through new lines of business. Business transacted over long periods of time, on a routine basis as in the case of coal importers and the railway companies for instance, further contributed to such conservatism as long as it generated a steady flow of income. A government tender for the construction of a floating dock at Rio de Janeiro somewhat illustrates the point. In this instance, the British firm of C.H. Walker & Co., over-priced its offer in the knowledge that the government preferred to continue dealing with them because of previous experiences. When it became obvious that Walker's price was far above average, the government cancelled the tender and called a new one so as to give Walker the opportunity for a lower quote (93).

Although this example is insufficient as evidence, it still illustrates that long-standing business relationships induced slackness and prevented companies from becoming more competitive as there was no basic necessity to change and firms often lived on their reputation. In the above case, this did not matter as the buyer induced and supported such conduct but in many instances these attitudes resulted in loss of business opportunities which were picked up by the competition. While the shortcomings of this policy may not have been too obvious in product lines clearly dominated by Britain as was the case in cotton, tin and corrugated iron sheets, the effects should have been more detrimental in new product ranges as there was no established track record to rely on.

It is, of course, dangerous to over-emphasise the above criticisms. No company would have survived in the long run if it had been consistently negligent and, given that a number of British firms had been doing business for close to a century, they must have been successful. Similarly, her trade would not have risen in absolute terms if bad management had been the rule. Indeed, some German market surveys praised British import houses for their thorough and effective approach and it should also be borne in mind that German merchants had modelled their affairs on the structure adopted by their British rivals.(94)

Nevertheless, the decline in her market share remains undisputable as competitors encroached on her trade. British businessmen recognized this and the fact that active merchants at the Chamber of Commerce cast doubts over their own practices signifies that there should have been room for improvement by moving away from old standards. Pointing to a lack of enterprise its president thus impressed upon the members that "haphazard trading methods had to be replaced by a modern and more versatile approach" (95). With the rise in competition, flexibility and adaptability were of utmost importance to give an edge over rivaling concerns. In a way Brazil had moved through the product cycle from a sellers' to a buyers' market, i.e. the importer rather than the customer had to be the accommodating party. Hence, the consular advice that "the buyer will not seek you, but you must seek the buyer" (96). Relative newcomers from Germany were only too aware of this and were prone to act accordingly having brought about this change themselves.

If there was still the belief that a British trader "is not under the same necessity of offering inducements to consumers [and] does not care for the trivialities ..... of trade, but looks to transactions of a simple kind",(97) while German contemporaries advocated that a merchant "must be agile and flexible so as to adjust his business unconditionally to any market condition",(98) disparative performances in marketing would have indeed been little surprising.

Insufficient representation, lack of auxilliary services and outdated conservatism were not the only criticisms levelled against British merchants. Much has been written about their alleged reluctance to grant credit to customers and, conversely, about the effectiveness of long German credit terms (99).

In a developing market such as Brazil, with its limited purchasing power, extended payment terms were of such a great importance that they were frequently viewed as significant as price and quality (100). It was the ability to accommodate this need for credit which decided largely the success of any merchant. Moreover, financial backwardness ensured the continued role played by merchant intermediaries for they provided the necessary finance and accepted the local credit risks. Once overseas markets advanced, becoming self sufficient in financial terms, their role was greatly reduced as could be seen in the German-North American trade which had evolved into a direct business (101).

While contemporary trade reports and later writers such as Hoffman severely criticised the insufficiency of British credit terms, Nicholas' article on overseas merchants in general correctly revokes this view by pointing out their role as financiers (102).

The same observation also applied to Brazil where merchants acted as creditors at two levels. First, the export house at home bridged the gap between prompt or even pre-payment as in the case of some British manufacturers (103) and the deferred payment terms, ranging between three and twelve months, granted to the importers in Brazil. They, in turn, financed local customers, a necessary but also lucrative business. Merchants earned 9-12% on local loans while refinancing themselves themselves at around 6% through their suppliers, whereby the differential effectively represented an insurance premium against higher local credit risks as well as a possibility of exchange devaluation (104). Importers such as Norton, Megaw sometimes preferred to sell on credit rather than on sight terms as the positive interest differential thus earned, added to their income. Their flat commission rate charged to the Baldwin Locomotive works was supplemented by up to 5% made on credits while in the yarn business, their 3.5% commission was doubled through financing (105).

In addition, British merchants had to realise that in order to remain competitive they had to follow the German practice of extending prolonged credits. In 1896, E. Greene noted that sales on cash terms were rare and offered little success as buyers were accustomed to German credits (106). Norton, Megaw had the same experience when a buyer of locomotives practically forced them to sell on credit so as to avoid the loss of business to a German house (107). Just before the war the American consul at Rio de Janeiro, thus found little variance between German and British credit terms (108). Given that credit was an essential promotional tool in Brazil's financial climate, while also offering additional profit opportunities, British merchants could have hardly abstained altogether from this practice.

Yet the evidence at hand still appears to be contradictory. Whilst they granted similar accommodation, even guaranteeing credit lines given by banks to local customers in Brazil, (109) a closer look reveals that German merchants did indeed frequently offer rather extraordinary credit terms. Wille, for instance, sold sewing machines on extended terms while Bromberg granted up to 3 years on machinery sales in Rio Grande do Sul and German locomotives were marketed on a five year basis (110). The US Department of Commerce concluded that "the English exporter feels that long credit is a poor selling argument and one most likely to appeal to customers whose business is least desirable" (111). This attitude, however, implied a fundamental misunderstanding of the needs prevailing in a less developed market. The special report on foreign credits, cited by Nicholas, concluded in a similar vein when noting that "British credit terms are generally shorter than those granted by the Germans" (112). The manager of Norton, Megaw agreed on this point when commenting that German competitors "appear to be using their usual tactics in getting into new business....[through] almost unlimited credits" (113).

Two main reasons can be cited for longer German credit terms. As already indicated by US Department of Commerce, British merchants displayed a certain unwillingness to grant credit terms beyond a certain point when the risk-reward ratio became unsatisfactory. In part, this may have rested on some natural risk aversion stemming from conservative management.

Despite the advantages of credit sales the board of Norton, Megaw always considered deferred payment terms with some suspicion. This applied even to their own bank borrowings, regular access to which was frowned upon as a potential sign of weakness (114). While risk perceptions and management style varied from company to company, making it difficult to rely on the above hypothesis, shorter credit was almost certainly caused by liquidity constraints. In the first instance German manufacturers were known to receive greater facilities from their banks in comparison to their British counterparts, who could rely relatively less on bank credit (115). Consequently the former was able to extend finance to the export house and ultimately to the import merchant. The latter was again liberally accommodated by the new German overseas banks which, rather than being private concerns as in the case of Britain, were owned by the large domestic banks, sharing indirectly their interests in industry (116).

On the basis of longer credit received from his banks the German merchant could pass on the benefit thereof to his customers without tying up his own resources. British banks in Brazil, by contrast, pursued a policy of high profitability subject to minimum risks, which automatically restricted the extent and length of credits granted to their customers, forcing the same to adopt a similar stance in their sales strategy.

Furthermore it may have also been a function of capitalization. Unfortunately, supporting data does not appear to be available, but it is still possible to estimate that the 350 German import firms had an average capital of some £55,000 (117). Wille's equity, on the other hand, amounted to £1.3m and Bromberg commanded a capital of £750.000 while the substantial investments of Bulow, H. Stolz and Stender & Co. also suggest significant equity resources (118). By contrast, British firms such as Clayton, Upton & Co. and Whatley & Co. engaged amounts of £10,000 and £30,000 respectively (119). There were of course, also larger concerns. C.H. Walker, importers of railway supplies and construction materials, had a capital of £500,000, whereas the Anglo-Brazilian Commercial Agency Co Ltd was set up with £250,000 (120).

Yet one may still speculate that British companies suffered relatively more from liquidity constraints in terms of bank support and possibly internal resources. Norton, Megaw was certainly heavily reliant upon and bound by the extent of its working capital. This automatically restricted the ability to offer credit and the need for a rapid turnover, arising out of income requirements, forced them to forego new business on credit (121). Ultimately, comparative policies did, therefore, not differ so much in principle but rather in degree.

In view of Brazil's developing financial status, customers' preferences for credit facilities were complemented by a natural emphasis on cheapness. According to the critics, Britain was accused of again having failed in this aspect since her goods were "simply too expensive" (122). The reasons cited for an Anglo-German price differential were manifold and often hard to prove. It was alleged that German merchants were content with a lower profit margin and could sell more cheaply, while British firms, spoiled by the years of their hegemony, continued to look for larger margins (123). However, few supporting explanations were given and, it is difficult to find much concrete evidence.

Apparently, German interests were taking a comparatively longer term attitude, aimed at clawing back foregone profits on unit sales through increased trading volumes. Given that they were marketing initially unknown products, this would have certainly been a logical strategy to pursue and, providing competition continued to prevail, margins remained restricted. Nevertheless, as the product cycle went on and competition enhanced the price elasticity of demand, British firms should have adopted a similar approach so as to stay in business. Norton, Megaw accepted new orders at a calculated loss to maintain its market share.(124) The validity of this first argument is consequently doubtful and its applicability confined to the early phase of competition.

More realistically, lower prices were a function of lower quality, a fact sneered at by British officials and exporters. Yet, as Brazil was a market with limited purchasing power, it only made sense to market cheap products which suited the financial capacity of the consumer. To a certain extent cheapness was also achieved through savings made on efficient handling and distribution as well as lower freight rates.(125) Apparently minor issues, the "odds and ends" allegedly dismissed by the British merchant, such as packing could already make a difference, for unnecessary packing material reduced the weight of the import and, hence, the duty payable. In the case of ad valorem duties German traders were suspected of under-invoicing, i.e. declaring a lower import value, to pay less duty and gain a price advantage over the competition.(126) Baron v. Richthofen implicitly confirmed this when he noted that "Germany had had considerable experience in countries which imposed a high tariff ..... such as the South American Republics".(127)

This versatility, albeit rule bending, obviously paid off much to the annoyance of the BEA, whose attempts to combat it through official channels proved futile.

Most importantly, however, it was argued that "the increase in German exports is due to over-production and sales at liquidation prices"(128). In other words, cheapness was not solely related to quality and sales strategy but also to lower production costs at home which, in turn, were a function of industrial organisation.

Chapter 1 has already explored the character of Anglo-German industrial polices, contrasting the high degree of specialization and concentration in Germany with Britain's more traditional approach. On the basis of these structural differences production costs developed at a disparative rate. According to Orsagh's calculations, the price of British steel, for instance, rose by about 19% between 1887/90 and 1907/10 while prices in Germany fell by 21%.(129) Table 3.2 illustrates that prices of German manufacturing exports in general rose comparatively less, affording her a definite comparative edge in international trade.

Table 3.2 Unit value of manufacturing exports

	(1899=100) 1913	1929
Britain	125	189
Germany	108	147

Source: A Maizels, Growth and Trade, (Cambridge, 1970), p.205.

This natural price advantage was reinforced by further reductions as a direct result of cartelisation since the pricing policies of syndicates subsidised exports, often to such an extent that goods destined for the world market were sold at prices below the domestic ones. Coke, for example, was sold at 10.45 marks domestically whereas it was priced at 9.84 marks for export(130). This discriminatory pricing policy was only feasible because internally fixed prices generated sufficient profits to cover losses taken abroad.

Evidence brought to the cartel commission showed that during the second hald of 1900, the wire sysndicate lost £43,900 on exports, gaining £58,500 on domestic sales (131). By means of pooling arrangements, such as existed in the wire industry, factories producing for export thus received compensation from the syndicate (132). Compensation took either the form of direct cash payments, as in the case of the Westphalian Coal syndicate (133) or they were granted as export bounties, that is discounts on inputs purchased. These discounts varied from 3 marks/Mt of pig iron to 16.50 marks/Mt of inputs used for wire tacks (134).

Lower prices of German export goods were, therefore, due to two factors; industrial organisations which enhanced efficiency yielding 'natural' price advantage and a deliberate subsidization by manufacturing syndicates. It is somewhat difficult to quantify the resultant price advantages enjoyed by the German merchant in Brazil but the following Table may be used as a very rudimentary guide which is applicable to basic, little differentiated manufactures.

Table 3.3 Average price per 100kgs of selected imports (milreis/100kgs)

	1912-13		1926-28	
	Britain	Germany	Britain	Germany
Wire	25	17	64	58
Iron Superstructure	21	19	80	57
Rails	15	13	51	37
Tubes	18	25	88	105
Cotton Piece Goods	43	42	20	32
Galvanized Iron Sheets	26	21	95	86

Source: Ministerio da Fazenda, Comercio Exterior do Brasil 1914, (Rio de Janeiro, 1915), passim;

Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil 1928, (Rio de Janeiro, 1929), passim.

N.B. Given that both the mark and sterling were based on the gold standard, thus standing in a fixed relationship, relative changes in the value of the milreis vis-à-vis the other two currencies should have been identical, neutralizing currency factors in comparative cost calculations.

Although these figures do not account for difference in quality, which could distort the picture, the data does appear to be in line with the foregoing remarks on relative production costs. It seems that with the exception of cotton goods and tubes German merchants potentially enjoyed considerable price advantages. This was seen at a tender of the Paulista railway company for the supply of steel tyres, where Krupp's agent offered at £12.15/100kgs as compared with the lowest British quotation of £21.4/100kgs (135). Lower prices thus provided the German companies with an opportunity to overcome barriers of entry erected by a lack of market reputation and goodwill, offering the cost-conscious consumer a feasible alternative.

III

After having analysed the development of German marketing in Brazil, as well as having reviewed their performances in light of the traditional criticisms levelled against British commerce, the conclusion is twofold.

The findings on German merchant houses and the usefulness of merchants in general stand in contradiction to some of the existing literature on two levels. It clearly contravenes both the statement that merchant houses were virtually non-existent in German trade, and Kirby's argument that direct selling was an important factor in the German export trade after 1880. In view of our discussion and the simple fact that 2186 export-import companies were registered in Germany in 1905, (136) it seems somewhat hard to understand on what basis these arguments could have been formulated. It might be possible that they were given rise to by some misunderstanding of the marketing chain. German producers did rationalise domestic business affairs by substituting the middlemen with in-house commercial departments, but as far as overseas sales were concerned these were mostly conducted through professional merchant houses.

The view that the latter acted as a barrier to trade and progress, as opposed to direct trading, is again contradicted by the foregoing findings. It was shown that the intricacies, pitfalls and risks involved in the Brazil trade required expert commercial knowledge, political sensitivity and extensive representation on the spot, none of which manufacturers possessed. Moreover, their unfamiliarity with local market practices and the difficulties in assessing the credit risks on internal customers removed them even further from the consuming market while increasing their reliance on the merchant house, this time in the role of a financier. Particularly in cases where the manufacturer insisted on prompt payment to secure a positive cash flow, it would have been impossible to assume a direct relationship since the underlying credit conditions, covering both the shipment period of around 90 days (137) and the buyer's credit of at least a similar period, would have tied up his working capital for too long. Direct trading may have been successful in a financially well developed market such as North America, but not in Brazil.

Furthermore, direct trading was also subject to a simple cost-benefit equation (132). On the spot representation, through a sales subsidiary incurred higher fixed costs irrespective of sales. A direct representation in Argentina for example, would have cost up to £8,300/P.A. (139) as compared to an agency arrangement which should have cost approximately £1000/P.A including the salary of a resident engineer. It was, therefore, only beneficial if the existing turnover warranted the cost differential between a subsidiary and an agency agreement and if the anticipated increase in sales created sufficient marginal cost savings.

It seems that during the period under review, neither condition was met in Brazil and the agency system fulfilled a significant role. There were doubtlessly some drawbacks as pointed out by Aldcroft and others. However, in large measures it was up to the principal to avoid them by offering better assistance and spending more time on selecting the appropriate merchant both in terms of the products already handled by the firm as well as its location in relation to the target market. Moreover, the mercantile system was by no means stagnant. If fully recognized that it had to progress with time simply to safeguard its very existance. As technology and markets advanced, the character of the merchant changed and he co-operated more closely with manufacturers, taking on technical staff, installing showrooms and repair shops. Direct selling and the establishment of multinational corporations, combining production and overseas marketing were, therefore, still rare at this stage.

On this level, one comes to the conclusion that in the case of Brazil between 1900 and 1929, the traditional criticism of the usefulness of merchants seems unjustified. Both German and British merchants at home and abroad played a vital role in the conduct of trade with Brazil, performing a variety of tasks which ensured them a firm place in international trade.

It is interesting to see that nowadays merchants still exist in world trade, the most prominent example being the large Japanese trading companies. While in many instances, the merchant functions have been internalised by manufacturing concerns, as the post war increase in turnover warranted the expansion of multinational concerns into overseas production and in-house marketing, recent years have shown a marginal reversal of this trend, creating a new genre of merchant houses.

The financial deterioration of large consuming markets, renewed credit problems and the renaissance of counter-trade, have necessitated the enlargement of commercial departments in the manufacturing concern. Consequently, the solution to the increasing problems inherent to these developments has been the foundation of trading companies affiliated to industry and often banks, principally in Continental Europe but most recently also in the USA through the American Government's sanction of export trading companies. The debate, concerning the function of merchants has, therefore, not lost in importance but remains topical and manufacturers have once more to address the question of whether their in-house expertise is sufficient to cope with the changing face of world trade.

The other aspect of the discussion, however, concerns the performance of German importers relative to that one of their British rivals. Given that there was little variance in basic institutional structures this left the question of comparative efficiency in marketing. Available statistics unambiguously demonstrate that German merchants were successful in capturing a large share of the Brazilian import trade, giving rise to the notion that they were commercially superior. However, Chapter 2 already indicated that there were factors other than in marketing, which determined the relative move of market shares. At the same time, the increase in the trade did not automatically imply that their performance was always negatively related to the conduct of British merchants. On the contrary, the period under review represented an overall expansion of Brazilian imports which benefited both British and German traders. Moreover, while German commerce was generally found to be represented more effectively, its advance was also the simple result of a larger number of German operators who naturally expanded the potential sales network. Their marketing efforts received a further impetus through some price advantages. These may be partially attributed to comparatively lower profit expectations of the merchant, but they were principally due to the organisation and pricing policies of German industry. Hence, the advance of the German merchant was not just the result of his own doing, but subject to matters beyond his control.

Some of the blame, directly apportioned to British traders, can also not be taken at face value. Deficient quality of representation was frequently caused by a lack of support received from the supplier. A closer look at the merchants' credit policies revealed that they did grant credit as financing proved lucrative and also a necessary response to the German behaviour, although it seemed that German importers were able and willing to pursue this line of action more vigorously, gaining a wider exposure to the market. While the criticisms raised by traditional sources were frequently justified in nature, the underlying reasons were not necessarily a question of bad managment, but could in fact be explained in terms of non-behavioural factors.

Nevertheless, ultimately, British commerce was also hampered by a certain degree of conservatism and a reluctance to change in the face of new market requirements. Excessive reliance on an established reputation and routine trades, which had characterised the early, yet superseded, phase of product cycles, may well have lured merchants into a false sense of security in so far as they regarded it feasible to "evade the exigencies of dynamic change" (140). Their neglect in intensifying marketing efforts and presenting offers in a readily understandable way as well as a certain reluctance to prolong credit terms convey a picture of complacency or at least inflexibility, which was incompatible with the growth in competitive market pressures.

By contrast, German salesmanship, backed by trade associations and an outward looking industry showed and indeed had to show a more determined and dynamic approach. The preoccupation with international trade, as reflected in specialised education and long training periods (141) provided a fertile ground on which such salesmanship could be built. The internalisation of domestic trading functions within Germany brought industry closer to the overseas merchants and improved the flow of information, enabling the latter to modify marketing strategies and services in accordance with changing product requirements. On the other hand, in order to introduce new products, not only at the onset of the trade rivalry but to follow the interchanging product mix which characterised German exports, traders had to pursue <u>all</u> aspects of competition in such a way as to suit the conditions of the market in question, whether they concerned price, quality or sales terms. Once new facilities were offered there was no way back and competition became self-perpetuating, forcing each merchant to stay ahead of his rivals. By the same token comparative advantages created in the production of exportable goods could only be exploited properly, if the independently organized marketing structures operated effectively and aggressively, recognizing and following shifts in the local market place. The growth of German exports to Brazil, therefore, depended on industry and its product range as well as sales organizations, both of which were complementary and co-operated closely, to their mutual benefit.

Chapter 3.

Footnotes

1. See for instance, D.C.M. Platt, Business Imperialism, Merchants and the Latin American Trade, (Oxford, 1977); R. Greenhill, Britain and the Cocoa Trade in Latin America, Centre of Latin America Studies Cambridge working papers No. 8, (Cambridge, 1972).

2. R. Hoffman, Great Britain and the German Trade Rivalry 1875-1914, (Philadelphia, 1933); D. Aldcroft,"Investment and utilisation of Manpower, Britain and her Rivals", in B. Radcliffe, (ed.), Great Britain and her World 1750-1914, (Manchester, 1925); Aldcroft,"The Entrepreneur and the British Economy 1870-1914", EHR, XII, (1964); M. Kirby, The Decline of British Economic Power since 1870, (London, 1981).

3. D.S. Landes,The Unbound Prometheus, (Cambridge, 1967) p.337; Aldcroft, "The Entrepreneur", p.125.

4. W.A. Lewis,"International Competition in Manufacturers, AER, XLVII, (1975), p.583; Aldcroft,"Investment and Utilisation", p.296.

5. C. Kindleberger,Economic Response, Comparative Studies in Trade. Finance and Growth, (Cambridge, Mas., 1978), p.216; Kirby, The Decline, p.8.

6. P. Payne, "Industrial Entrepreneurship and Management in Great Britain", in P. Mathias and M. Poston (eds.), The Cambridge Economic History of Europe, Vol. VII, (Cambridge, 1978), p.207.

7. D.C.M. Platt,Latin America and British Trade 1806-1914, (Edinburgh, 1972).

8. Platt, Latin America and British Trade, p.169.

9. S.J. Nicholas, "The Overseas Marketing Performance of British Industry 1870-1914", EHR, XXXVII, (1984), p.490.

10. E. Buhler, Der deutsche Handel mit Brasilien, (Heidleberg, 1941), p.12.

11. P. Schramm, Kaufleute zuHaus und Übersee, (Hamburg, 1949), p.88.

12. J. Pruser, Die Handelsverträge der Hansestadte Lübeck, Bremen, Hamburg mit überseeischen Staaten in 19 Jahrhundert, (Bremen, 1962), p.44;
K. Ballod,"Brasilien" in V. Halle,(ed.), Amerika und seine W. Wirtschaft und seine wirtschaftlichen Beziehungen zu Deutschland, (Hamburg, 1905), p.632.

13. The first German settlement was founded by the Brazilian Emperor in São Leopoldo in Rio Grande do Sul in 1824 to be followed by numerous new settlements during the 1850s. According to Brazilian statistics 15,815 German nationals entered the country between 1850 and 1859 and a further 63,370 between 1860 and 1895.
K.H. Oberacker, "Karl v. Koseritz ein deutscher als brasilianischer Politiker", Staden Jahrbuch, Vols. 7/8, (Rio de Janeiro, 1959/60), p. 65; K. Fouquet "Der von der Heydtsche Erlass von 1859", Staden Jahrbuch, Vol. 16, (Rio de Janeiro, 1966), p.73.

14. H. Haiden, Deutsche und deutscher Handel in Rio de Janeiro, (Rio de Janeiro, 1921), pp. 152 and 189.

15. Haiden, Deutsche, p. 152.

16. US Dept. of Commerce, Selling in Foreign Markets, Misc. series No. 81, (Washington, 1919), p.181.

17. H. Aubin and W. Zorn, Handbuch der deutschen Wirtschaft, (Stuttgart, 1976), p. 586.

18. S.J. Nicholas, 'Agency Contracts, Institutional Modes and the Transition of foreign direct Investment by British Manufacturing Multinationals before 1939', JEH, XLIII, No.3, (1983), p. 679.

19. Norton, Megaw Co. Ltd. private letter book 1910-1913, 11 May 1911, 13 Dec. 1911.

20. Dr. W. Schueck, Organisation and Betrieb des brasilialischen Importhandels, (Stuttgart, 1926), p. 20.

21. Norton, Megaw Co. Ltd., Private letter book 1908-10, 24 March 1909.

22. Norton, Megaw Co. Ltd., Private letter book 21 Oct. 1908.

23. Norton, Megaw Co. Ltd., Private letter book 24 March 1909.

24. C. Cornelius, Die Deutschen im brasilianischen wirtschaftsleben, (Stuttgart, 1929), pp. 60 and 61.

25. H. Kellenbenz, "Rheinischer Export nach Rio de Janeiro" in Staden Jahrbuch Vol. 20, (Rio de Janeiro, 1971), p. 53.

26. J. Normano, Brazil: A study of Economic Types, (University of North Carolina, 1935), p. 148.

27. Haiden, Deutsche, p. 374; S. Zimmerman, Theodor Wille 1844-1969, (Hamburg, 1969), p. 114.

28. J. Fluck, Die Entwicklung der deutsch-brasilianischen Handelsbeziehungen 1871-1939, (Köln, 1951), p. 102.

29. Dept. of Trade, Report on the economic and financial conditions in Brazil, 1928.

30. Chamber of Commerce archive Hamburg, 1913 95.C.4.14, 95.C.4.18.

31. Zimmerman, Theodor Wille, p. 159.

32. Zimmerman, Theodor Wille, p. 108.

33. Cornelius, Die Deutschen, p. 60.

34. Cornelius, Die Deutschen, p. 60; S. Zimmerman, Theodor Wille, p. 187.

35. Zimmerman, Theodor Wille, p. 159.

36. W. Kundt, Brasilien und seine Bedeutung fur Deutschlands Industrie und Handel, (Berlin, 1903), p. 87.

37. Schueck, Organisation and Betrieb, p. 9.

38. On this point, see T. Roehl, "A transaction cost approach to international trading structures, the case of the Japanese general trading companies, in Hitotsubashi Journal of Economics, XXIV, (1983).

39. Cornelius, Die Deutschen, p. 45.

40. G. Allen, British Industries and their Organisation, (London, 1959), p.11.

41. J. Wendler, Deutsche Elektroindustrie in Lateinamerika, Siemens und AEG, (Stuttgart, 1982), pp. 121-142.

42. Norton, Megaw Co. Ltd. Private letter books 1908-10, 7 Oct. 1908, 23 June 1909.

43. Schueck, Organisation und Betrieb, p. 9, see also British Chamber of Commerce (B.C.C.), São Paulo monthly report January 1924 Vol. 6, No. 58, p. 287.

44. P.R.O. - F.O. 368 276 18536 Cheetham to Grey, 9 May 1909.

45. Zimmerman, Theodor Wille, p. 109.

46. P.R.O. - F.O. 368 128 328 Haggard to Grey, 24 April 1908.
P.R.O. - F.O. 368 390 44937 Hambloch to Grey, 21 Nov. 1910.

47. Schueck, Organisation und Betrieb, p. 74.

48. The bulk of the correspondence between the British consulates and the Foreign Office dealt with enquiries on tariff issues and attempts to retrieve fines to the customs authorities e.g. PRO FO 368-171

49. Wendler, Deutsche Elektroindustrie, p. 138.

50. Nicholas, "Agency Contracts", p.677.

51. Dept. of Trade, Report of the British economic Mission to Argentina, Brazil and Uruguay, (London, 1930), p. 46.

52. P.R.O. F.O. 368 277 Cheetham to Grey, 21 July 1909.

53. EJ/UCL archive letter book, Vol. 2-10 June 1902.

54. Platt, Finance, Trade and Politics, British foreign policy 1815-1914, (Oxford, 1968), p. 394.

55. Dr. A. Zimmerman, Wiederaufbau und Förderung des deutschen Aussenhandels, (Berlin, 1970).

56. US Consular & Monthly Report No. 344 May 1909 p. 48; E. Dettman, Das moderne Brasilien, (Berlin, 1912), Dettman severely criticises German merchants in the engineering trade while praising their British counterparts, pp. 95-97.

57. Archiv der Handelskammmer Hamburg 95/C/4/16 29 Sept. 1906.

58. Fluck, Die Entwicklung, p. 76.

59. Cornelius, Die Deutschen, p. 63.

60 G. Brunn, Deutschland und Brasilien, (Koln, 1971), p. 241.

61. Cornelius, Die Deutschen, p. 64.

62. C. Cornelius, " " p. 45 and 46.

63. Staatsarchiv Hamburg, CI d178, 24 Oct. 1905.

64. BPP 1903 Vol. 76 Consular report No. 3050 on Brazil.

65. EJ/UCL letter book Vol. 1, 12 May 1903, 7 July 1903.

66. Commercial Encyclopaedia, British and Latin American Chamber of Commerce, (London, 1922), p. 450.

67. Cornelius, Die Deutschen, p. 47.

68. Dept. of Trade, Report of the British Economic Mission, p. 46.

69. British Engineering Association (B.E.A.) Brazil as a Market for the British Engineering Manufacturer, (London, 1920), Report No. 18 and 9.

70. B.C.C. Rio de Janeiro, Monthly reports Vol. 2 No. 13, 13 May 1920, p. 18.

71. Dept. of Trade, Report of the British economic Mission, p. 46.

72. Dept. of Trade, Report on the economic and financial conditions in Brazil, 1928.

73. B.C.C. Rio de Janeiro, Anglo-Brazilian Trade and Enterprise, (Rio de Janeiro, 1923), pp. 26 and 29.

74. Norton, Megaw Co. Ltd., private letter book 16 May 1900.

75. B.C.C. Rio de Janeiro, Anglo-Brazilian Trade, p. 29.

76. B.C.C. Rio de Janeiro, monthly reports Vol. X No. 106, June 1926 p. 221;
B.C.C. São Paulo, monthly reports Vol. IX No. 10, October 1926;
B.E.A. Brazil as a Market, report No.17, p. 20.

77. B.E.A. Brazil as a Market, No. 17, pp. 71 and 72.

78. P.R.O. - F.O. 371 11967 - A7022/2634/6 Hannon to Chamberlain, 10 Jan. 1928.

79. Norton, Megaw Co. Ltd., private letter book 14 Sept. 1927; Commercial Encyclopaedia, British and Latin American Chamber of Commerce, pp. 450-455.

80. B.C.C. Rio de Janeiro, monthly reports Vol. 6 No. 58, June 1924; Vol. 2 No. 33; B.E.A. Brazil as a Market, No. 17, p. 20.

81. B.C.C. São Paulo, monthly reports Vol. IX No. 10 Oct. 1926; B.E.A. Brazil as a Market, No. 18, p. 9.

82. P.R.O. _ F.O. 371 12744 A1687/1687/6 Alston to Chamberlain, 16 June 1928.

83. B.C.C. São Paulo, monthly reports Vol. IX No. 10, Oct. 1926.

84. A. Bell, Rio de Janeiro, (London, 1914), pp 62 and 63.

85. J. Kocka, "Expansion, Integration, Diversifikation, Wachstumstrategien industrieller Grossunternehmen in Deutschland vor 1914", in H. Winkel (ed.), Vom Kleingewerbe zur Grossindustrie, (Berlin, 1975), p. 217;
Aubin and Zorn, Handbuch, p. 586.

86. Platt, Finance, Trade and Politics, p. 392.

87. Platt, " " " p. 391.

88. Dept. of Trade, Report of the British Economic Mission, p. 7.

89. e.g. P.R.O. _ F.O. 368/274/3228; BPP 1907 Vol. 88 Consular report No.3 on Brazil;
Dept. of Trade Report of the British economic Mission, p. 50.

90. Platt, Latin America and British Trade, pp. 130-160.

91. BPP 1899 Vol. 96 Worthington Report, part II p.26;
Dept. of Trade, Report of the British economic Mission, p. 46.

92. B.C.C. São Paulo, British Trade with Brazil, (Sao Paulo, 1918), p. 24.

93. P.R.O. - F.O. 368/275/41825 Bosanquet to Grey, 15 Nov. 1909.

94. E. Dettman, Brasiliens Aufschwung in deutscher Beleuchtung, (Berlin, 1908), p. 212.

95. B.C.C. Rio de Janeiro, monthly reports Vol.IX No.12, Dec.1926;
B.C.C. São Paulo, monthly reports Vol. IX No. 96, Aug. 1927.

96. BPP 1903 Vol LXXVI Consular report No. 3050 on Brazil.

97. Platt, Latin America and British Trade, p. 121.

98. E. Landauer,"Über die Stellung des Handels in der modernen industriellen Entwicklung", Archiv für Sozialwissenschaften, Vol. 34 (Berlin, 1912), p. 880.

99. e.g. BPP 1899 Vol. 96, Foreign Trade Competition , Opinions of H.M. Diplomatic and Consular Officers on British Trade Methods;
Hoffman, Great Britain and the German Trade Rivalry, pp. 80 - 85.

100. Dept. of Commerce, Foreign Credits, special agents series No. 62 (Washington, 1913), p. 302.

101. Dept. of Commerce, Selling in Foreign Markets, miscellaneous series No. 89, (Washington, 1919), p. 59.

102. Nicholas, The Overseas Marketing Performance, p. 494.

103. BCC Rio de Janeiro, British Trade with Brazil, p. 494.

104. Dept. of Commerce, Selling in Foreign Markets, p. 527.

105. Norton, Megaw Co. Ltd. private letter book 1908-10, 27 July 1908;
Norton, Megaw Co. Ltd. private letter book 1910-13, 12 Dec. 1911.

106. EJ/UCL letter book Vol. 1, 23 May 1896.

107. Norton, Megaw Co. Ltd. private letter book 1908-10, 2 July 1909.

108. Dept. of Commerce, Foreign Credits, p. 302.

109. B.O.L.S.A. archive, London & Brazilian Bank, extra letters from London to Rio, 1923/24, 30 Aug. 1923.

110. Zimmerman, Theodor Wille, p. 188.
BEA, Brazil as a Market, report No. 17, p. 68;
Dept. of Trade, Report on the economic and financial conditions in Brazil, 1927/28.

111. Dept. of Commerce, Selling in Foreign Markets, p. 60.

112. Dept. of Commerce, Foreign Credits, p. 55.

113. Norton, Megaw Co. Ltd., private letter book 1908-10, 14 Oct. 1909, see also 5 Nov. 1908.

114. Norton, Megaw Co. Ltd., private letter book 1910-13, 5 March 1912.

115. See Chapter 1.

116. See Chapter 5 on banking.

117. Ballod, 'Brasilien', p. 636.

118. BEA, Brazil as a Market, report No. 17, p. 9;
Zimmerman, Theodor Wille, p. 103;
C. Cornelius, Die Deutschen, pp. 27 and 28.

119. Commercial Encyclopaedia, p. 450.

120. L'histoire quantative du Bresil de 1800-1930, Centre National de la reserche scientifique, (Paris, 1973), p 296;
Commercial Encyclopaedia, p. 450.

121. Norton, Megaw Co. Ltd. private letter book 1908-10, 14 Oct. 1909.
Norton, Megaw Co. Ltd. private letter book 21 Sept. 1908.

122. BPP 1906 Vol. 123 consular report No. 3521 on Santos;
BPP 1903 Vol. LXXVI consular report No. 3050 on Brazil.

123. BPP 1903 Vol. LXXVI consular report No. 3050 on Brazil;
BPP 1899 Vol. 96 Worthington Report, Vol. 2, p. 20;
Dept. of Trade, Report on the British economic Mission, p.45.

124. Norton, Megaw Co. Ltd., private letter book 1910-13, 9 Nov. 1911.

125. Dept. of Trade, Report on the British economic Mission, p.50.

126. BEA, Brazil as a Market, report No. 17, p. 20.

127. Kindleberger, Economic Response, p. 217.

128. BPP 1903 Vol. LXXVI consular report No. 3050 on Brazil.

129. T. Orsagh, 'Progress in iron and steel 1870-1913', Comparative Studies in Society and History, (Jan. 1961), p. 221.

130. H. Hauser, Germany's Grip on the World, (New York, 1918), p.82.

131. W. Dawson, The Evolution of Modern Germany, (London, 1919), p. 185.

132. BPP 1918 Vol. 13;
Departmental Committee on the Iron and Steel Trades, p. 12;
See also Dawson, The Evolution, p. 184.

133. Dept. of Commerce, German Foreign Trade Organisation, miscellaneous series No. 57, (Washington, 1917), p. 87.

134. Dept. of Commerce, German Foreign Trade Organisation, p. 86.

135. B.C.C. São Paulo, monthly report Vol. VIII No. 3 March 1925.

136. Dept. of Commerce, German Foreign Trade Organisation, p. 14.

137. Schueck, Organisation and Betriebe, p. 20.

138. Nicholas, 'Agency contracts'; see also Nicholas, 'British multinational investment before 1939, JEH, II, (1982).

139. Nicholas, 'The Overseas Marketing Performance', p. 501.

140. C. Kindleberger, 'Germany's overtaking of England', Weltwirtschafflictes Archiv, Vol. 3 (1975), p.491.

141. BPP 1914/16 Vol. 71, consular report on Germany for 1913.

Chapter 4.

Brazilian Exports 1900-1929

The development and organisation of Brazilian exports is without doubt a well researched topic which enjoys particular attention in the country's economic history. Chapter 2. indicated that, in many ways, Brazil's industrialisation appeared to be closely linked to, if not dependent upon, the fluctuating value of export crops. Government intervention further added to the pivotal role assumed by commodities, in the form of price support schemes to protect the politically powerful agricultural elite as well as the country's exchange rate and thus not least its own financial credibility. By the same token, the role of exports is no less conspicuous in core-periphery relations and the study of business imperialism which analyses the political and economic influence of the foreign capitalist. Similar to Matthew's investigation into Peruvian guano exports, recent research on Brazilian coffee and cocoa centred upon the issue of foreign control, the balance of power between native and expatriate interest groups and, ultimately, as studied in particular detail by Pelaez, the subsequent effects on the terms of trade and economic growth.(1) Agricultural exports were thus not only instrumental in directing the country's economic path as well as early government policy but were also of obvious interest to expatriates in Brazil.

In the debate about Anglo-German rivalry, however, the question of produce exports from developing countries has received relatively less attention. To a certain extent, this is understandable since it was thought to be removed from the issue of economic and commercial performance which centred on the export of manufacturing goods and services to the less developed overseas markets rather than the return trades. Yet the two flows were obviously closely related and mutually dependent.

Commodities featured prominantly in Anglo-German business in Brazil, complementing the import activity of the merchant community through the export of sub-tropical commodities such as sugar, coffee and tobacco to the developed world. Being the only significant source of foreign exchange, apart from external borrowings, the merchants' fortunes had always been intimately intertwined with the advance of the commodity sector. Importers were acutely aware of the importance of commodity exports in terms of the impact on the exchange rate and domestic incomes, both of which determined their customers' purchasing power. At the same time exporting represented a sizeable business activity in its own right. In the absence of centralised selling agencies, which dominate the present day commodity trade in producer countries, expatriate merchants were largely responsible for its organisation. Their complex tasks entailed the inland gathering and transport of produce, its preparation through basic processing, quality grading, packaging and, finally, its international marketing in consumer countries; in other words, the commodity trade formed a further dimension of rivalry between foreign firms.

This chapter relates specifically to the export trade with Germany and Britain, following the changing trade patterns between 1900 and 1929, so as to define their respective interests in particular products. To fully appreciate the overseas involvement, it is necessary to differentiate between the foreign role as consumers and the merchants' wider function as international marketing agents, which operated independently of the needs of the home countries. Within this context the discussion will proceed to assess comparative performances, determine the extent of Britain's stake in this field given the availability of colonial supply sources and also judge the degree to which Germany was able to penetrate this market segment. Finally, the analysis will aim to evaluate the overall role of exports in Anglo-German commerce in Brazil during the period under review. For this purpose, the discussion will begin with an elementary overview of the evolution of total exports from Brazil, followed by a study of the changing German and British market shares therein and, before reaching a conclusion on the above issues, a sectoral survey of the main export commodities as related to the Anglo-German trade with Brazil.

When studying the statistical material it is important to be aware of the different ways in which the flow of goods was calculated in the official records of the three countries. Deviations therein were probably most striking in a comparison of Brazilian and German statistics. The former simply classified exports as per the first port of destination, ignoring transfer trades altogether, while the latter and consequently most subsequent German literature on the topic took a different approach on two counts. Firstly, German sources excluded goods shipped to ports such as Hamburg and Bremen in transit for other European destinations. This applied particularly to shipments of coffee and tobacco, reflecting the Hanse's importance as an international trading place for these items. Tobacco imports between 1910 and 1913, for instance, were valued at about £2.15 m in German statistics as compared with £4.60 m in Brazilian records.

Secondly, Germany classified imports as per the origin rather than the last port of shipment. Coffee and rubber coming from France would have been correctly recorded as Brazilian rather than French and total import figures were, therefore, sometimes found to be higher in German records. The use of this method further inflated values of Brazilian imports by taking into account transhipment costs, intermediary profits and handling charges. As an outcome of this approach, German literature not only fluctuates in total values of imports but also in the relative composition of the import structure.

British statistics, on the other hand, recorded imports as per the last port of shipment. Goods were registered on a gross basis, that is without taking into account the re-export of produce, thereby entailing an artificial inflation of statistics. At the same time, as pointed out by Professor Platt,(2) this method was also misleading because it classifed produce such as cocoa or coffee, imported via Europe as European rather than as coming from the country of origin.

As such, British import figures should coincide with the Brazilian records.

Bearing in mind these discrepancies it was decided that, for the purpose of analysis, export data would be compiled on the basis of the Brazilian statistics which also proves consistent with the foregoing study of the import trade. A comparison of German and British figures, on the other hand, would have clearly been incompatible due to the difference in underlying methods.

I

As illustrated by Table 4.1, Brazilian exports were traditionally centred upon the coffee sector as the dominant foreign exchange earner between 1900 and 1929. Its average share of total exports rose from 53% in the early 1900s to 71% by the late 1920s, leaving the trade highly dependent upon the volume of coffee shipments and trends in international coffee prices.

Table 4.1 Yearly average values of total exports and main components, (£ m)

	Coffee	Cocoa	Rubber	Cotton	Tobacco	Hides	Total
1901/05	20.9	1.0	9.9	1.0	1.0	-	39.6
1906/10	27.8	1.7	15.7	1.0	1.2	-	55.6
1911/13	42.5	1.6	13.0	1.4	1.3	2.0	69.0
1920/24	50.4	2.4	1.9	2.6	1.7	2.4	80.6
1925/29	68.6	3.3	2.5	2.0	1.8	3.4	96.6

Source: Ministerio da Fazenda, Comercio Exterior do Brasil (Rio de Janeiro, 1901-14), passim;
Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

Table 4.2 Brazilian export volumes

(000'MT)

	Coffee	Cocoa	Rubber	Cotton	Tobacco	Hides
1901/05	73.8	20	31.4	22	29	29
1906/10	82.2	29	37.2	17	26	36
1911/13	72.0	32	38	22	24	39
1920/24	76.8	55	19.8	20	35	51
1925/29	84.0	68	22	23	31	59

Source: Ministerio da Fazenda, Comercio Exterior do Brasil (Rio de Janeiro, 1901-14), passim; Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

Yet, despite this vulnerability, total exports rose steadily throughout the period under review. During the pre-war years their value peaked at close to £75 m in 1912, having grown by some 84% since the turn of the century. A comparison of Tables 4.1 and 4.2 shows that the major reason behind this buoyant development was a favourable movement in coffee prices, rather than volumes, following the Taubaté Agreement of 1906. Aimed primarily at the protection of domestic farmers against a pending price drop threatened by a new bumper crop, the architects of the first price support/valorisation scheme also already recognised the need for stable coffee prices and, hence, a stable currency so as to maintain the nation's purchasing power, the level of imports and, moreover, the ability to service the growing external debt.(3) Backed by finance provided initially by export merchants and later the banking community, the state of Sao Paulo set an internal price floor (4) and purchased over 8 m bags of coffee to be withheld from the world market so as to forestall further decline in values. While prices were consequently stabilised, a more definite reaction was not seen until 1909/10 when news of a crop failure finally lifted the value of coffee. A simultaneous strengthening of the exchange also contributed to rising foreign currency earnings, since international coffee prices in US dollars or sterling, being linked to the Brazilian price in milreis, advanced in tandem with the upward movement in the currency.

Export values received a further, albeit brief, impetus from rising rubber shipments between 1908 and 1910 when a doubling of world market prices raised their value to an all time high of £23.7 m in 1910. During the following years, however, the growing competition of the systematic plantation industry in the Far East expanded world supplies substantially, inducing an equally rapid price decline between 1910 and 1913. Sales of Brazil's wild rubber were further burdened by high interior transport and labour costs as well as export levies of up to 22%, all of which damaged international competitiveness. A governmental valorisation scheme failed and exports fell by 39% between 1910 and 1911 heralding the long-term decline in Brazil's world market share as illustrated by Table 4.3.(5)

Table 4.3 Brazilian Rubber production and the World Market, (MT)

	1 Brazil	2 Total Worldwide	1/2x100 (%)
1910	40,800	70,500	58.0
1913	39,370	108,440	36.0
1923	31,000	414,000	7.5

Source: Verband Deutsch-brasilianischer Firmen in Brasilien, Jahresbericht 1924, (Rio de Janeiro, 1924), p. 42.

After a significant setback in 1913/14, the value of total exports remained relatively stable during the war years, rising to hitherto unseen heights in 1919/20 when a consumer boom in Europe, combined with renewed intervention of the Sao Paulo government in 1917 and a crop damaging frost, raised world prices of coffee and total export earnings to £130 m in 1919. Equally erratic, however, a reversal of these conditions virtually halved total exports during the following two years.

By 1921 the authorities were forced to intervene in the coffee market yet again, since etimated production had risen from 8.8 m bags in 1919/20 to 16.2 m in the current crop year (6) and the fazendeiro's loss of revenue arising out of the ensuing price decline was further compounded by an unexpected steady exchange rate. Encouraged by its previous success, the government decided to institutionalise valorisation, rendering it a permanent defence of coffee (7), which operated throughout the 1920s until its final collapse in 1929. Complementing its purchasing programme by restrictions on the amount of coffee entering the ports and storing the accumulated surplus in the interior of the country so as to disguise their true size, the government helped to stabilise coffee prices at levels above the pre-war period. Thus, whereas the volume of coffee shipments advanced only marginally, their average value had increased by 40%, thereby again providing the basis for the overall growth in the value of total exports during that time period. According to Table 4.1 their value between 1925 and 1929 lay some 61% above the peak of the pre-war years.

Given the continued support granted to the coffee sector, the incentive for diversification into alternative products was only marginal and exports increasingly veered towards coffee. The major alternative crop, rubber, which once contributed over a quarter of total export earnings had been relegated to a minor position along with cocoa, cotton, tobacco and hides (see Table 4.4). Under these circumstances, it is interesting to note that, despite the growing prevalence of a classic export monoculture, the economy could circumvent the dangers of a long-term decline in the terms of trade coupled with a growing balance of trade deficit, both of which are frequently associated with such an extreme form of trade dependence.(8) This was the case because Brazil was by far the largest producer of coffee on the world market and the continued valorisation efforts effectively influenced and sustained world prices, thereby securing her export revenues. It appears, therefore, that at least in the short-run until 1929, rather than suffering from these vulnerable circumstances, Brazil was able to turn them to her advantage.

Table 4.4 Relative Composition of Exports,

(%)

	Coffee	Cocoa	Rubber	Cotton	Tobacco	Hides
1901/05	53	3	25	2	3	
1906/10	50	3	28	2	2	
1911/13	62	2	19	2	2	3
1920/24	62	3	24	3	2	3
1925/29	71	3	3	2	2	4

Source: Ministerio da Fazenda, Comercio Exterior do Brasil (Rio de Janeiro, 1901-14), passim;
Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

II

Reflecting the contemporary rise in overseas incomes and consumer demand, Brazil's exports to Germany and Britain expanded substantially during the pre-war period. Exports to Britain rose from £5.25 m in 1901 to a peak of £14.58 m in 1910, declining finally to £8.6 m in 1912, while shipments to Germany increased from £6 m at the turn of the century to £10.68 m in 1912 having grown by some 78%. Brazil's leading export market, however, was the United States whose substantial imports of coffee lifted total purchases from £17.5 m in 1901 to £29.2 m in 1912.

Nevertheless, despite the American dominance as the world's largest coffee consumer, both Britain and Germany still represented important buyers of Brazilian commodities, accounting for a combined share of over 30% of the market during most of the pre-war period. Whereas Britain was traditionally the second largest export market, Germany eventually assumed that position, replacing her rival between 1906 and 1908 and again from 1912 to 1914. This trend was particularly noteworthy in view of the fact that Germany's historically important entrepot trade in Brazilian goods was declining. On the basis of German statistics, total shipments to the two major transit places, Hamburg and Bremen, exceeded the value of the goods actually entering the country by 36.4% between 1900 and 1903. Ten years later exports to these ports fell short of total German imports by some 11%, indicating that the growth in total exports was a function of her rising internal demand rather than of mere cross-trading. Conversely, it will be seen that in the case of Britain, an increasing share of the Brazilian purchases were used for re-exports to other European destinations.

As is to be expected, the outbreak of World War I greatly disrupted Brazil's trading links with Europe. Average exports to Britain during the war years dropped to £6.6 m and Germany was virtually removed from the market until the end of hostilities. Thereafter, total exports only exceeded the pre-war peak once in 1928, while yearly average purchases reached £8.6 m during the second half of the 1920s representing some 9% of total exports.

In view of dwindling rubber purchases, exports to Britain, on the other hand, continued their gradual decline in absolute and relative terms, falling to £4.2 m or 4% of total Brazilian exports during the late 1920s. In both instances, their respective interests as consumers of Brazilian produce had consequently weakened during the post-war period, leaving either side with only minor market shares (see Table 4.6). As depicted by the following Table, for Brazil this implied a significant deterioration of the balance of trade with its traditional trading partners.

Table 4.5 Balance of Trade with Brazil, (£ m)

	Britain	Germany
1901/05	0.3	- 2.9
1906/10	1.3	- 2.6
1911/13	6.7	0.6
1920/24	10.7	0.4
1925/29	13.2	1.9

Source: Ministerio do Trabalho, Industria e Comercio, Anuario Estatistica do Brasil, (Rio de Janeiro, 1939), passim.

Britain's already positive balance almost doubled between 1911-13 and 1925-29, while Germany's long standing deficit was transformed into a credit balance.

Table 4.6 Total Exports to Germany and Britain, (£m,%)

	Germany		Britain	
	£	%	£	%
1901/05	5.9	15	6.7	17
1906/10	8.6	16	9.7	17
1911/13	9.9	14	9.2	13
1920/24	5.3	7	5.6	7
1925/29	8.6	9	4.2	4

Source: Ministerio da Fazenda, Comercio Exterior do Brasil, (Rio de Janeiro, 1901-14), passim; Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

In order to explore the reasons behind the above trends in exports and to analyse the respective trade patterns, the discussion will move on to investigate the leading commodities, being first and foremost coffee followed by rubber, cocoa, tobacco, cotton and hides which together accounted for 80% to 90% of total exports.

1. Coffee

Throughout the years 1900 - 1929 the United States represented by far the largest buyer of coffee from Brazil. Absorbing an average of 43% of total exports, the share of the US market rose to over 50% during the twenties while annual average purchases increased from £10.2 m at the beginning of the century to £36.9 m between 1925 and 1929.

Table 4.7 Coffee Exports to Germany and Britain and Market Shares, (£m,%)

	Germany		Britain	
	£	%	£	%
1901/05	3.5	17	0.4	2
1906/10	5.1	18	0.5	2
1911/13	6.5	15	0.8	2
1920/24	2.1	4	0.5	1
1925/29	3.9	6	0.6	0.1

Source: Ministerio da Fazenda, Comercio Exterior do Brasil, (Rio de Janeiro, 1901-14), passim; Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

As seen in Table 4.7 Germany, being the second largest market with a 15-18% share, raised her Brazilian consignments by about 83% prior to 1914 when average shipments reached £6.5 m per year. A comparison of Brazilian and German statistics indicates that this growth was linked to her rising domestic consumption instead of the transit trade via Hamburg and Bremen, the coffee centres of Northern Europe. The re-exported surplus of coffee thus fell from an annual average of £1.8 m between 1900 and 1903 to an annual deficit of £0.4 m between 1910 and 1913.(9)

Following the war, exports to Germany only recovered slowly since the transit trade to Eastern and Northern was largely replaced by direct links or alternative supply routes and the internal demand for coffee, as a 'luxury' item, suffered from the effects of the depressed economy. Consumption finally began to pick up again during the latter half of the twenties, rising from 1.4 kg per capita in 1924 to 2.17 kg per capita in 1928 (10), although a shift in taste in favour of the milder Central American blends remained a handicap for Brazilian coffee. Nevertheless, imports still grew to £5.2 m in 1928 and coffee remained the backbone of total Brazilian exports to Germany.

For Britain, by contrast, coffee was always an item of little interest since the beverage market was still largely tea-orientated. The relatively modest advance of Brazilian shipments to Britain, observed during the pre-war years, was largely renounced during the 1920s as consumption switched to milder Central American coffees, leaving Britain with a market share of less than one per cent.

This statistical brief hardly does justice to the true importance of coffee in the overall Anglo-German commercial rivalry in Brazil, since it centres on the role of the two countries as consumers, ignoring its importance in the Anglo-German business community. The coffee trade was almost entirely in the hands of foreign merchants, the most important shippers being German, British and American. By 1903 ten export houses, only two of which were Brazilian, handled 76% of all shipments from Santos and 89% from Rio de Janeiro.(11) Their activities went far beyond the direct consumption needs of their home countries. In 1901/2 the British firm of E. Johnston & Co., for instance, handled 1,208,000 bags for export while shipments to Britain only amounted to 180,000 bags.(12)

Nevertheless, over time British houses were to lose their leading role as coffee exporters to their German rivals. At the turn of the century the largest British companies handled 19% of coffee shipped from Rio and Santos as compared with some 16% marketed through German firms. Reflecting their links to a larger home market, a large numerical representation of 18 companies in the two ports, as well as the efforts of T. Wille, German involvement in the coffee business grew throughout the pre-war years. Between 1895/6 and 1910/11 four German houses alone controlled 25% of all Rio and Santos coffee shipped during that period whereas the turnover of British firms covered 20%. Taking into account smaller shippers, the proportion of coffee sold through German traders is further increased to 34% in Santos and 30% in Rio.(13)

By far the largest exporter was the firm of Thoedor Wille which handled almost 17% of total exports from Rio and Santos between 1895/6 and 1910/11 while controlling 11% of total Brazilian coffee exports on the eve of World War I (see Table 4.8).

Table 4.8 Leading Anglo-German Shippers from all ports, 1909-13, (000 x 60 kg. bags)

Company	Total no. of bags (000's)
N. Gepp	4636
E. Johnston	2440
T. Wille	7100
Nossack	1070
Total	63,205

Source: Ministerio da Fazenda, Comercio Exterior do Brasil, (Rio de Janeiro, 1914), p. 283.

To a large extent, the competition between Wille and Johnston epitomised the rivalry between British and German merchants in general. Differences in strategy and success, however, were not so much a function of nationality but of aggressiveness and financial resources. Given an accumulated equity of about £1.3 m by the turn of the century, supported further by generous backing from the German banks, Wille was in a comfortable situation which enabled the firm to market its name vigorously and to encroach even on Johnston's home territory, the London market.(14) Being a company of large size itself bore out certain advantages and attracted new business, since its command over large commodity volumes enabled it to appear strong on both sides of the market, that is as a buyer and seller simultaneously.

Under these circumstances, it was not surprising to find E. Greene of Johnston commenting that "Wille's name is so eternally before buyers in Europe that they are apt to believe that no other firm exists in Santos [and] a company with the intention of fighting Wille [was] likely to find it expensive".(15) Although shipments to Germany represented a large share of Wille's business, his trade was not affected by national boundaries. The company sold directly to US roasters such as the General Foods Corp.,(16) while reaching exclusive marketing agreements with large European buyers such as Huth in London. These arrangements enabled the firm to virtually close competitors out of certain markets,(17) since it maintained exclusive access to some of the largest distribution networks. Johnston's, on the other hand, was also successful in expanding its business, advancing to the position of the third largest shipper from Santos and Rio. Yet it seems that Head Office guidelines and financial limitations imposed certain restrictions. The company's flotation on the London stock exchange in 1910 alleviated some of the earlier capital restraints but the financial freedom was gained at the expense of flexibility because, as a public entity, its major trading decisions became subject to the approval of outside shareholders.(18)

Competitive pressure from Hamburg eased during the war as German trading activities had been seriously curtailed, largely to the benefit of American merchants who gained increasing control over the inter-American coffee business. At the beginning of the twenties both German and British merchants had lost part of their market share leaving the US company Hard Rand as the temporary leader. Their comparative decline in turnover, however, differed. The London based houses of Gepp and Johnston had already enjoyed longstanding relationships with the US market since the European trade was concentrated around the Hamburg merchants, having left relatively less growth potential for outsiders,(19) Exploiting these historical links they, therefore, continued to play an important role, controlling about 9% of coffees dispatched from Santos by the mid-twenties.(20) The situation of the Teuto-Brazilian merchants, on the other hand, was compounded by a shrinkage of the home market and a shift in European entrepot trading from Hamburg to Le Havre.(21) To recapture lost turnover they increasingly had to reorientate their efforts towards North America, which required local representations to compete with American merchants. Smaller shippers such as Bulow and Nossack were left at a distinct disadvantage. On the basis of extensive agency agreements spanning from New York to San Francisco, T. Wille, however, succeeded in re-establishing its lead position, controlling 12% of total coffee exports from Santos and Rio between 1925 and 1929.(22) It was largely due to its activities that German traders, on the whole, could maintain a 20% share of the total coffee exporting business.(23)

In parallel to the growing value of turnover during the first three decades of the century, trading structures changed, becoming more sophisticated. The increasing competition between merchants, such as Johnston and Wille, ensured a dynamic structure and frequent changes in strategy which ultimately reflected upon a growing export volume and an increasing range of activities pursued by coffee merchants. Innovation was thus a necessary function of survival and efficiency. This entailed the buying of produce in the interior where the merchant financed the <u>comissario</u> and ultimately the farmer, in a volatile and risky environment. Discipline in the interior market was low and exporters knew that in a rising market fazendeiros would not deliver against established sale contracts but re-sell elsewhere to the highest bidder.(24) Subsequent losses to the merchant could, therefore, be substantial. At one point Wille's outstanding loans in the interior totalled £500,000, defaults on which forced the firm to take legal action in 30 cases.(25) To mitigate these risks, traders developed a sophisticated system of "option stocks", whereby money was advanced to local counterparts against physical stocks under the control of the former. Rather than purchasing them outright, merchants granted sellers the option to sell at any point during the option period (3 months) allowing them to take advantage of a rising market. (In the converse case the seller had to put up the difference between the advance and the falling market as a margin). The buyer, on the other hand, was given a working stock deliverable against his own physical sales but which did not enter his internal limit on stocks and price exposure to the market. In other words, he enjoyed more flexibility and commanded a larger physical position with a proportionately lower price risk until the seller finally exercised the option and fixed a price.(26)

Conversely, exporters such as Johnston integrated forward into warehousing and handling facilities. This move, aimed at reducing costs and protection of quality during storage, also provided a reliable warrant/collateral system as the basis for the growing financial requirements of this sector.(27) Properly established warehouse warrants, showing the quantity and quality of the goods, while evidencing their insurance served as a welcome security against which banks could lend to the commodity trade.

These developments highlight some of the scope of the merchants' activities but they suffice to demonstrate how the coffee trade had evolved from a basic consignment business into a multi-facet economic activity in the expatriate community in Brazil.

In the overall context of the Anglo-German rivalry, coffee played a key role in business life. Apart from simply satisfying consumption at home, merchants had developed a significant cross trade with the USA and Europe, controlling the largest share of Brazil's major export. The underlying transaction volume, on the other hand, represented a welcome and liquidity generating business for the newly established German banks, while it also served to strengthen the mercantile import activities by means of providing the income and working capital required to finance their diversification.

The importance of coffee was equally extended to Germany, where Hamburg had developed into a quasi-warehouse for Scandinavia and Eastern Europe. Its role as an international trading place for this commodity was further underlined by the rapid evolution of its future exchange which provided insurance against movements in the price of physical goods.(28) As seen in Table 4.9, rising volumes handled by the Hamburg market soon prevented the London exchange from further growth.

Table 4.9 Volumes of the London and Hamburg Terminal Markets before 1914,
('000 60 kg. bags of Santos coffee)

	London	Hamburg
1910	3.557	3.000 (est.)
1910	2.623	9.000
1913	3.180	15.000

Source: S. Zimmerman, Theodor Wille 1844-1969, (Hamburg, 1909), p. 103;
G.L. Rees, Britain's Commodity Markets, (London, 1972), p. 248.

N.B. The turnover on either market bore little relation to the physical import requirements of the country. In 1913 Britain imported 246,000 bags from Brazil as compared with 1,865,000 bags shipped to Germany.

Whilst being a lucrative activity in its own right, which lent further credibility to its standing in European commerce, Hamburg's close links in the produce trade with South America also benefited reciprocal trade flows into Brazil as local companies began to exploit their overseas contacts by expanding into the export business.

Britain's involvement in coffee, on the other hand, was somewhat smaller and its role less significant to her activities in Brazil largely because domestic consumption needs commanded only small volumes. This was by no means tantamount to disinterest. Quite to the contrary, for London based houses could and did not ignore its profit potential. Their activities, therefore, centred on international merchandising and third party trading, securing them a place amongst the top shippers from Brazil. Nevertheless, initially driven by the need to supply a large home market independently, German traders expanded their share in the business at the expense of the established British merchants. Significantly, Britain's losses did not only reflect her smaller domestic consumer base, which had never been of any material relevance, but her declining market share was most pronounced in the cross trades where it was also a function of comparative competitiveness.

2. Rubber

As previously indicated, during the pre-war period rubber exports underwent a substantial appreciation. In volume terms, the total annual average sold rose by 18.5% between 1901/05 and 1906/10, while in terms of value the increase was as much as 60%. For some time growing demand from bicycle and automobile manufacturers outstripped world supply to the benefit of Brazilian exporters.

Table 4.10 Rubber Exports to Germany and Britain and Market shares,
(£m,%)

	Germany		Britain	
	£	%	£	%
1901/05	0.2	2	3.2	40
1906/10	0.6	4	6.2	40
1911/13	0.2	2	5.4	41
1920/24	0.2	9	0.5	24
1925/29	0.4	17	0.5	18

Source: Ministerio da Fazenda, Comercio Exterior do Brasil, (Rio de Janeiro, 1901-14), passim; Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

Operating a duopsony, the United States and Britain together purchased 90% of rubber exports. The value of shipments to these destinations peaked in 1910 when declared exports reached £9.2 m and £11.2 m respectively. Subsequently, the United States clearly became the major export market as the rising volume of purchases destined for her growing car industry compensated for the concurrent decline in world prices and the drop in British consignments which were almost halved to £5.5 m as a result of the development of colonial supply sources in Malaya and Ceylon.

According to Table 4.10 Germany, on the other hand, played but a minor role, consuming 2 - 4% of total exports before 1914. Yet when comparing these figures with German statistics, one notes some obvious discrepancies.

4.11 German Imports of Rubber

German vs. Brazilian statistics,

('000)

	1	2	3 (1-2)
	German statistics	Brazilian statistics	Difference
1901/05	628	176	452
1906/10	2,440	575	1,865
1911/13	2,751	228	2,533

Source: M. da Guia Santos, Aussenhandel und industrielle Entwicklung Brasiliens unter besonder Berucksichtigung der Beziehungen zu Deutschland, (Munchen, 1984), Table 4.10, p. 110.

According to Table 4.11, it appears that Germany bought increasing quantities of rubber indirectly through third parties or in transit. The most prominent transit ports during the pre-war period were Liverpool and, to a lesser degree, Le Havre. Even on the conservative assumption that only 50% of these differences were shipped via Liverpool, this would still reduce Britain's purchases for the home market by £0.90 - £1.25 m.

Similar to coffee, rubber exports from Brazil were again mostly handled by expatriate merchant houses. Table 4.12 illustrates that in 1907 only four merchants controlled 92% of total exports from Belem, one of the major rubber ports.

Table 4.12 Major Exporters from Belem in 1907
(000 kgs.)

Exporter	Europe	U.S.	Total
Dusendschon, Nomenson & Co.	3,750	1,996	6,122
Scholz & Co.	2,998	1,398	5,236
Gordon & Co.	776	2,013	2,869
Adelbert & Alden	731	1,498	2,514
Total	9,042	7,746	18,133

Source: Maria da Guia Santos, Aussenhandel und industrielle Entwicklung Brasiliens unter besonder Berücksichtigung der Beziehungen zu Deutschland, (München, 1984), p.111.

The companies of Dusendschon and Scholz, both German, alone handled 75% of total exports from Belem to Europe, while controlling almost half of the total rubber exports from the Amazonas.(30) On the assumption that 1907 was a representative year for the trade pattern, this implied that the bulk of European shipments were destined for Britain and, furthermore, that an important portion thereof should have finally been landed in Germany. A part of these entrepot goods was certainly bought by British merchants in Liverpool for later onsales to Germany but it is also possible that Dusenschon and Scholz contracted directly with customers in Hamburg and Bremen and that the entrepot trade was then simply a question of transit shipments. Indeed, German consuls complained about the existing direct transport links between Belem and Germany which appeared to be irregular and expensive.(31) In 1906 only 49 German vessels left Belem as compared with 268 ships under the British flag,(32) making it quicker and more convenient to route German cargo via Britain.

To what extent British statistics were inflated by mere transhipments as opposed to intermediary trading, which would have had a genuine impact on the cash flow between Britain and Brazil, is unfortunately unknown but, in any event, rubber still remained Britain's most important item, accounting for 60% of total imports from Brazil. Its growth during the pre-war period, however, was increasingly linked to a transit trade, whereby German companies again featured prominently amongst the leading export concerns despite her apparent lower import level.

With the demise of Brazilian rubber during and after the war, shipments to Europe declined accordingly and even favourable factors, such as a weaker milreis exchange rate and higher export duties on Asian rubber, could not halt this reversal.(33) The change in conditions was most visible in exports to Britain who reduced her share of the Brazilian market by half and average yearly purchases fell from £5.38 m before the war to £0.25 m during the first half of the twenties. By the same token, the transit trade via Liverpool was greatly reduced, as confirmed by a much narrower margin between German and Brazilian statistics. Direct German buying from Brazil also remained sluggish even at its peak of £542.000 in 1925.

Competition in the rubber trade was thus mainly confined to the pre-1914 years when Brazil still featured as a major supplier. During this period, Britain was a comparatively larger rubber importer, while Germany's more limited purchases were mostly routed via entrepot ports such as Liverpool. Yet, despite the smaller domestic demand, the latter's merchants appeared to be amongst the leading exporters in the Amazonas; in fact, the figures for 1907 indicated that their controlling interests were substantially in excess of those of the Anglophone community. Given that no further detail on company exports could be found, this conclusion has to remain but speculation. It seems unlikely, however, that their decisive lead was not confined to one year since the organisation and marketing structure required to handle these tonnages had to be comprehensive and therefore of longer standing.

3. Cocoa

Representing 25% of world supply, Brazilian cocoa originated largely from the northern state of Bahia. In view of the growing popularity of cocoa in Europe and the USA, total exports from Brazil rose from £865,000 to £2,014,000 in 1907 when speculative buying in Hamburg almost doubled world prices. Subsequent selling pressure from the same syndicate entailed a reversal in prices and exports fell back to £1.38 m in 1910, finally to settle around £1.6 m before the war.(34) Trading was mostly monopolised by British and German merchants who expanded their operations in the interior by substituting the conventional native middlemen with in-house buying agents and pre-financing local crops.(35) As in the case of coffee, Hamburg's entrepot status favoured a German advance and The Economist commented that by 1910 "this trade has almost entirely passed into [her] hands".(36) Yet, in spite of this concentration, shipments were almost equally split between Britain, Germany and the United States, each buying 1/5 to a 1/4 of total exports.

Table 4.13 Cocoa Exports to Germany and Britain and Market shares, (£m,%)

	Britain		Germany	
	£	%	£	%
1901/05	0.2	21	0.2	21
1906/10	0.5	28	0.2	12
1911/13	0.3	21	0.4	25
1920/24	0.4	15	0.03	1
1925/29	0.3	10	0.04	1

Source: Ministerio da Fazenda, Comercio Exterior do Brasil, (Rio de Janeiro, 1901-14), passim;
Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

This pattern changed during the 1920s when the USA emerged as the leading consumer of Brazilian cocoa, taking an average of 58% of the £3.3 m exported per annum between 1925 and 1929. As seen in Table 4.13, British importers virtually abandoned the Brazilian market in preference of West African producers and imports from Brazil consequently fell to an average of £30,000 p.a. during the twenties. Given the stranglehold of German merchants, shipments to Hamburg recovered quickly after the war.

Even though Brazil's role as a cocoa supplier to Germany was reduced during the 1920s, favourable demand conditions benefited a recovery of German purchases, the average values of which at £330-360,000 still represented 10 - 15% of total exports. Concurrently, the time consuming and risky nature of the earlier consignment business had been overcome through the introduction of standard grading of the various cocoa classes. This increased transactional efficiency and allowed merchants to sell directly.(37) On the strength of their expertise, German traders managed to retain at least 50% of the export market in Bahia,(38) further underlining their influential position in the export business.

4. <u>Tobacco</u>

Similar to cocoa, Brazil's tobacco growing region was centred in the state of Bahia where it had evolved under a quasi-monopoly of German merchant houses which according to Table 4.14 purchased around 90% of total exports before the war. The origins of their influential position can be traced back to the mid-nineteenth century when ship-owners from Bremen and Hamburg started to buy tobacco for their own account so as to minimise the expense of dead freight on return journeys to Europe.(39) With the growth of the tobacco industry in Bremen and later Hamburg, however, business became more specialised involving large tobacco traders who streamlined supply routes through bulk purchasing in the interior and grading the goods at the port of

Table 4.14 Tobacco Exports to Germany and Britain and Market shares, (£m,%)

	Germany		Britain	
	£	%	£	%
1901/05	1.0	92		
1906/10	1.1	91		
1911/13	1.1	82		
1920/24	0.5	38	0.01	0.7
1925/29	0.6	37		

Source: Ministerio da Fazenda, Comercio Exterior do Brasil, (Rio de Janeiro, 1901-14), passim;
Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

shipment. By the turn of the century, Brazil had become the largest supplier of tobacco for the German industry and the market at origin was shared by fourteen companies, eight of which were linked to Bremen and Hamburg.(40) The leading firms were the houses of Stender & Co., and H. Stolz, who later consolidated their position by founding and retaining control over the tobacco processing industry.(41)

Tobacco exports advanced slowly during the pre-war years. Representing only 2 - 3% of total Brazilian exports, annual shipments rose from £1.08 m between 1901 and 1905 to £1.30 m between 1911 and 1913. Since business in Bremen and Bahia was closely associated, shipments to Germany accounted for over 90% of total exports. A comparison of Brazilian and German trade figures indicates that around 50% of consignments were re-exported for onsale, mostly to Northern Europe, France and Spain.(42) The ports of northern Germany were thus not only large processors and consumers of tobacco but also acted as a distribution centre in Europe. The dangers of this extreme trade dependency for the Brazilian farmer were obvious. As volumes going to Germany dropped from 40,890 MT in 1902 to 18,900 MT in 1905, total export earnings suffered accordingly. A marginal reversal of this interrelationship finally set in between 1911 and 1913, when the German share of the market fell to 82% and total annual shipments advanced despite a concurrent decline in values consigned to Germany.

World War I abruptly interrupted this historic association, allowing European consumers from Holland, France and Spain to buy directly from Bahia. Although German importers returned to the market during the 1920s, recapturing almost 40% thereof, import values never reached the pre-war level as merchants in Brazil gave up the transit trade in favour of continued direct selling. By contrast, Britain's participation in this trade either as a consumer or a marketing agent always remained negligible since 90% of her tobacco imports originated from the States with the balance coming largely from colonial sources.

5. Cotton

Contrary to other commodities, cotton exports were not only dependent on demand and supply factors prevailing on the international market, but they were also linked to developments in the internal Brazilian economy. Its status as an export product was, therefore, limited by the growth of the domestic textile industry which diverted a growing proportion of production away from exports. Despite a steady rise in average export values, the growth pattern was more volatile, experiencing a dramatic fall in 1908/9 from 28,316 MT to 3,504 MT and earnings dropped from £1.7 m to £0.20 m. Thereafter, exports recovered again reaching a peak of £2.30 m in 1913. Part of this volatility might have been due to the fact that the internal demand, having first call on the production, exacerbated the impact of crop failures on the export volume.

Table 4.15 Cotton Exports to Germany and Britain and Market shares, (£m,%)

	Germany		Britain	
	£	%	£	%
1901/05	0.03	3	0.7	71
1906/10	0.01	1	0.8	77
1911/13	0.05	4	1.1	78
1920/24	0.10	4	1.3	50
1925/29	0.08	4	1.5	77

Source: Ministerio da Fazenda, Comercio Exterior do Brasil, (Rio de Janeiro, 1901-14), passim; Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

As seen in Table 4.15, the bulk of the Brazilian cotton exports was destined for the British textile industry, which raised its share from 71% in 1901/5 to 78% before the war. Germany's influence in this sector, on the other hand, was negligible as most of her import requirements were covered by consignments from Egypt, India, Turkey and the USA.(43)

The 1920s brought little change in this picture. Exports in general and to Britain increased during the first half of the decade since prices advanced appreciatively between 1923 and 1925. Having lost somewhat in significance, during that period, Britain regained her previous market position when her imports continued this upward trend despite the subsequent set back in total exports during the following years.

Finally, exports to Germany increased briefly at the beginning of the twenties because of a reduced availability from her traditional sources. A normalisation of trade ties during the late twenties, however, pushed the value of imports back to a yearly average of less than £100,000.

6. Hides

Based on the cattle industry in the southern states, exports of hides underwent a steady but slow growth during the pre-war years. At an average value of £2 m between 1911/13, their share of total exports actually exceeded those of cocoa, cotton or tobacco. The expansion of cattle farming during the following decade ensured the continued rise in the value of hides exported, reaching around £3.4 m during the latter half of the 1920s when, according to Table 4.16, Germany emerged as a major buyer of this product with 45% of the market.

Table 4.16 Hide Exports to Germany and Britain and Market shares,
(£m,%)

	Germany		Britain	
	£	%	£	%
1901/05				
1906/10				
1911/13	0.8	38	0.05	2
1920/24	0.7	30	0.30	12
1925/29	1.5	45	0.10	4

Source: Ministerio da Fazenda, Comercio Exterior do Brasil, (Rio de Janeiro, 1901-14), passim;
Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

Conversely, Britain's interest in this sector remained of minor proportions and the brief increase in her purchases, following the war, was subsequently mostly reversed as her imports of Argentinian and East African hides grew in importance.

Table 4.17 Composition of British Imports from Brazil
(%)

	Coffee	Cocoa	Rubber	Cotton	Tobacco	Hides
1901/05	5.8	3	59	10		
1906/10	5.4	2	64	8		
1911/13	8.7	4	59	12	N/A	0.5
1920/24	8.4	0.4	8	23		5
1925/29	1.4	0.9	12	37		3

Source: Ministerio da Fazenda, Comercio Exterior do Brasil (Rio de Janeiro, 1901-14) passim;
Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

Table 4.18 Composition of German Imports from Brazil

(%)

	Coffee	Cocoa	Rubber	Cotton	Tobacco	Hides
1901/05	60	4	3	0.5	17	
1906/10	59	6	7	0.1	13	
1911/13	66	3	2	0.5	11	8
1920/24	39	7	3	2.0	9	14
1925/29	45	4	5	0.9	8	18

Source: Ministerio da Fazenda, Comercio Exterior do Brasil (Rio de Janeiro, 1901-14) passim;
Ministerio do Trabalho, Industria e Comercio, Comercio Exterior do Brasil, (Rio de Janeiro, 1921-29), passim.

Having analysed the major export commodities, Tables 4.17 and 4.18 conclude the survey by highlighting their relevant importance in the structure of Brazil's trade with Germany and Britain.

In both cases one immediately notes the highly skewed trade pattern towards one commodity. Whereas coffee clearly dominated German imports from Brazil, leaving tobacco and hides behind, its role in British imports was of minor relevance. Instead, rubber, accounting for more than 60% before 1914, performed the leading role responsible for most of the growth in total British imports from Brazil. This degree of concentration lessened during the following decade and exports to both destinations became marginally more diversified as food staples such as rice, meat, oil, fruit and lard became internationally competitive and found new markets in Europe. Conversely, the share of coffee in German imports fell below the 50% mark while hides replaced tobacco as the second largest component. Finally, in the case of Britain, rubber now only represented 8 - 11% of imports and the share of cocoa dropped to less than 1%, proportionately raising the significance of hides and cotton, the largest remaining item.

IV

In conclusion, the discussion illustrated that Germany established a considerable stake in the Brazilian commodity business both as a consumer and as a marketing agent, challenging Britain's interests in the latter.

For part of the pre-1914 years and most of the 1920s, Germany was a relatively more important buyer of Brazilian export products. As a larger coffee consumer without significant colonial supplies to rely on, she had a natural interest in developing the Brazilian market. The same applied to tobacco and cocoa. Although the war and the following currency crisis temporarily curtailed her purchasing power, she was able to reassert herself on the market by means of her extensive merchant network in the country. A remaining shortfall in values to the pre-war levels can largely be explained by shifts in consumer tastes towards products from other origins as well as diminished entrepot requirements in Hamburg and Bremen.

Britain's longstanding role as a buyer began a continuous decline in 1910, to be accelerated by the demise of Brazilian rubber, its mainstay both for internal consumption and cross-trading routes to Germany. Increased purchases of other sub-tropical goods from the Empire further weakened her interest in Brazilian commodities during the 1920s.

When combining the said entrepot business with the direct sales to other destinations in North America and Europe, one realises that the export statistics taken at face value do not reflect the true extent to which Anglo-German business controlled and acted instrumentally in building up produce exports during the entire period. By the same token their interests in this field went significantly beyond the consumption needs of their home markets. Monopolising the tobacco and cocoa trade, while also leading in coffee and rubber, German merchant houses had relegated their British rivals into second place.

Given that Germany was a significant importer of most Brazilian commodities there always prevailed a natural incentive to gain control over this business independently of British intermediaries. As one of the few non-colonised origins, Brazil had proved to be particularly interesting to the German traders, attracting an influx of numerous companies. Consequently, similar to the import sector, their controlling position was in part the outcome of a significant numerical representation consisting of about 50 major firms by 1923.(44) Their market potential was further enhanced by the Hanse's historical connections with Scandinavia and Eastern Europe which could be used as additional sales outlets. Whilst Britain was without doubt the largest European entrepot market, it was less suited for Brazilian produce because London was primarily geared towards colonial goods which were in frequent direct competition with South American commodities. These factors provided German traders with a competitive edge and it was difficult for their London based competitors to break into the Hamburg market. Operating a substantial trade through representations in Germany and at origin it was only a question of time for merchants to apply their knowledge in other areas and develop direct links with third party markets, whether in Europe or the States.

The striving for independence, based on a larger domestic consumer base, served as a catalyst, having a further secondary impact upon British cross-trading activities, the relative set back of which was consequently not simply a function of a diminishing home market. After all, Britain had never been a significant outlet for coffee, which meant that her declining marketing role was at least in part a function of comparative trading practices. By the same token, in the case of cocoa and rubber, British imports were equal to or even larger than that of Germany, yet the Hanse merchants still gained an influential, if not controlling interest at origin. Defensive claims of disinterest should, therefore, be viewed with scepticism.

Apart from the above factors, underlying the relative shift of market shares, the growth of any export house, irrespective of its nationality, was a function of its capitalisation. Internal resources determined its ability to take market positions, hold stocks and finance suppliers and therefore absorb the inherent risks. All of these strategies became competitive necessities. Pre-financing secured steady access to farmers and entailed purchase discounts which reflected the weaker position of the producers as well as the assumed credit risks. At the same time, financing proved an additional source of income, attracting interest levies of up to 24%(45) since alternative agricultural finance institutions were lacking. Inventory keeping, on the other hand, was of advantage so as to satisfy different quality requirements and spot orders from overseas customers as well as to trade with other merchants. Similarly companies had to take calculated views of the market. Although this could be considered outright speculation, it was nevertheless required to maximise the merchants' main asset, namely their information regarding crop prospects and overseas buying patterns, which would determine future price movements.

Simple back to back business or brokerage, whilst being safe, proved unsatisfactory in the long run and offered little growth potential. In sum, without these capital-intensive tactics, companies risked being squeezed out of the market by the more aggressive competitors. Comparative data on balance sheets could not be found and it would be wrong to over-generalise this point, but it seems no coincidence that the leading coffee and tobacco companies, Wille and Stender, commanded a substantial equity to finance their expansion and trading position. As a result, the Anglo-German market shares at origin in Brazil were determined by the respective numbers of representatives, their links to overseas outlets as well as the willingness to assume calculated risks and, finally, the availability of financial resources.

The final question to be addressed in the framework of Anglo-German commerce in Brazil concerns the function of exports therein. The most obvious and indeed widely suggested role is the supply of cheap raw materials and agricultural products to the industrialised markets in the centre, an assumption which is familiar from imperialist theories as one of the cited reasons underlying the outward expansion of capitalism.

Table 4.19 The share of Brazilian Produce in the German and British market,
(%)

	Germany		Britain	
	£	%	£	%
	1901-14	1923-29	1909-13	1920-29
Coffee	62	36	33	7
Tobacco	11	8	-	0.05
Cocoa	15	9	18	0.8
Cotton	0.1	0.2	1.3	1.3
Rubber	28	8	33	2
Hides	18	2	-	-

Source: K. Wyneken, Die Entwicklung der Handelsbeziehungen zwischen Deutschland und Brasilien,(Köln, 1958), p. 169; Annual statements of the Trade of the UK with foreign countries and British possessions.

Table 4.19 shows that Germany was temporarily relying heavily on Brazil as a supplier of coffee and to a lesser degree of rubber. Cocoa, tobacco and hides represented less than 1/4 of consumer needs. For Britain only rubber and coffee were of some limited significance, each representing 1/3 of total needs. During the 1920s the role of Brazilian commodities became truly negligible save in the case of coffee which still covered over 30% of German imports. Her supply function was substantially weakened as alternative producers of sub-tropical commodities emerged on the world market and British consumers were increasingly catered for by colonial sources. From the point of view of securing cheap and reliable supply sources, Brazilian exports played a limited strategic role only for Germany re-emphasising her extensive interests therein.

Nevertheless, given an average annual turnover of £70 m, exports were of paramount significance in host economy's business life, generating liquidity while encouraging the growth of foreign imports and new demands by means of a foreign trade multiplier greater than unity as well as their positive relation with industrial investment.(47) In addition, commodities represented a corner stone of Anglo-German commerce and competition in the country. By the same token, the fact that Britain increasingly consumed colonial produce did not diminish the importance of the Brazilian commodity trade for British house for their main or only source of business remained in Brazil.

Since exports and imports were frequently handled by the same companies their success in exporting had a direct bearing on their import activities. Large merchants such as Stender, Stolz or Wille had all initially used their export business as a springboard for expansion into the import sector. Incomes generated in the former raised their working capital and enabled them to expand their import activities by carrying larger volumes as well as covering the expenses associated with entering new product lines. The ability to run a two-way trade further allowed merchants to balance their exposure to foreign exchange fluctuations by off-setting local currency receivables against payables.

Similarly, the export trade was of substantial significance to the financial sector yet to be examined in the following chapters. The turnover and growth potential of British and German banks alike was directly related to the volume of produce shipments. Exports created the necessary liquidity in the local market on which bankers could base their loan portfolio, as well as foreign exchange resources in the form of produce drafts which they sold to importers in cover of their requirements. Finally, even investments were a function of exports. Attracting foreign capital expenditure into the expansion of plantations, merchants integrated forward into the processing of produce, thus laying the foundations of agro-allied industries. Early British railway investments relied heavily on the coffee sector to generate the expected returns while sovereign loans to the public sector were partially redeemed with state earnings derived from export duties and the entire foreign debt service became increasingly dependent on foreign exchange generated by exports.

Being a sizeable business in its own right and an integral part of foreign competition in many ways, the export trade therefore formed the basis for the further evolution of Anglo-German interests in Brazil. Although it has received relatively little attention in the context of the rivalry debate, its development did impinge upon all segments of commerce, and its control finally gave strength to the successful competitors, creating new opportunities in and supporting other parts of business life.

Chapter 4.

Footnotes

1. W.M. Matthew,'The Imperialism of Free Trade': Peru 1820-1870, EHR, XXI, (1968);
R. Greenhill, 'Merchants and the Latin American Trades: an Introduction', and 'The Brazilian Coffee Trade' both in D.C.M. Platt (ed.), Business Imperialism 1840-1930: An enquiry based on British Experience in Latin America, (Oxford, 1977);
Greenhill, 'Britain and the Cocoa Trade in Latin America before 1914', Centre of Latin American Studies, Working Paper No. 8, (Cambridge, 1972);
see also A.G. Frank, Capitalism and Underdevelopment in Latin America, Historical Case Studies of Chile and Brazil, (London, 1967);
C.M. Pelaez, 'The Theory and Reality of Imperialism in the Coffee Economy of Nineteenth Century Brazil', EHR, XXIX (1976).

2. See D.C.M. Platt, 'Problems in the Interpretation of Foreign Trade Statistics', JLAS, III, (1971).

3. D. Netto, 'Foundations for the Analysis of the Brazilian Coffee Problem', in I.B.C. Essays on Coffee and Development, (Rio de Janeiro, 1973), pp. 75-86.

4. A. Villela and W. Suzigan, Government Policy and the Economic Growth of Brazil 1889-1945, (Rio de Janeiro, 1975), p.81.

5. BPP 1909, Vol. 92, Consular Report No. 4358 on Brazil;
BPP 1914, Vol. 89, Consular Report No. 5262 on Para;
BPP 1914-16, Vol. 71, Consular Report No. 5451 on Brazil;
J. Melby, 'Rubber River: an Account of the Rise and Fall of the Amazon Boom', HAHR, XXII, (1942);
B. Weinstein, The Amazonas Rubber Boom 1850-1920, (Stamford, 1983).

6. Netto, 'Foundations for the Analysis', p. 98.

7. C. Pelaez, 'An Economic Analysis of the Brazilian Coffee Support Programme: Theory, Policy and Measurement' in I.B.C., Essays on Coffee and Development, (Rio de Janeiro, 1975), p. 188.

8. On the question of trade dependency see for instance Frank, Capitalism and Under-development;
P. Prebisch, 'The Economic Development of Latin America and its Principal Problems', Economic Bulletin for Latin America, United Nations, VII (1962);
T. Dos Santos, 'The Structure of Dependence', AER, LX, (1970);
Pelaez, 'The Theory and Reality';
N.H. Leff, Under-development and Development in Brazil, Vol. I, Economic Structure and Change 1822-1947, (London, 1982).

9. M. da Guia Santos, Aussenhandel and Industrielle Entwicklung Brasiliens unter besonderer Berückichtigung der Beziehungen zu Deutschland (1889-1914), (München, 1984), pp. 95-97.

10. K. Wyneken, Die Entwicklung der Handelsbeziehungen zwischen Deutschland und Brasilien, (Köln, 1958), p. 107.

11. da Gaia Santos, Aussenhandel, p. 100.

12. Greenhill, 'The Brazilian Coffee Trade', p. 208.

13. C. Cornelius, Die Deutschen in brasilianischen Wirtschaftsleben, (Stuttgart, 1929), p. 53.

14. S. Zimmerman, Theodor Wille 1844-1969, (Hamburg, 1969), p.103; EJ/UCL, private letters, 3 Nov. 1902.

15. EJ/UCL, private letters, 10 March 1902, 13 Jul. 1903.

16. Zimmerman, Theodor Wille, p. 142.

17. EJ/UCL, private letters, 3 Nov. 1902.

18. For a company history see, E. Johnston & Co.: One hundred years of Coffee, (London, 1942).

19. E. Johnston & Co.: One hundred years, pp. 34-37; EJ/UCL, private letters, 2 Sept. 1902.

20. Wileman's Review, Rio de Janeiro, 1 April 1925.

21. Cornelius, Die Deutschen, p. 54.

22. Zimmerman, Theodor Wille, pp. 153 and 156.

23. Cornelius, Die Deutschen, p. 55.

24. EJ/UCL, private letters, 15 Aug. 1903.

25. EJ/UCL, private letters, 26 May 1903.

26. EJ/UCL, private letters, various 1901/02.

27. Greenhill, 'The Brazilian Coffee Trade', pp. 211 and 212.

28. The future market allows traders and manufacturers to buy and sell coffee for forward delivery at a fixed price. Price risks on existing physical positions such as coffee stocks can, therefore, be covered by an opposite transaction on the futures exchange. The loss of value on stocks in a declining market would have been covered through a sale (short position) and a subsequent buy back at a lower level both having been transacted on the futures exchange.

29. E. Buhler, Der deutsche Handel mit Brasilien, (Heidelberg, 1941), p. 31.

30. Cornelius, Die Deutschen, p. 47.

31. Hamburgisches Staatsarchiv, Senatskommission fur Reichs-und Auswartige Angelegenheiten C I d178, 24 Nov. 1905.

32. da Guia Santos, Aussenhandel, p. 85.

33. Verband Deutsch-Brasilianischen Firmen in Brasilien, Jahrsbericht 1921-22, (Rio de Janeiro, 1922), p. 19.

34. PRO FO 368/173/31056, Cheetham to Grey, 19 Aug. 1908.

35. See Greenhill, 'Britain and the Cocoa Trade';
BPP 1908 Vol. 190 Consular Report No. 4096 on Bahia;
BPP 1909 Vol. 92 Consular Report No. 4358 on Brazil.

36. The Economist, 23 April 1910, p. 880.

37. Buhler, Der deutsche Handel, p. 193.

38. Cornelius, Die Deutschen, p. 50.

39. K. Beutin, Drei Jahrhunderte Tabakhandel in Bremen, (Stuttgart, 1937), p. 22.

40. BPP 1902 Vol. CV Consular Report No. 2696 on Bahia.

41. Cornelius, Die Deutschen, pp. 27, 28 and 51;
da Guia Santos, Aussenhandel, p. 116.

42. da Guia Santos, Aussenhandel, p. 121.

43. da Guia Santos, Aussenhandel, p. 116.

44. Cornelius, Die Deutschen, p. 95.

45. Greenhill, 'The Brazilian Coffee Trade', p. 205.

46. See for instance, J. O'Connor, 'The Meaning of Economic Imperialism', in K. Fann and D. Hodges (eds.), Readings in US Imperialism, (Boston, 1971), pp. 33-40;
T. Kemp, 'The Marxist Theory of Imperialism', in R. Owen and Sutcliffe (eds.), Studies in the Theory of Imperialism, (London, 1972), p. 21;
A. Brewer, Marxist Theories of Imperialism, (London, 1980).

47. W. Suzigan, Investment in the Manufacturing Industry in Brazil 1869-1939, (London, 1984), pp. 82, 316 and 317;
Leff, Economic Structure and Change, p. 218.

Chapter 5.

German and British banking in Brazil

Accompanying the growth in trade discussed thus far, foreign finance became increasingly entangled in Brazil's commercial life. While the expansion of public work programmes, the planning of new railways and port facilities as auxilliaries to the economy's physical trade flows offered interesting opportunities for long-term investments, there was also a growing need for short-term finance by way of the banking system. Lack of indigenous experience and internationally recognised credit ratings provided the expatriate capitalist with a further opening, giving rise to the establishment of foreign banks in Brazil.

Despite a recent spate of renewed interest in banking signified by the works of Born and Chapman,(1) dealing with the history of international banking and the metamorphosis of trade houses into merchant banks, as well as the research of Charles Jones,(2) material on the workings of foreign banks in Latin America is still relatively scarce and, moreover, largely limited to British institutions. Following the early, but informative, reports of the US Bureau of Foreign and Domestic Commerce (3) and Karl Luck's comparative analysis of foreign banking in South America, (4) some twenty years later Joslin published A century of British Banking in Latin America. (5) On the basis of a review of the BOLSA archives, Joslin provided a detailed and descriptive, rather than analytical, account of the British banks in the major Latin American countries. In the absence of a more elaborate discussion of the banks' operations and their performance in relation to their competitors, the work lacks technical detail, although it still represents an informative history of the subject.

Basing himself on Joslin's writings, R. Graham (6) expressed a renewed interest in the topic with a particular view of the British impact on the Brazilian economic development. Although Graham places the banking issue in the wider context of Anglo-Brazilian commerce, his exceedingly close reliance upon Joslin prevents the analysis from breaking any material new ground. Charles Jones, on the other hand, considered British banking from the angle of business imperialism. Taking the case of Argentina, he examined the conflict between the developmental expectations of nationalistic banking ideals and the conservative, albeit successful, operations of the wide range of British financial institutions. Accusations of counter-productive business strategies which blocked a wider national development by favouring foreign interests, Jones concluded,(7) were inappropriate. Whereas the expatriate's bias towards the export-import complex inadvertently contributed to a reinforcement of export-led growth, any direct blame would have to be apportioned to the inability of local bankers to conduct their affairs on a sound basis as well as the rigidity of native banking laws.

A feature common to most of these writings, is their exclusive focus on British banks, omitting the question of any potential foreign rivalries in this field. Given the context of this thesis, the present chapter will throw a new, broader light on foreign banking in Latin America and complement existing literature by providing the additional case study of Brazil. More precisely, however, it will identify the main tasks of foreign banking and examine its link to the merchant community. In view of the financial activities pursued by the latter it is justified in asking if there was an inherent conflict between the merchant and bankers or whether there was room for compromise. Furthermore, it is important to compare the tactics of British and German banks and to study the former's reaction to the entry of competing interests. This will determine the extent to which banking formed a direct element of an Anglo-German rivalry or whether indeed the small number of market participants limited competition, confining the banks to a support mechanism of the trade sector. The latter view, partially reminiscent of the dependista school of thought, will be examined in more detail in a later chapter on the question of business imperialism. At present, the focus of discussion will be confined to relationships within the expatriate community and the role of banking in the international competition between Britain and Germany as related to Brazil.

For this purpose the discussion will take place in five stages. A comparison of the domestic banking systems in Germany and Britain and their potential influence on the foreign banks will be followed by a brief historical synopsis of German banking in South America in order to complement the well-known development of their British counterparts. Having established the historical and institutional background, the analysis will turn to the banks' main operations as they relate to the requirements of commerce. Specifically the survey will concentrate on their activities in foreign exchange, lending and deposit-taking, explaining the differences in approach.

The discussion in this section is based on material gathered from both the pre- and post-war periods. While compatible statistical data was only found for the pre-war years, the discussion on strategy, however, does largely apply for the entire period. The impact of individual business strategies on performance, both in terms of growth and profitability, will be assessed separately before a final conclusion on the place of banking in the Anglo-German rivalry is formulated.

I

As an appendix to domestic banking, the character of German and British banks in Brazil was invariably influenced by the organisation of their respective internal financial systems. Economic history shows these to be at considerable variance. As W. Bruch put it, "the establishment of the German banks and the principles that governed them contradicted every tradition of banking venerated in England".(8) The president of the Institute of Bankers, G.H. Powmall, argued in a similar vein that "the British banking system differs from all others... it cannot conform to the conditions of the half-bank, half-investment or pioneering conditions of foreign concerns."(9)

What were these differences? - British deposit banks, being the dominant feature of the British system, concentrated their activities upon the supply of short-term finance, mainly by means of overdraft facilities and acceptances. Their overriding concern was to seek secured transactions and to avoid medium to long-term loans. As a result of this mode of conduct they generally preferred to focus on financial rather than industrial and commercial dealings. After all, investments in Treasury Bills and secured loans to the Stock Exchange represented prime reserve assets yielding attractive returns. By restricting their field of activity in this way the British deposit banks left ample room for separate institutions to assume the other tasks of banking. Hence, the British banking system was of a highly differentiated character. Merchant banks organised the issuing of foreign securities and financed Britain's import trade by means of acceptance credits(10), while discount houses provided market liquidity by trading acceptances. Industrial finance, on the other hand, was handled by trust and finance companies, whereas foreign and colonial banks independently specialised in banking overseas and colonial territories.(11)

German banks, on the other hand, accepted a far broader role by combining commercial, industrial and investment banking.(12) They had developed rapidly in conjunction with industry during the second half of the nineteenth century. Although banks became the main source of long-term credit to industry, their growing interconnection took longer to develop than is often assumed. Riesser(13) pointed out that only after developing a long-standing relationship and mutual confidence between customer and bank, did the latter engage in long-term financing.

Typically, the bank first assisted its clients in the transition from a partnership to a private company and ultimately a public company. In the absence of sufficient accumulated capital the transition was generally only possible by the formation of joint stock companies and their flotation on the Stock Exchange. As opposed to Britain, where this task was generally left to the company promotor and/or trust company, German banks assumed that role by subscribing the issue at a fixed price and subsequently placing it. In some instances such flotations also served as a means by which banks attempted to recover loans granted to enterprises which were subsequently threatened by bankruptcy. Between 1885 and 1900 German banks issued securities in excess of £1,200 million.(14) Even though the successful placing of industrial securities was enhanced by the stock exchange law of 1896, it simultaneously reinforced the close link between industry and banking since newly issued shares were barred from trading for one year and were, therefore, warehoused in the banking system, which provided the company with bridging finance(15). Thus, while British banking was highly differentiated, distancing itself from industry, its German counterpart was actively involved in industrial matters. As illustrated by Table 5.1, cross shareholdings frequently assured them some influence over management and interlocking directorships were common.(16)

The extent of such variances in character may seem surprising, but in essence they reflected similar differences in underlying conditions.

Table 5.1 No of seats on industrial supervisory boards held by banks

	Seats	No of Enterprises	No of Chairmen in such companies
Deutsche Bank	78	73	15
Schaafhausener Bankverein	78	60	16
Berliner Handelsgesell-schaft	74	56	13
Discontogesellschaft	67	47	11
Dresdener Bank	49	-	11

Source: K. Born, International Banking in the 19th and 20th Century, (London, 1983), p.170.

The British system emerged gradually over a longer period of time and it was designed to be a reponse to demands for short-term credits, whereas German banking evolved over a relatively short period of time and it had to cope with the demands of an equally rapid industrial development. Thus, different conditions prevailed in the demand for credit. British companies relied little on long-term finance granted by banks, since industrialisation had economised on capital and was largely self-financing through reinvestment of profits. According to Cottrell industrial assets were a major gap in the banks' portfolios.(17) In Germany, on the other hand, the emphasis was on heavy industries and a tendency to enhance industrial concentration, both of which were capital intensive. Given Germany's rapid economic progress, there was little time for capital accumulation and industrialists had to depend more on the banks.

More fundamentally, however, German banking was based on a stronger equity base. In part, this was the outcome of the concentration movement in German banking, but it was also a reflection of a rapid and profitable balance sheet expansion.(18) Annual growth rates of capital in Germany, further favoured by a relatively low cost of capital as the result of a strong public demand for banks shares,(19) consistently exceeded British rates.

Table 5.2 Annual growth rates of paid up banking capital

(%)

	Britain	Germany
1890/2	2.9	5.6
1900/2	1.6	6.3
1910/2	0.1	4.4

Source: R. Tilly, 'German Banking 1850-1914: Development Assistance for the Strong', JEEH, XV, (1986), p. 141.

According to Pohl, the 53 largest German banks commanded an aggregate equity of 2,542m marks, as compared with the equivalent of 1,280m marks held by Britain's leading 53 joint stock banks.(20) Moreover, the latter's capital was small in relation to its vast liabilities, derived as deposits from an extensive branch network which was absent in the case of the German banks.(21)

Consequently, it forced British banks to keep their asset side on a short-term basis. In other words they carried excessive liabilities on minimum capital and reserves, thereby working overwhelmingly with their customers' capital. As a result, they could not accept the risks implicit in locking up funds in long-term credits. A glance at the Banker's Almanac shows that the proportion of call liabilities, covered by paid capital and reserves, was indeed minimal.

Table 5.3 Selected capital-liability ratios in 1914

(£m)

	Paid up Capital 1)	Reserve Fund 2)	Call Liabilities 3)	$\frac{3}{1+2}$ X 100 (%)
London County & Westminster Bank	3.5	4.0	90.9	8.2
London City & Midland Bank	4.8	4.0	118	7.4

Source: Banker's Almanac, London, 1915, pp. 169 and 180.

These proportions were by no means exceptional. Foxwell estimated that a ratio of 7-9% was the norm. Riesser's survey based on a sample of 169 German banks, on the other hand, showed an average coverage of 45%.(22)

The final question to ask now is how did these differences in domestic banking affect the operating of the respective overseas banking?

Based upon careful studies for credit purposes, as well as their representation in industrial management, the German banks had an intimate knowledge of the resources and needs of industry, a feature uncommon among British clearing and foreign banks. They were in a privileged position, first, to advise on the viability of exporting and, second, to provide the adequate financial assistance through their subsidiaries, the "foreign" banks or in case of larger projects through joint ventures such as the Brasilianische Elektrizitatsgesellschaft in Brazil.(23) This close link between industry and bank served as an important incentive for the latter to foster the progress of German trade and finance abroad. Furthermore, it should have facilitated the coordination between the parties concerned, thereby improving the flow of information and easing the task of decision-making. At first sight it seems that the evolution of German overseas banks was very much the logical and necessary extension of an already existing relationship between finance and industry at home.

British overseas banks (prior to 1918), on the other hand, had no such direct connection either with the domestic banks or with industry. They were separate entities designed to cater for the requirements of trade in a manner they saw fit. This allowed them to operate quite independently and to pursue their own objectives free of any influence outside their shareholdership. In the course of this chapter, it will be shown that these different backgrounds did have an important impact on the motivation and ultimately the conduct of German and British banks in Brazil.

II

Having outlined the differences in the character of domestic banking in both countries the discussion will now turn to the international market and provide a brief synopsis of the origins of German banking in Brazil.

After the unification of Germany, strong demands for a German bank to handle it external trade independent of French and British banks developed. This dependence had not only complicated trade unnecessarily, but also proved to be costly. Luck estimated that previously Germany had paid annually 3.5m marks in commission for the banking services of the London market.(24) The need for a representative on international financial markets finally led to the foundation of the Deutsche Bank, Berlin, in the same year. Its objective was defined as "...the transaction of all sorts of banking business, particularly between Germany... and overseas markets."(25) It is obvious that the emphasis was placed on the handling of the export sector and to achieve this the bank set two aims: to reach the capacity to finance German overseas trade and to introduce the mark overseas so as to handle the external trade independently of foreign banks. In view of the close association between industry and finance, assistance to exporters was not just an idealistic matter of national interest but also one of self-interest for the Deutsche Bank.

Having first established a branch in London, the bank extended its network by acquiring the La Plata Bank in Argentina in 1874. Its first contact with Latin America, was a failure as the operation had to close its doors in 1885. To avoid the inherent dangers of having direct overseas branches with full liability and recourse to the mother company and thus to its domestic deposits, it founded the Deutsche Ubersee Bank in 1886, which was shortly thereafter reorganised into the Deutsche Uberseeische Bank so as to satisfy its greater need for capital. This bank was not merely a branch but a self-contained entity, the share capital of which was owned by the

Deutsche Bank. In Latin America it commenced its operations under the name of Banco Aleman Translantico by opening a branch in Buenos Aires in 1887. It was not until 1911 that it entered the Brazilian market, which had hitherto been adequately catered for by the exclusive operations of the Brasilianische Bank fur Deutschland, founded in 1887 by Discontogesellschaft, Berlin, and the Norddeutsche Bank of Hamburg. Finally, in 1906 the Dresdener Bank set up the Deutsch Südamerikanische Bank A.G. with a nominal capital of 20 million marks which established its first branch in Brazil (Rio de Janeiro) in 1911 and added a further two branches in Santos and São Paulo to its operations in 1924.

Table 5.4 German Banking in South America in 1914

a) Total deposits and credits in current account in US$'000

b) Number of branches

	Deutsche Überseeische Bank		Brasilianische Bank fur Deutschland		Bank für Chile und Deutschland		Deutsch Südamerikanische Bank	
	a)	b)	a)	b)	a)	b)	a)	b)
Brazil	3.141	4	18.088	5	-	-	3.046	1
Latin America	45.219	26	18.088	5	3.808	7	12.851	4

Note - the fifth bank was the Banco Aleman Antiqueno in Columbia.

Source: Karl Luck, Die Entwicklung der englischen, deutschen und amerikanischen Bankinteressen in Südamerika, (Berlin, 1939), p.46.

The increase in German trade with Latin America provided a main field of activity for German overseas banking. As illustrated by Table 5.4, by 1913 five banks operated in Latin America, whereby three institutions limited their operations to one country only.

The German branch network in Brazil comprised ten offices which held a total of approximately $24,295,000 in deposits and current account credits, compared with 42 offices in Latin America and $61,878,000 in deposits and credits.(26) The largest bank operating in Latin America was obviously the Deutsche Überseeische Bank, although in Brazil the lead was taken by the Brasilianische Bank für Deutschland. Given its smaller capital base it did not attempt to rival the expansion of the Deutsche Überseeische Bank and confined its operations to Brazil. Its more cautious attitude was reflected in the annual report for 1891 which stated that the bank should proportion its activities only to its available resources and that it should progress cautiously.(27)

In view of Brazil's financial instability at the time, the bank initially subjected its operations to close restrictions and it maintained large gold reserves as a protection against the violent fluctuations in Brazilian exchange. As a result its initial growth in lending was limited compared to later years, but it was due to this prudence that the bank weathered the early years of operation, which witnessed substantial depreciations of the milreis and a large number of domestic business and banking failures. Its balance sheet shows that following the turn of the century, the bank's turnover finally picked up and total lending rose from approximately 15m marks in 1899 to 67m marks in 1913.

The bank only recovered slowly from the effects of the war. Its operations had been interrupted for several years and many of its customers now held accounts with American and British banks. Immediately after the stabilisation of the German currency in 1924 the bank altered it legal status and became a company based on Brazilian law with its head office in Rio de Janeiro, although the decision centre remained in Berlin. The main reason behind this change in status was the avoidance of heavy capital losses which would have been incurred if the milreis assets had been converted back into the new German currency. Finally in 1929, following the merger of the Deutsche Bank and the Discontogesellschaft, the Banco Brasileiro Alemao was taken over by the Deutsche Überseeische Bank.

The Brasilianische Bank fur Deutschland did not stand alone with its problems after 1918, since all German banks experienced considerable difficulties in reestablishing themselves in Brazil. The emergence of American banks had taken away a large share of their business and added a new factor to inter-bank competition. However, despite the fact that the market for mark acceptances was largely destroyed, they succeeded in maintaining an important, though smaller, presence in Brazil. In 1924 German banks carried 12% of the total business handled by foreign banks.(28) By 1928 their capital amounted to 24,000 Contos do Reis compared with 28,883 of the British banks and 4,127 of the National City Bank of New York.(29) The Anglo-German rivalry in banking now became somewhat less pronounced. Competition was more diversified and both had to compete with American banks, which had gained a firm grip on the inter-American trade.

In many respects German banks were, therefore, latecomers to Brazil's financial markets and as such they had to overcome the obstacles posed by the longstanding dominance of English banks, which had pioneered international banking and operated in Brazil since 1862.

The first British bank to open its doors in Rio de Janeiro was the London and Brazilian Bank Limited, which merged with the London and River Plate Bank in 1923 and changed its name to Bank of London and South America, a wholly owned subsidiary of Lloyds Bank, London. 1864 marked the formation of the Brazilian and Portuguese Bank Limited, soon to be reorganised into the British Bank of South America Limited. Finally, we come to the London and River Plate Bank founded in 1862 under the name of the London, Buenos Aires & River Plate Bank, which as a result of the increase in the La Plata trade with Brazil opened its first branch in Rio de Janeiro 30 years later. By 1913 the three banks operated 23 branches in Brazil, holding a total of $62m in deposits and current account credits.(30)

III

Following this brief history of German banks in Brazil the analysis will investigate the role of banking in foreign commerce and particularly the newcomer's efforts to break Britain's stronghold over this sector.

Foreign banks in Brazil performed a multitude of services. Given their close relationship with the merchant community, a great deal of their time and effort was devoted to the servicing of international trade. It was their responsibility to organise the flow of funds and shipping documents between continents. They collected and remitted receivables both in Brazil and Europe, as well as in America by means of letters of credit or documentary collections. Apart from these administrative tasks, which provided them with a steady fee income, they supplied customers with the necessary foreign exchange cover and granted them short-term credit facilities. Additionally, they acted as house banks for the foreign community administering their current and deposit accounts. Over the years, Brazilian nationals had also gained considerable trust in expatriate business practices, and as a result they often preferred to entrust their savings to a foreign rather than a domestic bank. Consequently, they extended their role beyond that of international bankers by becoming involved in domestic matters. They organised internal payments between different parts fo the country, provided domestic clients with secured credits and handled their accounts. Nevertheless, given their limited presence in the country, they still maintained the character of a wholesale rather than a retail operation.

Their role as a source of medium to long-term finance for the agricultural and the up-coming industrial sector was also limited.

Agricultural credits, other than of a short-term nature and stock financing, normally restricted to large shippers and farmers anyway, were left to domestic institutions such as the Banco Agricolo of 1908. A notable exception here was, of course, the series of loans granted to the state of Sao Paulo by a number of European banks in support of the coffee valorization, such as a credit for £1m granted by the Brasilianische Bank in 1907(31), and a three year loan for £15m arranged by British and continental banks in 1909.(32)

Industrial finance, if sourced by foreign institutions, was raised by the British merchant banks or the large German banks, which supplied the required funds through debt issues sold to the investor in Europe. With the exception of the Brasilianische Bank, foreign banks did not participate as principals, but preferred to act as agents in order to avoid locking up resources over the long term and mismatching maturities of assets and liabilities. Industrial credit from the foreign banks, if granted at all, was thus limited to short-term working capital finance as provided by the more aggresive banks such as the British Bank of South America and the Brasilianische Bank.(33)

For the purpose of this chapter we will limit our discussion to their main activities, namely, to foreign exchange, loan and deposit banking.

One of the major fields of operations for any foreign bank in Brazil was the foreign exchange market. Given the volatile nature of the milreis, merchants protected themselves by hedging any receivables and payables denominated in foreign currency on the forward market, thereby fixing a given rate for future transactions. Importers made immediate use of local currency credits so as to purchase for a forward delivery date the foreign exchange required to meet an import bill, determining the exact cost thereof in milreis.

Conversely exporters sold their foreign exchange receivables on discounting the same with a bank as a protection against a potential future depreciation of their income.

The importance of foreign exchange operations for the German banks was two-fold; first, it was a valuable source of income as the spreads between buying and selling rates, as well as differences in quotations within Brazil, offered attractive returns. Secondly, it represented the basis of an independent network of German overseas banks. Hence in order to compete successfully with the British and other banks they had to convince potential customers through swift service and pricing. A major step in this direction was the introduction of new currency facilities. Apart from dealing in sterling they offered mark quotations which were particularly attractive to the German trade, as it was no longer necessary to go via the London exchanges. In other words, if a merchant in Rio wanted to pay his supplier in Germany in marks he could do so by converting milreis directly into marks rather than changing first into sterling and then into marks. Although sterling still remained the dominant currency for Brazil the elimination of the middlemen in London reduced the transaction costs on a purchase of German goods. At the same time access to a milreis/mark exchange enhanced the German exporters' ability to quote directly in milreis, which was welcomed by clients and contributed to his marketing efforts by eliminating an element of risk for the customers.

In light of the milreis' volatility foreign exchange risks were indeed high. The imperfections of Brazil's currency markets gave rise to considerable opportunities for profit-making or losses, since markets remained highly localised.

Deficient communication between trading centres such as Santos and Rio could offer interesting arbitrage possibilities and a fall in the value of foreign exchange, stemming from a rise in the supply of sterling or mark-denominated export receivables in Santos could have been exploited profitably in Rio if the knowledge thereof had not been fully dissipitated. Rio could then sell foreign exchange at prevailing rates and buy it back at a lower price once the market had caught up with Santos. To prevent undue speculation all foreign banks laid down strict rules concerning the nature of the business to be undertaken as well as foreign exchange ceilings limiting the banks' exposure. The extent of these limits differed from bank to bank. German banks seemed to be given more freedom in their operations, a fact they took full advantage of. Larger foreign exchange limits allowed them to expand the volume of currencies traded and to grant larger lines to particular customers while also increasing the number of clients they dealt with. Yet the allocation of larger foreign exchange ceilings alone was not enough to guarantee expansion in the market.

Hence, to attract business banks attempted to offer more advantageous quotations, thereby operating on smaller profit margins. Their ability to do so, however, was limited by their own position on the market and trading conditions in general. The latter was very much subject to the influence of the Banco do Brasil. Villela and Suzigan estimated that it sold 75% of all foreign exchange.(34) The manager of the London & Brazilian Bank confirmed this when he noted in September 1905 that "the recent action (of the Banco da Republica) shows but too clearly that the control of exchange is completely in their hands",(35) which ensured that none of the foreign banks could get a dominant grip on the market. Consequently, their pricing had to remain competitive and the rate differential between German and British banks should have remained limited and determined by profit expectations as well as transaction costs. The latter, according to the correspondence of the British Bank of South America, again varied to the extent that the Brasilianische Bank appeared to enjoy an advantage since it had no British stamp dues to pay, which facilitated its efforts to improve quotations. It was, therefore, seen as being prepared "to sell coffee drafts (i.e. foreign exchange) at rates British banks find impossible to compete with".(36)

The different approaches taken by German and British banks on the currency market are further illustrated by the former's attempt to corner and gain control over the market through large position taking in Rio de Janeiro in 1901. The Brasilianische Bank obviously speculated heavily in the hope of gaining an increased share of the business at the expense of its competitors. The British banks, on the other hand, were not willing to engage in a competitive struggle as this would have implied a departure from their policies. They found it sufficient to openly show their disapproval of speculation in the hope that the German bank would give in. Hence the advice "to avoid all speculation and any attempts to govern rates or regulate exchange".(37) Nevertheless, being aware of the vigour with which its competitors operated in the market, the Rio office of the River Plate Bank still requested head office to sanction increased foreign exchange limits so as to enhance its turnover. Such pleas were, however, rebuked by London on the grounds that the board of directors was quite content to maintain smaller positions which limited the risks involved while not unduly jeopardizing profitability.

Consequently, despite the fact that both banking groups offered similar services in foreign exchange, it seems that they had different priorities in this field and managed their operations accordingly. The aim of the German banker was to attract customers in order to expand and to gain control over the services required by Teuto-Brazilian trade as a stepping stone for further growth. To achieve this objective he required more flexibility so as to accommodate customers by offering them larger and new facilities and quoting marginally more attractive rates at the expense of his profit margin. British banks, on the other hand, placed the emphasis on secure and moderately profitable dealings rather than volume, thereby restricting business to large well-known merchants. Their reservations about the growth-orientated and aggressive policy of German banks was clearly reflected in a letter of the River Plate bank, which stated that "to do business for the sake of doing business is not at all what is wanted."(38)

Closely associated with the foreign exchange trade was the complex of loans and deposits, the latter providing banks with the required working capital. Exporters could generally not afford to wait until their drafts on overseas buyers matured. To finance their domestic purchases they discounted receivables when covering their exchange.

Importers, on the other hand, needed credit to finance their purchases and to bridge the intervening time span until they had effected a sale domestically. The bank's willingness to finance the merchant houses was, therefore, of crucial importance for the latter's ability to improve sales terms by means of credit facilities.

Although traders did act as financiers in their own right, they were not in direct competition with the banks. Both interest groups catered for a different clientele. The debtors of an import merchant were often too small to be of interest for the foreign bank. Moreover, being mostly local concerns, they were less known to the expatriate banker and presented a higher credit risk. Banks could source sufficient business by concentrating on the well known merchants both abroad and in Brazil. In addition, the lending activities normally led to other incremental business opportunities such as foreign exchange or documentary collections, which increased the overall return from a customer relationship. Consequently, the foreign banker was under little necessity to penetrate the local market, whereas the merchant had to take this additional step in order to secure his business. Nationalized railway concerns, for instance, were renowned for their poor payment performance, but importers continued to supply them with credit, because they simply had to do so in view of the prevailing competition.(39) Suppliers also had a better insight into local business affairs and enjoyed more leverage over their customers in so far as they could refuse to deliver further spare parts or auxilliaries in the event of excessive outstanding payables.

Conversely, in the produce trades bankers would only lend against existing stocks, shying away from the vagaries of crop financing endangered by imponderables such as weather conditions and plant diseases. Export merchants, on the other hand, had more expertise in assessing these factors, while having a natural interest in accommodating farmers.

Although there were certainly exceptions, the loans of T. Wille to the state of São Paulo being a point in case, merchant and banking credit were complementary rather than competitive. Effectively, complementarity bordered on dependency since neither business group could prosper without the support of the other. A good understanding between the two was, therefore, bound to be mutually beneficial and the extent of bank credit granted was instrumental in deciding a trader's success or failure in winning a particular contract.

The most common form of bank finance was the use of open credit up to a fixed limit in current account. Under these credit lines banks either discounted drafts or advanced a proportion of their face value, using the underlying receivables and shipping documents as security. Very rarely were credits given on an unsecured basis and in these circumstances banks requested an endorsement of the overdraft by one or more reputable firm, who became guarantors for the borrower.

Alternatively banks provided acceptance credits whereby the exporter drew a separate bill on his bank in London, or in the case of shipments from Brazil on the London correspondent of his local bank. He was then quickly able to realise cash by discounting the bank bill in the open market, whereas the accepting bank was again secured by the trade receivables and the shipping documents. Finally, finance could also be provided under letter of credit opened by the importer's bank in favour of the seller, who could discount bills of exchange drawn hereunder.

While carrying the merchant trade through these mechanisms from the bank's perspective the lending business was of paramount importance, because it determined its asset and, thus, balance sheet growth. Being less recognised in foreign banking, the German banks had again little choice but to pursue a vigorous and accommodating policy.

The obvious way for the newcomer to enter the market was to undercut the rates offered by the old established banks. This was, however, not merely a short-term strategy but, given the availability of funds, a continuous policy. Hence in 1908, some 21 years after the foundation of the Brasilianische Bank, the manager of the River Plate Bank in Rio noted that the German competition cut the discount rates on produce bills to such an extent that only marginal profits could have been earned.(40) Similar comments recurred frequently in the reports of the British banks and also applied to the 1920s as German institutions reasserted themselves in the market.(41) The extent to which they pursued this rate cutting process was naturally limited by their own cost of funds, but they could still remain competitive by maintaining lower margins over money market rates and by preventing any undue rate stickiness in a downward market. In addition, their loan portfolio could be expanded by means of their particular credit policies. Both the British Bank of South America and the River Plate Bank acknowledged that their German competitor did not confine transactions solely to large first class customers(42) but preferred to relax its standards somewhat. To a certain degree this policy merely reflected the structure of Teuto - Brazilian trade, characterised by a larger number of medium sized merchants and their readiness to deal in smaller orders. The attributes of being small and first class were by no means mutually exclusive, since each customer and proposal had to be assessed on its merits. Perhaps, contrary to the views of the River Plate and the London and Brazilian Bank, greater co-operation in the loan sector did not always imply higher risks, but simply the acceptance of smaller creditors, which represented a ready clientele for the German banks.

Finally, one should again stress the differences in banking structure and ownership as these also had a bearing on the banks' policies. The parentage of the large German banks at home and with it the link to industry gave the overseas subsidiaries in Brazil a natural interest in promoting manufacturing exports by means of extended credits granted to merchants.

When turning to the British banks one has to distinguish between the British Bank of South America on the one hand and the River Plate and

London and Brazilian Bank on the other, as they followed quite distinctive policies. By virtue of its particular history, marked by a severe confidence crisis around the turn of the century the former broke away from the British tradition of conservatism.

Having lost a number of customers following a reorganization, its problems were compounded by an acute lack of capital.(43) Rumours of a complete withdrawal from the market, underlined by the closure of various branches, persisted for a further decade. In addition the bank suffered large foreign exchange losses due to unauthorized position-taking and slack administration (44). Lack of effective control from London and misrepresentations on the part of local managers created a sense of disorder and aggravated the situation until the head office finally stepped in to change the management in Brazil and decided to centralize the control of capital funds and thus operations in Rio (45). Following a period of tight consolidation both London and Brazil recognized that in order to regain a meaningful market position the bank had no choice but to pursue an aggressive customer orientated policy. Similar to the Brasilianische Bank it began to act as a newcomer with a view to expansion.

By contrast, the lending policies of the other two British banks were known to be more stringent and conservative. Profit maximisation, the main concern of the banks' private shareholdership, required lower risks and a high turnover of assets, so as to limit the exposure to an upturn in interest rates as well as to earn incremental fees attached to loans. These requirements automatically restricted their ability to grant extended credit terms which in turn confined the merchants' ability to offer the same to his customers. Business proposals, such as the financing of a machinery sale to a Sao Paulo jute mill over a two year period were, therefore, not looked upon favourably by the banks (46). In its "Instructions for the management of the affairs of the bank at Rio de Janerio", the London and Brazilian Bank prohibited the discounting of any paper with a maturity in excess of three months (47).

Such directives were not exclusive to the London & Brazilian Bank, but they were commonly designed to limit the risks run by overseas branches. The risk consciousness of both banks was heavily reflected in their correspondence which constantly reminded local managers to proceed with great caution thereby imposing certain constraints on their activity. Prudence generally prevailed at the end of the day. The head office of the River Plate Bank reiterated this convention when it refrained the Rio branch from increasing its outstanding loans, even if they could be contracted for at above market rates (48). In general the bank also endorsed loans extended only by its major branches in Rio, São Paulo and Santos, smaller ones such as Bahia, Victoria and Curityba were officially prevented from doing so (49).

Under these circumstances, the expansion of German banks was implicitly facilitated by the fact that two of the English banks were often restrained from countering competition by means of a more active involvement. Following the turn of the century the manager of the British Bank of South America in São Paulo recognized this when warning his superiors in London that excessively tight credit limits had cost the bank the loss of a number of good customers who had taken their business to the Brasilianische Bank (50). The correspondence of the River Plate Bank also supplied ample examples of branches requesting an extension of their lendings but, in accordance with the Bank's general conservatism, these were mostly declined. In 1910 the Rio office wrote to London asking for additional capital so as to enable it to compete more effectively with the German Bank, which generally tended to undercut the River Plate's discount rate. The manager argued that by restricting business too much the branch had lost touch with the market and gained the reputation of being ultra-conservative (51).

Rio's situation was further compounded by the fact that the increasing activity of the São Paulo branch represented a drain on resources, as the latter was overdrawn with Rio so as to compensate for its own lack of funding (52). To regain its previous share of the market and to expand business on a sound basis, additional capital was urgently needed. Yet despite his efforts to point out the profitability of his plan, head office refused his request. This clash of interests between the board of directors in London and managers in the field was characteristic to all English and, indeed, other foreign banks, not only in Brazil but also in Argentina, where C. Jones detected similar behaviour (53). London felt most concerned about the security against which it transacted business. Moreover, it was subject to the close scrutiny of its shareholders whose main interest was the bank's profitability. Bankers in Brazil, on the other hand, were in a better position to judge the requirements of the market, and they felt the direct pressures of competition as well as clients trying to play off one bank against its competition (54).

As the example of the River Plate's São Paulo office indicates, local management did, of course, exceed authorized lending limits in a short-term response to the competitive threat facing them. Particular smaller branches such as Bahia and Curityba, which were theoretically non-lending institutions, contravened head office regulations by advancing to local export merchants so as to strengthen their market position (55). Standard reporting requirments usually picked up these irregularities, forcing the branches to scale down their activities again, although characteristically in the case of the British Bank of South America excess lending became almost institutionalized (56) and implicitly sanctioned up to a certain degree. On balance, though, London's policies inadvertently allowed the aggressive banks (whether German or British) to proceed more freely.

Nevertheless, the progress of the German banks met resistance in other ways as their ability to expand was dependent on the willingness of other banks to accept, discount and or advance on German bank paper, i.e. their willingness to assume a German credit risk. Since most of the Teuto-Brazilian trade was based on acceptance facilities, whereby the large German banks were the drawees and thus the borrowers, British banks handling such bills carefully monitored their exposure thereunder by establishing so-called acceptance limits for each institution. The official policy of the River Plate Bank was clearly set against acceptances of bills drawn on foreign banks and as Table 5.5 illustrates, it advised its branches that dealings therein had to be limited (57).

Table 5.5 Limits for the Bahia branch of the River Plate Bank

	£
Dresdener Bank	10,000
Deutsche Bank	20,000
Credito Italiano	5,000
Banco Commerciale	10,000
Swiss Bankverein	10,000

Source: River Plate Bank 1911/12 London-Bahia, 19 Sept.1912.

In general, London considered foreign banks as a greater credit risk which attracted less advantageous rates in the discount market since the Bank of England levied an extra 0.25% on European acceptances.(58) At the same time, however, British institutions attempted to forestall the growth of competition by refusing additional bills.

The resultant limits had two effects on the competition; first they restricted its ability to rediscount bills with British banks in Brazil and secondly, it discouraged local merchants from drawing on German banks, or accepting their paper as reimbursement. Norton, Megaw, for instance, rigorously refused to receive drafts of the Brasilianische Bank.(59)

The restrictive effect, however, worked both ways, since it curtailed the freedom of English bankers in handling such drafts. They were often forced to refuse additional business once the limit had been reached and potential customers turned away to competitors. This enforced stringency even affected first-class customers such as Arbuckle, one of the largest coffee shippers, whose bills drawn on his New York bank were simply rejected by the River Plate.(60) It was only after the Santos branch had repeatedly pointed out that the present policy would result in the loss of a valuable customer that London authorised a limit of £25,000 on the assumption that extraordinary profits could be expected in return. To this Santos replied swiftly that any such proposal would only do harm.(61) The enhanced conservatism of the bank in this case proved to be costly, as shortly afterwards two important customers, Nauman Gepp and Nossack & Co refused to sell any more bills to the bank.(62)

While acceptance limits certainly affected the standing of German banks to their disadvantage, their purpose could also easily "backfire" if taken to the extreme. Nevertheless, London seemed to continue its efforts to limit the acceptability and progress of German banks. Hence, it suggested a banking combine which would force exporters to sell only under confirmed letters of credit opened by first-class London, ie. British, banks (63). According to records, however, no such agreement came into existence because it was feared that, if German bankers had found out, they would have attempted to persuade exporters to draw directly on the continent, thereby further increasing their business volume at the expense of English banks (64). This finally demonstrates that, although German banks were considered second class, they had developed into a force which had to be taken into account. The rising number of bills drawn on them and the concern expressed by London illustrated their growth.

The differences in approach and the resulting development of the respective loan portfolios are highlighted in Table 5.6, which sets out the discounts, advances and cash balances of the major banks in Rio de Janerio. It is clear that the Brasilianische Bank took a persistent lead in both discounts and advances, while the River Plate and the London and Brazilian Bank maintained far lower credit exposures. The British Bank of South America, on the other hand, noticeably expanded its portfolio, virtually matching its German competitor by 1912.

Table 5.6 Statement of discounts, advances against security, cash in Rio de Janeiro at 31.3 (30.4 for 1909)

Contos de reis

	(1) Discounts					(2) Advances				
	1906	1907	1908	1909	1912	1906	1907	1908	1909	1912
River Plate Bank	795	1.203	1.226	1.346	5.631	2.269	3.550	3.533	3.497	9.909
London Brazilian	407	671	2.024	2.907	15.923	1.698	1.280	2.722	2.340	29.061
British Bank of South America	2.244	3.472	5.682	6.650	20.634	3.384	4.139	6.017	7.502	37.793
Brasilian-ische Bank	4.347	7.132	7.869	7.440	22.608	5.822	5.238	7.087	7.522	37.824

Table 5.6 contd

	(3) Cash					(4) $\frac{3}{1+2+3} \times 100$				
	1906	1907	1908	1909	1912	1906	1907	1908	1909	1912
River Plate Bank	6.926	4.920	7.847	5.017	5.598	69.33	50.87	62.25	26.5	26.5
London Brazilian	9.026	8.868	7.164	9.459	14.457	81.08	81.97	60.15	64.3	24.3
British Bank of South America	2.889	2.554	4.813	5.868	17.357	33.92	25.03	29.15	29.31	23
Brasilian-ische Bank	5.019	6.579	4.568	4.833	16.200	33.04	34.72	23.40	24.4	21

Source: London and River Plate Bank; D11/7 Letters from Rio to London 1907-10, 28 July 1908, 21 Sept. 1908.

Comercio Exterior do Brasil 1914, (Rio de Janeiro, 1914), pp. 220, 221

N.B. The figures for 1912 cover both Rio de Janeiro and São Paulo.

Its strategy had therefore proved successful, although it repeatedly necessitated substantial reserves against bad debts, arising out of weak credit control, and the São Paulo office admitted that "the bank has discounted a large quantity of paper [mostly from local comissarios], which should have been entirely avoided" (65).

In order to assess the respective policies more closely we can also examine the proportion of cash to total short-term assets, which serves to indicate the level of liquidity maintained and, thus, the readily available cover for short-term liabilities, ie. deposits. Both the Brasilianische Bank and the British Bank of South America maintained a relatively low level of liquidity of about 30%, whereby the reduction in the formers' cash holdings pushed that level to nearer 20%. This implied that they expanded their lending on the basis of a growing risk factor since most of the liabilities were tied up. The London and Brazilian Bank and the River Plate Bank, by contrast, obviously maintained more liquidity and a higher ratio of cash to short-term liabilities which automatically curtailed their lendings.

As the above table illustrated that, the banks' ability to create assets, that is to lend, was a function of their own liquidity and funding base which in turn depended largely on the size of deposits held. Failure to attract the same could have serious repercussions on their financial viability as experienced by the British Bank of South America during its crisis years (66).

The banks' respective views on the subject varied substantially in accordance with their lending policies as well as the clientele. Not surprisingly one finds again the contrast between the conservatism of the River Plate and London and Brazilian Bank and the Brasilianische and British Bank. The former held the accounts of the English utility and railway companies, which, given their cash needs for wages and local procurements, were of significant size and represented a sound supply of liquidity. Moreover, they were cheap funds. National preferences and the aforementioned prejudices against less established banks prevented these customers from switching accounts to other banks. The São Paulo Railway Co. and private merchants such as Norton, Megaw considered it an imperative convention to bank "British" (67). They represented a captive clientele and as such they were charged a premium. The London and Brazilian Bank admitted openly that it could afford to pay 1% less without losing any business (68). To a certain extent both the London and Brazilian and the River Plate Bank also offered lower interest rates as a deliberate policy because they were not interested in keeping deposits below a certain size.(69) They expressed a clear preference for a smaller number of large deposits since it required less administration and in their views, albeit contrary to the experience of the British Bank (70), it entailed a lower risk factor.

Being sheltered in this manner neither bank felt a great urge to enhance the competitiveness of its deposit terms, although the River Plate bank alleged that it could simply not afford to match the interest rates offered by the German banks. By contrast the latter knew that their lending policies could only succeed if accompanied by a simultaneous rise in deposits. Consequently they had little choice but to offer more attractive terms by paying higher interest rates on shorter notice periods. Both the Brasilianische Bank and the British Bank resorted to paying interest on current accounts despite their volatility (71). This practice seemed altogether shunned by the other two banks and London warned local branches not to follow suit even if it concerend significant customers such as E. Johnston (72). The difference in attitudes was further underlined by an incident whereby the Companhia Chemin de Fer au Brasil decided to deposit its funds with the Brasilianische Bank at 3% interest and 15 days notice as compared with the London and Brazilian Bank's offer of 1% at 30 days notice (73). Furthermore, as in the lending sector the more growth orientated banks also distinguished themselves through their willingness to accept the deposits of smaller customers (74), a characteristic which was reinforced by the presence of a large resident community in the case of the German banks. The outcome of these diverging policies is depicted in Table 5.7 which sets out the growth in deposits held during the pre war period.

Table 5.7 Deposits held by foreign banks in São Paulo and Rio de Janero

(milreis)

	1900	1912
London and Brazilian Bank	39,408	43,749
River Plate Bank	20,359	17,338
British Bank of South America	14,345	52,385
Brasilianische Bank	30,917	51,263
Banco Alemao Transatlantico	-	8,099
Banco Germanico	-	2,491

Source: Comercio Exterior do Brasil 1914 (Rio de Janeiro, 1914), p.222;
Wileman's Review 4.Dec. 1900.

N.B. The figures for 1900 include Santos, for 1912 the available statistics do not list the figures for the Santos branch of the Brasilianische Bank and the location was, therefore, excluded for all banks.

As expected, funds held with the first two institutions hardly increased, even if one was to add deposits held in Santos ie, some 2,500 milreis in each case. By contrast the deposits of the other banks grew significantly as the result of their efforts. When comparing the British Bank and the Brasilianische Bank as the two leaders, it must finally be borne in mind that the latter should have lost part of its clientele to the other German banks, which opened in the interim and causing its liquidity to fall back.

IV

The foregoing survey of the foreign banks' main activities illustrated that the development of German banking in Brazil was characterized by constant competition with British institutions, which maintained a steady edge by virtue of their long-standing reputation and their intimate connections with the London market as their origin. Nevertheless the progress achieved by the German banks was still seen to be considerable.

Of course it is possible to take a sceptical view of their record by arguing that in the light of the close association of German banking and commerce, the formers's growth was the outcome of nationalistic sympathies rather than genuine effort.

This did not, however, appear to be the case for two reasons. Firstly, although patriotic sympathies should have played a role at the onset of German banking, its fervour should soon have been replaced by the rational concerns of costing and service. German businessmen were less of a captive audience since their previous experience with the well renowned London banks made it easy for them to return to same should they be dissatisfied with their compatriate bankers. Merchants such as Z. Bülow and T. Wille continued to do business with British banks when it suited them.(75)

Secondly, the German banks were also active in areas unrelated to Teuto-Brazilian affairs, thus dealing with North and Eastern European affairs which lacked national representation in Brazil. The chairman of the Brasilianische Bank clearly stated that any overseas bank had to strive for business on the local market, irrespective of the nationality of the customer.(76) No one could afford to deal exclusively with the mother country and such conduct would simply not have been compatible with the competitive spirit of international banking, nor would it have been a viable long term strategy. Banks had to engage in outside business in the same manner that merchants became involved in the cross trades.

Having analysed the differences in approach it is now time to assess respective performances. This can be done both in terms of balance sheet growth and profitability. The comparative growth in assets is summarized in Table 5.8. It demonstrates that in spite of its reserved policies the London and Brazilian Bank had clearly developed into the country's largest foreign bank.

Table 5.8 Growth in total assets in Brazil
(milreis '000)

	1900	1912
London & Brazilian Bank	141	447
River Plate Bank	134	214
British Bank of South America	80	258
Brasilianische Bank	114	295
Banco Alemao Transatlantico	-	35
Banco Germanico	-	16

Source: Wileman's Review, (Rio de Janerio, 1900), 4 Dec. 1900; Comercio Exterior de Brasil, (Rio de Janerio, 1914), p. 221.

Table 5.9 Growth of total assets in Rio de Janeiro and São Paulo

(milreis '000)

	1900	1912
London & Brazilian Bank	101	301
River Plate Bank	107	137
British Bank of South America	64	231
Brasilianische Bank	114	254
Banco Alemao Transatlantico	-	35
Banco Germanico	-	16

Source: Wileman's Review, (Rio de Janerio, 1900), 4 Dec. 1900; Comercio Exterior de Brasil, (Rio de Janerio, 1914), p. 221.

Its sound financial reputation continued to prove an important asset, attracting the increasing business volume derived from the inflow of British investments in railways and utilities (77). At the same time, the bank benefited from the rise in coffee shipments to the United States because these were largely financed though London and the underlying receivables simultaneously used to fund a two way trade, thus giving a significant boost to the bank's balance sheet (78). Similarly, the more aggressive stance of the British Bank of South America and the Brasilianische Bank proved successful. The latter had grown to become the second largest expatriate bank in the country. Apart from the aforementioned, the remaining lead of the London and Brazilian was in large measures due to its widespread organization which counted 11 branches. When isolating Rio de Janerio and Sao Paulo, as the main banking centre, this gap narrowed considerably. In addition, it must again be borne in mind that part of the German clientele was now spread over a greater number of entities to the detriment of the Brasilianische Bank's turnover. The River Plate Bank, on the other hand, had suffered considerable market losses after a period of modest expansion, which confirmed the earlier prediction of its Rio office that it was losing touch with customers (79). Yet, on the whole, British banking still dominated the foreign community in Brazil. Of a total expatriate business volume approximating 1.6m milreis it thus controlled 56% as apposed to 21% held by its closest rival, the German banks (80).

As in other business sectors World War I had an obvious disruptive effect on finance, forcing the temporary closure of the German banks. Nevertheless the renewed activity during the post-war boom allowed for a speedy recovery although the domestic hyper-inflation seriously hampered German progress until 1924. Given that compatible financial data solely on the Brazilian operations during the 1920's could not be found, Table 5.10 provides a proxy and outlines the development of the banks' balance sheets covering all international activities.(81)

The three German banks, most notably the Deutsch Sudamerikanische, succeeded in rebuilding their presence and expanding it beyond the pre-war level. Consequently their vigorous approach, its necessity having been reinforced by the new competition of American banks, continued to serve them well. By 1924, just after their international rehabilitation, they therefore still handled 12% of the total expatriate banking business in Brazil. English banks, although still the market leaders by a comfortable margin, actually experienced negative growth rates.

While this trend may be partially attributed to a rationalisation process following the merger of the River Plate and London and Brazilian Bank, in the main it reflected the loss of the North American import trades which were now handled by US banks. In the case of the British Bank of South America the decline in business was further compounded by the closure of its operations in Argentina and Uruguay as these had been taken over by the Anglo-South American Bank (82).

Table 5.10 Post-war Anglo-German banking in Latin America

(£ m)

	Deposit				Total Lending				Balance Sheet total			
	1924	1926	1928	% 1924-8	1924	1926	1928	%	1924	1926	1928	%
Bank of London and South America	45.0	40.4	38.7	- 14.0	53.0	44.5	38.6	-27.1	79.1	68.9	65.1	-17.7
British Bank of South America	10.4	11.3	5.3	- 49.0	7.7	6.2	1.8	-77.0	24.2	23.8	11.6	-52.0
Total	55.4	51.7	44.0	- 20.0	60.7	50.7	40.4	-33.0	103.3	72.7	76.7	-26.0
Deutsche Überseeische Bank	15.7	17.5	20.5	31.0	14.1	16.2	20.0	42.0	19.1	21.0	23.0	20.0
Banco Brasileiro Alemao*	1.3	1.9	1.9	42.0	1.8	2.2	2.1	15.0	8.6	9.9	9.5	10.0
Deutsch Südamerikanische Bank	7.8	8.6	13.7	75.0	6.5	6.4	12.3	89.0	9.2	10.8	16.4	78.0
Total	24.8	28.0	36.2	46.0	22.4	24.8	34.4	54.0	36.9	41.7	48.9	32.0

Source: Appendices X-XV. * The first column in all categories refers to 1925 and not 1924.

As far as growth was concerned, performances varied visibly in accordance with management's policy and goodwill enjoyed by the individual banks. The effect of this strategy on incomes, as an alternative parameter of performance, is finally illustrated in Table 5.11. In view of differences in the size of banks, a comparison of absolute income streams has been discarded as misleading. Instead, the data has been arranged so as to compare profits in relation to the equity employed.

Table 5.11 Comparative rates of return on equity (capital plus reserves) (%)

	1910	1912	1925	1928
Deutsch Südamerikanische Bank	5	6	7	8
Deutsche Überseeische Bank	9	10	7	9
Brasilianische Bank	12	16	-	-
London and River Plate Bank	21	20)	10	8
			BOLSA	
London & Brazilian Bank	17	26)		
British Bank of South America	10	11	8	8

Source: Appendices X-XV

As is to be expected the resultant rates of return clearly reflected banks' behaviour. The London and Brazilian and River Plate bank excelled in their performance, yielding substantial returns to their owners, although the post-war decline in the profitable North American business had a visible impact on their incomes, narrowing the gap between the respective rates of return. The growth orientation of the remaining institutions, on the other hand, had been pursued at the expense of their profitability. Nevertheless the Brasilianische Bank still managed to produce respectable returns. Its tendency to assist German trade was, therefore, by no means a question of self-sacrifice. Ultimately it might even be tempting to speculate that the German groups received some additional indirect compensation because their efforts helped to secure the export performance of industry, which in turn benefited their profitability and dividends paid on shareholdings in the domestic banks' possession.

V

Having examined Anglo-German banking in Brazil it should be realised that in basic terms the facilities offered by both groups were very similar. Merchants could have gone to either one for foreign exchange cover, documentary collections, short-term credits or other trade-related services. However, based on their respective motivations and institutional backgrounds, there were marked differences in the execution as well as pricing of these services. It was these differences in origins which led to variations in conduct and, thus, performance.

Domestic banking in England was highly specialised and subject to a high degree of division of labour. Here bankers never felt the close contact or even interdependence with industry their German colleagues did. Consequently, British foreign banks operated relatively independent of domestic institutions whether financial or industrial. Their primary aim was profitability to satisfy the demands of a private shareholdership, hence their conservatism, which was continuously reinforced by the management in London to the detriment of their competitive scope. Lough described them as ultraconservative, rigid and unaccommodating (83). Given that local management attempted to move away from these standards by contravening head office regulations, Lough's description is exaggerated, although it may still apply in part as far as the River Plate and London and Brazilian Bank were concerned. Their attitudes may have contained an element of simple complacency based on their long-standing experience and impeccable reputation in international finance. This age-related conservatism, reminiscent of the behaviour observed amongst some British merchants, was more strongly pronounced in banking. Competition was restricted to a handful of players and international trade firmly believed in the trustworthiness of the old untarnished London banks. Apart from the inherent goodwill, this status conferred some tangible benefits such as lower funding costs and preferential discount rates with the Bank of England. In Brazil this seemingly passive attitude was reinforced and accommodated by the income flows derived from large investors who sought the security of the well known banks. As long as their clientele was content to remain a captive audience there was little reason for the banks to change.

The British Bank of South America appeared as a notable exception. Having once lost the market's confidence it no longer enjoyed these comforts forcing it to work hard to regain its old position. Banking tactics were, therefore, not a function of nationality, but they depended on the circumstances facing each concern. The British Bank was in a position very similar to that of its German rivals.

The latter originated from a different background. They were the direct result of a conscious policy pursued by the large domestic parents. Although they were organized as separate entities, they always remained dependent on the domestic banks, the main concern of which was international recognition and assistance to Germany's foreign trade so as to secure their connections and exposure to industry. Yet a more basic explanation for their competitive drive was the fact that they were considered newcomers to international finance and had to work persistently at overcoming the implicit prejudices. It was necessary to quote better prices and terms, to maintain lower liquidity levels and to incur greater risks, since it was by these means that they expanded.

Despite the small number of parties involved, foreign interbank competition in Brazil was thus very much alive, forming an integral part of the Anglo-German overseas rivalry. As German banks broke beyond their domestic boundaries to explore new opportunities and to offer an alternative to the London based institutions, foreign banking in Latin America became internationalized in the same way that commerce did, the theme of a conflict between "old" and "new" forces and their behavioural characteristics being common to both fields.

In examining their respective tactics, a conclusion is that both sides, each in its own way, were successful in their strategies. As a group British banks maintained their emminent market lead and, moreover, a good track record for profitability. The German banks, on the other hand, had gained and defended an important foothold in the market whereby the Brasilianische Bank had become the second largest expatriate bank in the country during the pre-war years. Relatively low levels of German capital investment, the absence of a link with the New York coffee trade and their shorter history in Brazil prevented further growth. Yet despite their failure to out-perform Britain they had certainly registered more than just the modest gains recently advocated by Saul (84).

The role of banking in the Anglo-German rivalry went clearly beyond one of being merely another sector of competition. Assuming a function of more far reaching importance the foreign banks were the financial backbone and conduit for the import-export trades. The insurance of forward foreign exchange cover, working capital finance and other services such as letters of credit and documentary collections were elementary necessities in commerce. Their regular bulletins on Brazil contained useful information for interested parties at home and a good relationship between customer and banker alone provided a stimulus through an exchange of views and the possible introduction of new buyers or particular business opportunities in Brazil. The merchant's middleman function between consumer and manufacturer depended crucially upon his access to these services. Although traders engaged in some financial activities themselves by providing local credits or acting as acceptors and guarantors of third party credits, ultimately their ability to do so was determined by the banks' willingness to re-finance such transactions. On the whole the two interest groups were distinct. They catered for different customers and maintained different risk perceptions, leaving them mutually dependent rather than in conflict. The degree of linkages between the two varied from bank to bank and differences therein expressed themselves in the terms offered to merchants which in turn influenced their marketing capabilites.

The introduction of foreign exchange facilities denominated in marks was a simplyfing and cost saving device for German trade, while the more aggressive policies of their bankers were instrumental in backing extensive and longer credit facilities granted to import customers. The combined factors of the banks' particular parentage and the need for growth consequently rendered them distinctly supportive of Tento-Brazilian trade, mirroring the close association of industry and finance at home.

With the exception of the British Bank of South America, English overseas banking in Brazil was less conducive to trade. To a degree business came to them rather than the other way around. In part, this perceived conservatism may have been a reflection of their customers' mentality. There appears some evidence that they were not exposed to the more exigent demands of German traders, as English merchants such as Alfred Booth and Norton, Megaw (85) were less reliant on banks, preferring the use of private credits and their own resources. The directors of Norton, Megaw were certainly reluctant to resort to regular bank borrowing and considered credits against Brazilian sales with some suspicion and as a weakness. In any event, the banks' profit orientation as expressed in high credit standards and a want for quick turnover remained a potential restriction on the traders' ability to match their competitors' terms. British merchants could, of course, attempt to obtain similar conditions from other banks, but their own prejudices and those of their suppliers in Britain constrained this option while ensuring a steady stream of business for the London banks. Under such circumstances, the independent status of British banks in Brazil gave them little tangible reason to go out of their way to accommodate and foster trade.

Chapter 5.

Footnotes

1. K. Born, International Banking in the 19th and 20th Century, (London, 1983);
   S. Chapman, The Rise of Merchant Banking, (London, 1984).

2. C.A. Jones, British financial Institutions in Argentina 1860-1914, (PhD Cambridge 1973);
   - 'Commercial Banks and Mortgage Companies' in
   - D.C.M. Platt, Business Imperialism 1840-1950, (Oxford, 1977);
   - 'The State and Business Practice in Argentina 1862-1914', in
   - C. Abel and C. Lewis, Latin America: Economic Imperialism and the State, (London, 1985).

3. W. Lough, Banking Opportunities in Latin America, (Washington, 1915), US Dept. of Commerce, Special Agent Series, No. 106;
   E. Hurley, Banking and Credit in Argentina, Brazil, Chile and Peru, (Washington, 1914), US Dept. of Commerce Special Agent Series, No.90.

4. K. Luck, Die Entwicklung der englischen, deutschen und nordamerikanischen Bankinteressen in Südamerika, (Berlin, 1939).

5. D. Joslin, A Century of Banking in Latin America, (Oxford, 1963).

6. R. Graham, Britain and the Onset of Modernisation in Brazil, (New York, 1968), pp. 94-100.

7. Jones, British financial Institutions, pp. 290-295.

8. W. Bruch, Social and Economic History of Germany 1880-1938, (Oxford, 1938) p. 8.

9. H. Foxwell, 'The Financing of Industry and Trade', EJ, XVII, (1917), pp. 505 and 506.

10. Chapman, The Rise of Merchant Banking, p.121.

11. Born, International Banking, p. 162;
see also C. Kindleberger, A financial History of Western Europe, (London, 1984), Chapters 5 and 7;
P. Cottrell and B. Anderson, Money and Banking in England 1694-1914, (London, 1974);
C. Goodhart, The Business of Banking 1891-1914, (London, 1972).

12. G. Stolper, Die deutsche Wirtschaft seit 1870, (Tübingen, 1964) p. 44.

13. J. Riesser, The great German Banks and their Concentration, (Washington, 1911), pp. 230-240.

14. Foxwell, 'The financing of Industry', p 515.

15. Born, International Banking, p. 172.

16. The close association between industry and banking has given rise to some controversy as to its benefits, see - for instance, H. Neuburger, 'The Industrial Politics of the Kreditbanken, BHR, LI, (1977);
H. Neuburger and H. Stokes, 'German Banks and German Growth 1883-1913', JEH, XXXVI, (1976);
R. Fremdling and R. Tilly, 'German banks, German Growth and Economic History', JEH, XXXVI, (1976);
R. Tilly, 'German Banking 1850-1914' Development and Assistance for the Strong, JEEH, XV, (1986).

17. P. Cottrell, Industrial Finance 1830-1914, (London, 1980), p. 241;
see also A. Cairncross, 'The English Capital Market before 1914';
Economica, XXV, (1958).

18. M. and H. Pohl, *Deutsche Bankengeschichte*, (Frankfurt, 1982) Vol. II, p. 289.

19. Tilly, 'German Banking', p. 141.

20. Pohl, *Deutsche Bankengeschichte*, p. 294.

21. Pohl, *Deutsche Bankengeschichte*, p. 293.

22. Foxwell, 'The Financing of Industry' p. 505.

23. G. Wendler, *Deutsche Elektroindustrie in Lateinamerika*, (Stuttgart, 1982), p. 130.

24. Luck, *Die Entwicklung*, p. 60.

25. E. Hurley, *Banking*, p. 19.

26. Lough, *Banking Opportunities*, p. 47.

27. Lough, " " p. 53.

28. C. Cornelius, *Die deutschen in brasilianischen Wirtshaftsleben*, (Stuttgart, 1929) p. 83.

29. Luck, *Die Entwicklung*, p. 128.

30. Luck, " " p. 12.

31. R. Greenhill, 'The Brazilian Coffee Trade', in Platt, *Business Imperialism 1840-1930*, (Oxford, 1977), p.222.

32. BPP 1911 Vol. 90, Consular report on Santos for 1910.

33. British Bank of South America, letter book E 15, see correspondence of August-September 1908.

34. A. Villela and W. Suzigan, Government and Policy and the economic growth of Brazil 1889-1945, (Rio de Janeiro, 1975), p. 254.

35. London and Brazilian Bank, letter book G 23 Rio to London, 5 Sept. 1905.

36. British Bank, letter book E 15, 17 May 1907.

37. London and River Plate Bank, letter book D19/1 London to Rio, 2 May 1901; 24 July 1901.

38. River Plate Bank, letter book D12/4 Rio to São Paulo, 4 July 1921.

39. Norton, Megaw Co. Ltd., see private letters from London 1910-13.

40. River Plate Bank, letter book D11/7 Rio to London, 28 July 1908.

41. For instance, River Plate Bank, letter book D17/6, 27 Jan. 1913.
For instance, ditto ditto D12/7, 14 Jan. 1927.

42. River Plate Bank, letter book D11/7, 17 July 1907;
British Bank, letter book E 1.4, 13 Jan. 1901.

43. Joslin, A Century of Banking, pp. 169-171.

44. British Bank, letter book E2.1, 31 July 1896, 28 August 1896, 27 July 1900.

45. British Bank, letter book E2.1, 26 April 1901.

46. River Plate Bank, letter book D19/3, 20 July 1911.

47. London and Brazilian Bank, 'Instructions for the management of the affairs of the bank at Rio de Janeiro'.

48. River Plate Bank, letter book D19/2, 9 Jan. 1907.

49. River Plate Bank, letter book D23/1, 1912-1914, D19/2, 7 Jan. 1909.

50. British Bank, letter book E1.4, 13 Jan. 1901.

51. River Plate Bank, letter book D11/7,18 Jan. 1910.

52. River Plate Bank, letter book D12/2,24 Feb. 1911.

53. Jones, 'The State and Business Practice', p.185.

54. It was quite common for customers to do so - the Bahia branch of the Singer Sewing Company having held an account with the River Plate Bank, switched to the German Bank, which could fulfil its demands more promptly, River Plate Bank, D17/14, letter from Bahia, 1912/14, 30 Oct. 1913.

55. River Plate Bank, letter book D19/2, 7 Jan. 1909;
ditto ditto D9/2, 12 Sept.1910.

56. British Bank, letter book E1.5, 11 Feb. 1913, 11 March 1913.

57. River Plate Bank, letter book D19/2, 19 Sept. 1912.

58. Norton, Megaw Co. Ltd. private letters from London 10 Jan. 1912.

59. River Plate Bank, letter book D17/6, August 1913.

60. River Plate Bank, letter book D17/6, 23 Sept. 1913.

61. River Plate Bank, letter book D17/6, 20 Nov.1913.

62. Norton, Megaw Co. Ltd. private letter from London 31 Jan/ 1912.

63. River Plate Bank, letter book D17/6, 20 Nov.1913.

64. River Plate Bank, letter book, 15 June 1914.

65. British Bank, letter book E 3.1, 7 Jan. 1913.

66. British Bank, letter book E 1.4, 18 Feb. 1901.

67. British Bank, letter book E 1.5, 17 May 1907;
Norton, Megaw Co. Ltd. private letters 1910-13 e.g. 10 Jan. 1912.

68. Joslin, <u>A Century of Banking</u>, p. 32.

69. River Plate Bank, letter book D19/3, 10 Apr.1911.

70. British Bank, letter book E1.5, 23 Apr. 1912;
ditto ditto E1.4, 18 Feb. 1901.

71. British Bank, letter book E1.5, 9 Nov. 1907;
London and Brazilian Bank letter book G23,
18 June 1907.

72. River Plate Bank, letter book D12/2, 17 Jan.1914.

73. London and Brazilian Bank letter book G23,
18 July 1905.

74. River Plate Bank, letter book D19/3, 10 Apr.1911.

75. River Plate Bank, letter book D17/6, 13 Aug.1914;
British Bank, letter book E1.5, 1 Apr. 1910.

76. Brasilianische Bank für Deutschland, Hamburg-Brasilien 1887-1911,(Hamburg, 1912), p.8.

77. Joslin, A Century of Banking, p. 165.

78. Hurley, Banking, p. 20;
Joslin, A Century of Banking, p.160.

79. River Plate Bank, letter book D11/7, 18 Jan.1910.

80. Comercio Exterior do Brasil, Ministerio da Fazenda, (Rio de Janeiro, 1914) p. 221.

81. It appears that a breakdown of data per foreign bank was discontinued at the beginning of the 1920s. Official statistics as per the Movimento Bancario only distinguished between national and foreign banks. Wileman's Review also stopped to publish compatible figures while providing isolated balance sheets for the various banks. They are inconsistent as British statements only covered Rio and Sao Paulo whereas the German banks consolidated all branches. Annual reports finally also fail to supply the required information.

82. British Bank of South America, Annual Reports 1928, 1929 (London, 1929 and 1930).

83. Lough, Banking Opportunities, p. 32.

84. S. Saul, Industrialisation and De-industrialisation, the Interaction of the German and British Economies before the first World War, (London, 1979), p. 20.

85. A. John, A Liverpool Merchant House; The History of Alfred Booth & Co. 1863-1958, (London, 1959), p. 175;
Norton, Megaw Co. Ltd. private letters 1910-13, 23 Jan. 1912, 5 March 1912.

Chapter 6.

Foreign Investments

The development of the Brazilian economy between 1900 and 1929 was accompanied by a steady rise in the value of foreign capital invested in the country. Apart from direct investment in transport, commerce and agriculture, the public sector also increasingly relied on external credit, raising its overseas liabilities from £46 m in 1900 to £162 m before the First World War and finally £253 m in 1929.(1)

The relationship between foreign capital and economic growth has been widely discussed and is subject to controversy. On the one hand, foreign capital invested in raw materials and agriculture is seen to generate inherently unstable export monocultures, deteriorating terms of trade and, ultimately, a negative balance of trade, requiring further borrowing to finance the ensuing deficit. At this stage, the recipient's dependency appears complete, additional exports are needed to earn the foreign exchange necessary to service the external debt, which in turn prevents the periphery from ploughing its revenues into domestic development outside the dominant export sector.(2)

In the Brazilian case, between 1900 and 1929, on the other hand, allegations concerning the impact of foreign investment have to be viewed with care and some economists such as Leff and Suzigan postulate a positive connection between the two variables.(3) Whereas it is true that the rise in external indebtedness of the public sector represented an increasing burden in terms of the growing proportion of foreign exchange it absorbed, capital inflows were not prima facie linked to a deteriorating balance of

Table 6.1 External debt service

Amortisations + interest/export earnings

(%)

1900 - 04	7.20
1905 - 09	16.0
1910 - 14	20.0
1920 - 24	15.5
1925 - 29	16.6

Source: A. Villela and W. Suzigan, Government Policy and the Economic Growth of Brazil, 1889-1945, (Rio de Janeiro, 1975), pp. 361/68.

trade,(4) nor were they concentrated in the manufacture of agricultural produce. In fact, a large predominance of portfolio capital indicated that yields rather than control were the primary concern of the investors. Furthermore, the importance of foreign capital for the domestic economy should also not be overestimated. Net capital inflows only accounted for 9% of gross domestic capital formation and 8.8% of gross national savings respectively during the 1920s,(5) indicating that the expatriate influence over the economy as a whole may have been less pronounced than hitherto assumed.

While the effects of foreign capital on the domestic economy of Brazil therefore remain disputed, calling for further investigation in its own right, its impact on foreign trade and Anglo-German commerce in Brazil was undoubtedly expansionary. In the first instance, investment stimulated trade directly as new demands, arising out of the additional resources available to the country, were partly satisfied through external purchases in accordance with the propensity to import.

Indirectly, through its multiplier effect, investment should have also led to higher incomes, further demand, which again reflected upon foreign trade and, finally, new investments. Equally foreign capital in banking, shipping and the merchant network provided the commercial infrastructure by which the growth in trade was supported and accommodated.

At the same time, investment also developed into a self-perpetuating business activity in its own right, adding an important segment to the "City of London" and other financial centres. In Hamburg, for instance, the 'Brasilianische Bank für Deutschland' was founded with the precise objective of expanding into the market for Brazilian securities.

Analogously, the role of capital in the Anglo-German commercial rivalry, should be examined under two aspects; namely investment as another form of competition in business and also as a catalyst for trade. For this purpose, the following chapter provides a comparative study of the growth and composition of British and German investments.

While the value of this discussion will be mainly of a descriptive nature, it pursues the analytical purpose of compiling a fresh and independent statistical restatement of British investments in Brazil before 1914 and, moreover, during the much neglected 1920s. This sectoral breakdown will be preceded by a comprehensive look at the existing data and the general problems encountered in evaluating British investment statistics.

Lack of precedents and underlying material, in the case of Germany's investments in Brazil, renders a similar emphasis on quantitative aspects and methodologies unfeasible and premature. Instead, the analysis' contribution will be at a more basic tier where it pursues the chronological evolution of German capital. This will, however, be the first time that the widely scattered evidence of German investments in Brazil is pulled together and examined in detail. Given the widely different and less publicised circumstances in her domestic capital market, an introductory brief on total German foreign investments will be somewhat more detailed.

Having reviewed existing statistics and reappraised the nature and size of the Anglo-German capital portfolios, a concluding structural comparison will be undertaken so as to evaluate the functions of investment in the growth of British and German business in Brazil.

I

Total British foreign investment reached approximately £3.76 b (6) in 1914, a significant figure not only in terms of generated overseas earnings as an offset to net imports but also as a contributor to national income (9-10%).(7) Reflecting Germany's and France's growing financial influence in Europe as well as the preferential status given to empiral securities on the basis of the "Colonial Stocks Act",(8) Table 6.2 illustrates that British investments became increasingly skewed towards the American continent and the Empire, where the bulk of capital was invested in railways and government securities.

Such conditions of brisk growth in capital outflows, culminating at an annual average of £185 m between 1910 and 1913 (9) changed substantially during and after the war. Sales of some $4 b (10) of foreign securities, mainly American railway stocks, cut external investment income while a widening balance of trade deficit visibly reduced Britain's current account surplus from £200 m in 1913 to an average of £87 m between 1922 and 1929 thus curtailing the availability of funds for new investment.(11) Simultaneously, the maintenance of the gold standard at the pre-war parity, leading to an over-valuation of the pound sterling and a protective rise in interest rates, had an equally dampening effect on foreign demand for U.K. funds in the 1920s.

As seen in Table 6.3, the net outcome was a rise in the cost of borrowing, particularly for the less favoured 'foreign' (non-empire) debtors, which were then able to raise cheaper funds in the maturing

New York market. Consequently, the value of new external issues in London fell from an annual average of £133.70 m between 1910 and 1913 to about £122 m during the 1920s.(12) Taking inflation into account, the drop in new issues would have been even further pronounced, leaving a shortfall of some 37%.

Given these shifts in the demand and supply curves, further compounded by substantial debt repayments towards the end of the 1920s (13), the level of outstanding foreign British investment had fallen marginally to some £3.72 b.(14) The main recipient of this capital was now clearly the Empire and to a lesser extent Latin America, whereby the growth of sovereign borrowing and the nationalisation of numerous railway lines, had relegated capital invested in railway stocks to second position.

It is against this background of rapid growth and subsequent moderation or consolidation in preferred geographical regions that British investment in Brazil should be viewed.

Table 6.2 Geographical/sectoral distribution of British Overseas capital 1900/14/30,

(%)

	Geographical			Sectoral		
	1900	1914	1930		1913	1930
Empire	-	47	59	Government/ Muncipal Securities	29.9	42
U.S.A.	18.80	20	5	Railways	40.60	24
				Public Utilities	4.80	5.10
				Commerce/Industry	5.80	6.90
Latin America	10.40	20	21	Raw Materials	10.30	12.80
Europe	10.40	6	8			
Rest	-	7	7	Banking	8.40	6.90

Source: Royal Institute of Int. Affairs, The Problem of International Investment, (Oxford, 1937), pp. 97 and 145; W. Woodruff, Impact of Western Man: A Study of Europe's Role in World Economy 1750-1960,(New York, 1961), pp. 152 and 154.

Table 6.3 Comparative Yields in London,(%)

	UK Consuls	Dominion/Colonial Public Debt	"Foreign" Public Debt	New York All foreign bonds
1905/9	3.61	3.94	5.39	-
1923	4.30	5.07	6.89	6.42
1925	4.40	4.99	8.00	6.51
1927	4.60	5.09	7.07	6.14

Source: Royal Institute of International Affairs, The problem of International Investment, (Oxford, 1937), pp 119 and 135.

II

British Investment in Brazil 1900 - 1929

British capital in Brazil dates back to the early 1920s when the first merchant houses settled in Rio de Janeiro and a group of three London bankers arranged the first Brazilian loan for £3 m in 1824.(15) Similarly, a large proportion of subsequent capital inflows was linked to the expansion of the central government's credit requirements, which were virtually monopolised by Rothschilds from 1852 onwards, and further augmented by the authorisation of individual states (São Paulo 1888) and even municipalities (Rio de Janeiro 1889) to raise funds externally.

New opportunities for investors also arose out of the general growth of commerce which encouraged the need for infrastructural development. Consequently, port facilities, railways, public utilities and communication systems were all largely financed with British funds, so that by 1900 total investment stood at about £90 m.(16) Thereafter, capital flows continued at an accelerated rate. Nine new federal issues before 1914 as well as various state and municipal flotations added to portfolio investment, while direct investment in commerce, commodities, transports and utilities of at least close to 100 British companies, carrying a minimum capital of some £16 m,(17) provided for further growth.

Conditions, however, changed with the advent of the United States as a new source of capital for Brazil during and after the war. Britain's capitalists increasingly encountered the competition of American direct investments in banking, commerce and manufacturing while the Brazilian government tapped the "deeper" and, moreover, cheaper New York market to raise $176.50 m during the 1920s.(18) By 1929, total US capital in Brazil thus stood at $540.80 m which included 35% of the aggregate Brazilian federal debt.(19)

In addition to new competition, demand factors influenced fresh British investments. Given an increased cost of external borrowings as a result of the devaluation of the milreis as well as the conclusion of most capital projects by 1914, post-war demand fell off substantially. The total inflow of new funds into Brazil had slowed down from a yearly average of £27 m between 1908 and 1914 to £14 m between 1916 and 1930,(20) confining the growth of British investments to somewhat more modest levels.

Such were the events which broadly influenced the history of British capital in Brazil. Its study has received but scant attention from few authors such as J.F. Rippy and I.Stone, (21) and, moreover, the statistical data tracing the above trends is generally scarce and its vagueness may come as a surprise. Different methods of computation and varying assumptions in the treatment of available statistics seem to be the root of the problem. Basically, it is possible to identify two different approaches.

One way of calculating the size of investments, as followed by Paish,(22) was to capitalise inland revenue returns covering the income earned by British nationals from their assets in Brazil. The reliability of this method was obviously a function of the degree of trust vested in the correctness of information submitted to the tax authorities as well as a suitable choice of widely varying capital yields used for grossing up incomes. A potential tendency towards undervaluation of taxable investment returns and, therefore, investment estimates themselves may be compounded by the omission of securities purchased and held in low tax areas outside Britain.

Alternatively, it is possible to follow the route of Rippy and Stone, whereby investment data was derived from an addition of the value of Brazilian securities quoted on the London Stock Exchange. Although writers generally admitted to the fallibility of their research, the absence of alternative methods led later studies, including that of the United Nations,(23) to adopt most of the existing data.

Recently, however, Professor Platt launched an interesting attack on British investments statistics and on the work of Rippy in particular.(24) Platt argued that data on British portfolio investment contained an inherent bias for overestimates on three accounts. Firstly, by failing to distinguish between nominal flotations in London and actual holdings of securities within Britain, statistics did not reflect the fact that significant portions of foreign loans were actually purchased by non-British investors (25) and could, therefore, not be counted as British capital. Secondly, interest arrears on non-performing securities were included in the outstanding value of portfolio capital, artificially increasing its worth. Both criticisms are valid but the difficulty lies in finding the correct remedy, that is an accurate discount factor to account for non-British holdings and the percentage of unpaid of unpaid interest included in capital. Platt considered a downward valuation of a third to exclude foreign holdings as an "informed guess"(26) but not knowing its basis this statement remains only a guess. In his recent book, Platt subsequently admitted that the discount should have varied with the class and timing of the investment, cutting Paish's estimate by some 16.5%.(27) Finally, he also maintained that statistics were further inflated because they were based on nominal rather than issued values thereby ignoring the often heavy discounts below par at which securities were sold in the first instance.

This argument, however, is only acceptable if one considers investment on a historical basis in terms of the cash expended, which is different from its value and the actual amount owed by the borrower. Assuming a loan stands at par, its value and the amount which the investor expects to receive back from the debtor or a sale, would be the nominal face value outstanding, valued at market rates and not the amount initially expended on purchasing the investment. Possibly a more serious drawback inherent to the 'stock exchange' approach is represented by the fact that it is confined to publicly listed securities, thereby excluding private placements as well as private investments of the merchant community and the institutional capital allocated to Brazil by multinational firms, banks and insurance companies. Precise data concerning this type of investment is almost impossible to obtain by virtue of its private nature. In addition, the issue here would be further complicated by intercompany loans granted to subsidiaries in Brazil since it is hard to identify their tenor and thus classify them as quasi-capital or merely short-term liabilities. As a consequence of these weaknesses, investment and statistics are easily prone to attacks. In the absence of more precise sources of information, however, all the aforesaid criticisms are subject to individual interpretations, their one common denominator being that statistics concerning British investments in Brazil are but estimates and liable to error. Absolute figures cannot, therefore, be taken at face value but rather as guides to relative trends over time. This point is clearly brought out by a comparison of the available valuations of the investment portfolio as of 1914 and 1930, two critical points in time during the current analysis.

Variations in these estimates are as high as over £80 m and £130 m for the respective periods, whereby the distinct lack of concensus was the outcome of the differing individual approaches taken.

As far as the data for 1914 is concerned, one faces two opposing sets of data; the conservative figures of Feis, Paish and Woodruff, the minor difference between Woodruff and the other two being probably due to a difference in exchange rates applied on conversion to and from US dollars,(28) and the higher valuations proposed by Rippy, Stone and the US Dept. of Commerce.

Table 6.4 Total British Capital in Brazil in 1914 and 1930

(£ m)

Source	1914	Source	1930
US Dept. of Commerce	230	F. Rippy	276
F. Rippy	224	Royal Institute	190
W. Woodruff	144		
I. Stone	254	Sir Kinderseley	151
Feis/Paish/Royal Institute	148	Normano	280
MEAN	200		224
Standard Deviation	51		64

Source: Department of Commerce, 'Investments in Latin America' (Washington, 1919), Special Agent Series No. 169;
F. Rippy, British Investments in Latin America 1822-1949. A Case Study in the operations of private enterprise in retarded regions, (Minneapolis, 1955), pp. 68 and 76;
W. Woodruff, Impact of Western Man, A study of Europe's Role in the World Economy 1750-1960, (New York, 1961), p. 154;
Sir G. Paish, 'The Export of Capital and the Cost of Living', The Statist, 14 Feb. 1914.
H. Feis, Europe, The World's Banker 1870-1914, (New York, 1964) p. 23;
Royal Institute of International Affairs, The Problem of International Investment, (Oxford, 1937), pp 16/17;
J. Normano, Brazil, A Study of Economic Types, (North Carolina 1935), p. 215;
Sir Kinderseley, 'British Foreign Investment in 1920', EJ, XLI, (1933), p. 200;
I. Stone, 'British direct and portfolio Investment in Latin America before 1914', JEH, XXXVII, (1977), p. 695.

The main cause for discrepancy between the two groups arises out of the valuation of the sovereign bond portfolio which was the single largest form of investment. According to the American study, a comprehensive listing of Brazilian public obligations puts the outstanding amounts on federal debt placed in London at £100.50 m plus some £20 m on state and municipal issues. The sum thereof closely coincides with Rippy's estimate of £117.30 m.(29) Neither figure paid attention to the true proportion of obligations held inside the UK, leading to an implicit overstatement. Conversely the other group, using inland revenue returns, should have discounted the debt portfolio to a more realistic value, by excluding non-British holdings.

A similar problem may, of course, apply to other securities quoted on the London exchange but the consequent distortions should have been less serious since non-governmental investment was simply smaller. Moreover, it was rarely listed outside Britain, receiving less widespread exposure, and European investors probably preferred to hold sovereign rather than corporate stocks which were of a higher risk and required more careful monitoring.

A true measurement of British investments is generally further complicated by the uncertainty regarding her participation in two large North American conglomerates operating in Brazil, the "Brazil Railway Co." (capital $52 m) and the "Brazilian Traction Light & Power Co." (capital $200 m- 1928), the capital and debentures of which were mostly quoted on the London Stock Exchange. Although being less obvious, differing assessments of British participations in these companies could have again reflected upon the valuation of aggregate capital. Irving Stone's over-generous estimates of British railway capital (£59 m) and the growth of funds channelled into tramway and omnibus systems prior to 1913 (30) (£35 m between 1905 and 1913) should have been largely linked to his view on British holdings in these companies.

Investment data for the 1920s varies again mainly on account of the treatment of public debt holdings, whereby the Royal Institute probably followed the method used by Paish and Feis. The markedly lower valuation put forward by Sir Robert Kinderseley, on the other hand, is due to his exclusion of all securities and loans, on which there were no interest nor redemption payments in 1930 on the basis that they were technically in default.(31) By comparison, Normano's estimate seems excessive and his differentiation between direct and portfolio investment is misrepresentative because he overvalued the former type of capital (£130 m) (32).

Finally, despite the fact that Rippy's statistics are again misleading in absolute terms, they are still of some interest as they form part of a consistent series, which provides an insight into the relative trend of investment over time. According to his data, British capital growth slowed down from 147% between 1900 and 1913 to 23% during the post-war years, which would prove compatible with the general observations already made on the changing supply and demand situation in Brazil.(33)

Given these discrepancies in attitudes, it is difficult to accept any one set of statistics without further investigation. While one has to consider the work of Rippy and Stone as too optimistic, thereby accepting the essence of Platt's criticism, his rigorous depreciation of total investment may seem exaggerated. Advocating a historical cash expenditure approach, ignoring the fact that private capital was excluded from most investment statistics and that the preferences of continental investors varied varied, his initial reduction of 30% may not be fully justified. Finally, the implication of his argument would be to question all existing balance of payments data and an important part of British economic history, as her investment income and thus current account surplus would have to be reduced accordingly.

In order to shed some further light on the validity of the above statistics as well as the development of British capital in Brazil, it is now necessary to undertake a sectoral breakdown of the aggregate capital portfolio. For this purpose, the discussion will follow two stages analogous to the time periods in question, allowing for a tentative statistical revision at both moments in time.

As already indicated, portfolio investment in government, state and muncipal stocks represented the largest share of Britain's capital in Brazil. Using the stock market approach one has to overcome the inherent problems of segregating British from foreign security holdings. Some clues as to the appropriate discount factor to eliminate the latter may be obtained by a study of the individual issue terms. The bulk of flotations stipulated that interest on bonds was also payable on the Continent, usually in Paris, Amsterdam, Antwerp and/or Hamburg. Hence, it is reasonable to suggest that in these instances part of the loans were placed in the respective cities. Save in the case of Germany,(34) the exact placement proportions could not be determined and one has to rely on an arbitrary judgement. In view of the limited capacity of European stock exchanges and since Britain was by far the capital richest nation relative to the others, I assumed that 25% of the bonds with alternative places of interest payments were sold abroad except in those cases where disclosed proportions could be used. Parts of other issues quoted solely in London may of course have also been purchased by non-British investors, but as they were more likely to purchase a paper which was also quoted and saleable in their home market, such issues were taken to be as 100% British investment.

Given these assumptions, the value of the official debt held in Britain would be reduced from £120.50 m to £95 m. Whatever the exact figure may be (and the true size of which will probably never be known), it remains certain that over half of British investment in Brazil was in the form of public debt. Early reservations amongst investors regarding the political turbulances of the 19th century were largely forgotten. Government obligations were easily marketable, particularly in view of the fact that the Brazilian economy, driven by the coffee sector, was performing well and furthermore, Rothschild's name as the issuing agent was frequently taken as a quality guarantee in itself.

The development of Brazil's infrastructure necessary to cope with the growing demands of international commerce as well as the expanding internal economy received equally strong support from British investors. Substantial amounts of finance were thus channelled into government-owned railways, such as the Estrada de Ferro Central do Brasil, the Estrada de Ferro do Supucai,(£1.1 m) and the Estrada de Ferro do Oeste de Minas Gerais, (£3.7 m).(35). Direct investment in privately owned lines also gained in importance. The inability of the Brazilian-founded Leopoldina railway to service its £7 m bond issue forced British creditors to take over and re-organise the company. Under normal circumstances, however, it was often through the initiative of British companies acquiring the necessary concessions from the local authorities, that new funds were invested directly in this field. The immediate benefit to those companies lay not so much in the investment itself, because the actual capital for the venture was raised publicly in London through share issues, but rather in the prospect of large supply and/or contracting agreements. The merchant house of Norton, Megaw, for instance, attempted to buy the derelict Sorocabana line with the backing of Rothschild. Being particularly active in the supply of railway materials, the acquisition of the railway itself would have obviously boosted their import business substantially.(36) Prospective investors, in turn, were attracted to such projects because the Brazilian authorities generally guaranteed a given dividend (37) while in many cases the coffee sector provided steady freight arrangements and thereby the required operating income. Finally, from a local point of view, railways were equally important, not only because they facilitated the transport of coffee from the hinterland to the coast thereby contributing to the growth of the coffee economy, but also because of their forward linkages in the integration of consuming and manufacturing markets within the country.(38)

Consequently, demand for railway expansion before 1914 was almost self-perpetuating and British capital in this field represented the second largest form of investment. According to the information provided by the London Stock Exchange, it should have peaked around £48 m in 1913/14. Its rate of growth, however, should have begun to fall off earlier as a rising proportion of major new developments, following the turn of the century was financed out of North America and concurrently the Brazilian government, backed by its own borrowing, took an increasing stake in the ownership of existing lines, its share in terms of mileage having almost doubled to 61% by 1914.

Table 6.5 Ownership of Brazilian Railways, (%)

	1889	1914	1930
Federal/State	34	61	68
Private	66	39	31

Source: J.S. Duncan, Public and Private Operation of Railways in Brazil, (Colombia University, 1932), pp. 66-87.

The third and last major target of British capital in Brazil was the financing of public utilities. The bulk of direct investments in this sector was spread over a number of medium-sized companies, which operated concessions in smaller cities such as Para, Pernambuco, Santos, Manaos and Cerea, where they installed and managed water supplies, electricity systems and tramway lines. With the exception of the "Rio de Janeiro City Improvements Co." and a small suburban tramway line, similar operations in the commercial centres of Rio and São Paulo were mostly monopolised by the Canadian "Brazilian Traction Light and Power Co." Reverting back to the "Official Intelligence" of the Stock Exchange, British funds in utilities could be valued at approximately £23 m by 1914, of which at least £12 m was invested in various debentures issued by subsidiaries of the "Traction Company".(39) It should again be noted that the lack of knowledge concerning the exact proportion of these holdings renders the above valuation of total utility investments particularly liable to error.

The remainder of British capital in Brazil was represented by smallholdings scattered over various sectors of the economy. Given that these investments were often private and undisclosed, the following estimates based on the information provided by the "US Dept. of Commerce" and the London Stock Exchange can at best be considered tentative.

Capital in mining and manufacturing was thus listed at about £800,000 and £900,000 respectively, whereas some £2.40 m was invested in three major coffee plantations in São Paulo and the auxilliary services of the Brazilian Warrant Co. This was almost certainly an underestimate as investments in these areas were often too small to warrant a stock exchange flotation, having thus been neglected in these statistics.

The rubber boom between 1909 and 1911 had also attracted some limited amounts of capital in rubber plantations and at least 10 British companies settled in this area.(40) As, however, most of this investment was speculative, there was little remaining after the subsequent rapid price decline in 1914.

Finally, land investment accounted for a minimum of £4 m, which was used to buy 15 m square yards of freehold property in São Paulo and the capital raised for the construction of port facilities in Bahia, Manaos and Para amounted to some £2.10 m.

On the basis of the above breakdown of British investments in Brazil, prior to 1914 an aggregate estimate of £176 m is reached. Compared to Rippy's statistics for the turn of the century as a proxy this would have implied almost a doubling in the value of total investment, reflecting both a buoyant demand for capital in Brazil and the growing interest of British investors in this market. Contrary to the relative increase of direct investments observed in Latin America as a whole,(41) British capital in Brazil followed an opposite trend, favouring portfolio investment. A reason for this particular behaviour is found in the pronounced growth of the Brazilian public debt requirements and the latter's reliance on the London market where it absorbed the majority of funds which any rational investor, seeking to diversify risks, would have committed to Brazil.

This newly established assessment of British investment prior to World War I suggests a level of capital which lies between the two extremes of traditional investigations. Although it certainly remains subject to error, it is still an estimate reliable enough to further pursue the trend of British capital during the following decade.

In an attempt to fill the statistical void characteristic for the 1920s and to overcome the even greater differentials between available sets of data, the following section will provide a fresh and comprehensive study of the topic on the basis of the 'Stock Exchange Official Intelligence' for 1929. Similarly, it will also yield an estimate consistent with the above approach. It must again be remembered that, as such, it excludes private investments and the internal capital allotted to Brazil by multinational concerns, whose business was only partially based in Brazil.(42)

Table 6.6 British Investment in Brazil in 1928

(£ m,%)

	£ m		(%)	
Railways	39.5		(18.6)	
Ports	2.2		(1.0)	
Commercial/Industrial	10.8		(5.1)	N.B. £5.95 as portfolio
Public utilities	23.9		(11.2)	
Financial, land & Investment	4.8		(2.3)	
Iron, Coal & Steel	2.3		(1.1)	
Mining	1.1		(1.5)	
Coffee/Rubber	2.2		(1.0)	
Government, State & Municipal I	149.2	II 125.8 (59.15%)		III 95.6 (52.4%)
Grand Total	236.0	212.6		182.4

Source: Stock Exchange Official Intelligence 1929, (London, 1929), passim.

In cases of "Anglo-Brazilian" firms the quoted figures for capital and loan stock were assumed to be 100% in Brazil, although some allowance ought to be made for the monies expended on the UK side of the operation. According to Kinderseley's study, the total of such commissions should be 10.5% of the listed investments.(44) Nevertheless, in the absence of more precise information, the study should still be a good indication of the state of British capital in Brazil at the end of the 1920s.

The findings of the analysis are summarised in Table 6.6. Three different estimates of the aggregate amount of investment are given on the basis of varying treatments of the official debt-holdings.

The first estimate is based purely on the amounts of outstanding sovereign paper irrespective of their actual placement and it serves merely as a comparison with Rippy, who used a similar assumption in his work. Yet, even in this case, he still arrived at a higher value of public debt, namely £168.70 m (45) in 1930. Since there were no further flotations in London between 1928 and 1930 a comparison of the two figures highlights the gross overstatement in Rippy's study, his total investment figure exceeding the newly arrived value by some £20 m, presumably by having capitalised unpaid interest. In any event, the first estimate will be ignored because of the underlying assumptions.

So as to give due consideration to the placement of Brazilian official loans outside the UK, and on the basis of the aforementioned views, it is again suggest that in cases of multiple places of interest payment, a tentative discount of 25% is used save in instances where the exact proportions were supplied by the stock exchange. Any doubts about the modesty of such a discount which may have been raised for the pre-1914 period, should now be largely dispersed by the fact that liquidity constraints on the continent during and after the war, should have led to significant sales of Brazilian obligations on the London market, their ownership thereby at least partially reverting to Britain.

On this assumption portfolio investment in official debt and aggregate investment are, therefore, revised downwards to £125.70 m and £212.58 m respectively, the latter being more in line with the statistics of the Royal Institute.

Nevertheless, these revised figures may still be inflated due to the fact that in numerous cases the amounts outstanding included unpaid interest. This applied particularly to state and municipal issues, where interest remained unpaid for over a decade, compounding the debt. Interest arrears and, therefore, technical defaults remained a problem despite partial repayments through various funding loans (predecessors of our present re-schedulings!) arranged during the war. Although these issues may not be considered investments in the traditional sense, but rather of an involuntary nature, they were still included in the calculation of the total debt throughout this study provided they were quoted on the exchange. Conversely, funding loans in the form of treasury bills were excluded on the basis that they were simply given to existing creditors in lieu of cash repayment, whereas the former shape of refunding reflected an actual cash flow and potentially a different set of investors. The true extent of interest arrears, however, remains unknown, although it certainly amounted to several million pounds.

It may be possible to tackle the problem indirectly by using the market value of official securities as a proxy. The performance of borrowers or rather the lack thereof was reflected in the perception of the market which, although being admittedly subjective, determined the current prices of obligations. Hence, badly performing loans were accordingly marked down, sometimes by as much as 90 to 95%. By the same token, it must be noted that other loans traded at a premium. The third and final estimate of British holdings of Brazilian debt is thus £95.50 m, the implicit discount of 24% being a function of unpaid interest as well as demand factors. It can, therefore, be regarded as a current or realisable, rather than a historical, value. On this basis, total British investment would then amount to some £182 m, which may have been a closer reflection of its true value.

For the sake of consistency, however, the focus shall remain on the second estimate. Having agreed a valuation, one can now turn to study the composition of British capital. As previously, governmental and municipal debt still clearly dominated the field accounting for over 60% of the total. The bulk of these funds pre-dated the war but the £36.3 m of new (gross) investment in this field still represented the main driving force behind the overall growth total investment between 1914 and 1928. Almost a third (£10.75 m) of the fresh capital was taken up by two loans of the state of São Paulo, both having received a particularly warm reception in the London market where they traded at premiums above par. Demand was particularly keen for the £8 m issue of the São Paulo Coffee Institute, whose application to raise funds in New York had been barred by the US State Department on the grounds that it represented a monopoly, keeping prices artificially high.(45) Hence, British financiers were given the opportunity to take on a new substantial borrower of respected standing.

Next in size stood railway investment of some £39.50 m. While the Brazilian government continued its policy of increasing its stake in private railway operations, the primary reason for the decline in railway capital was a series of partial debenture redemptions totalling more than £10 m. New investment, on the other hand, was largely lacking because of reduced demand. Long standing disputes between railway lines, such as the Leopoldina and the São Paulo Railway companies and the authorities regarding an increase in freight tariffs above the pre-war level also stood in the way of fresh investments for modernisation purposes, since the enterprises claimed that operating incomes were insufficient to service a higher level of debt.(46)

The value of investment in public utilities, on the other hand, increased marginally to £23.90 m, almost half of which remained in the shape of minority shareholdings in the "Brazilian Traction Co." with a strong emphasis on tramway developments. Overall, there was relatively little change in the value of British utility investment. Demand for fresh investment was limited since most cities were already being developed by existing companies and frequent news regarding their alleged maltreatment by the local authorities (47) made investors wary of committing additional funds to new ventures in this field. Consequently, apart from a new electricity company in the southern city of Campinas (investment £1,368,000), two small telephone companies in Para and Pernambuco, as well as a minor gas company, no new listings appeared on the London Stock Exchange. Conversely, one again finds an outflow of investment as a result of debenture repayments, compounded by the sale of two tramway lines to rival North American concerns.

By contrast, monies invested in the "commercial and industrial" sector displayed a significant growth rate. Although in absolute terms it accounted for only £10.8 m or 5% of the total investment, it was an increasingly interesting field, which would replace traditional bulk investment in development projects during the years to come. This view is supported by Normano's observation that towards the end of the 1920s a major portion of new foreign investments was attracted by domestic joint stock companies operating in commerce and industry.(48) Particular attention should be drawn to the fact that this category included four debenture issues of wholly-owned Brazilian industrial enterprises, since they underlined the enhancing development of native industry and its growing sophistication which enabled it to enter the international market to raise additional capital. Similarly, national financial institutions also gained access to the London bond market allowing the "Bank of the State of São Paulo" to place an issue for £3.70 m.

The remaining capital of £4.90 m under the aforesaid heading refers to direct investments in industry, mostly in the form of companies registered in Britain but operating in Brazil. In some instances (Bryant, Coats, Pilkington) these enterprises were subsidiaries of UK manufacturers, which had been founded to defend market shares and representations in Brazil against the encroaching national competition and to overcome protective tariff structures. Hence, as exporting became uneconomical and the traditional mode of marketing insufficient, some British industrials decided to invest in production units in Brazil.

The estimate of commercial and industrial investment is subject to substantial inaccuracy because it excludes private capital altogether. For instance, British capital invested in the Brazilian meat industry, through the "Anglo-Brazilian Meat Co." and the "Brazilian Meat Co.", both to become part of the conglomerate "Frigorifico Anglo", was probably close to £250,000.(49) It is also well known that there was a number of merchant houses in existence, many of which ventured into industry as well. The most well known example was perhaps the import house of Knowles and Foster, parent and founder of the "Rio de Janeiro Flour Mill" (its capital is included in the study) which also invested in a brewery in Matto Grosso, sugar plantations and mills as well as a Paulista factory for agricultural machinery.(50) Some companies solely confined to trading also commanded substantial resources, the "Anglo Brazilian Commercial Agency Co. Ltd.", invested £250,000 in its branch network whereas "Wilson Sons & Co. Ltd.", operated importing and stevedoring agencies in eight differing ports where it owned warehouses, tugs, lighters and other stevedoring equipment.(51) These are only isolated cases and the true extent of such total investments is unknown, but in all likelihood larger than indicated here.

Finally, referring back to Table 6.6, it is seen that the remainder of British capital was spread over land investments, iron and steel developments (the Ltabira Iron Ore Co. Ltd. with a capital of £2.19 m), mining enterprises in Minas Gerais and a small number of coffee estates.

Having analysed British investments in Brazil during the late 1920s one detects only limited changes in comparison with the pre-war years. In both instances capital holdings were dominated by bulk investments in public debt, railways and utilities, accounting for almost 89% of the total. Portfolio investments were, therefore, clearly preferred to direct involvement. It was seen, however, that the heydays of large pioneering infrastructural projects were over. Instead, it is possible to identify the beginnings of a new trend in capital with domestic Brazilian firms becoming acceptable to the external market place while, conversely, foreign manufacturers and merchants started to switch from exports to overseas production, planting the roots of multinational investment.(52)

Overall it is interesting to observe that British investment in Brazil grew by some 21% between 1914 and 1928, thereby contravening the general trend in British capital flows during that period. The share of capital in Brazil as a proportion of total external assets rose, therefore, from approximately 4.60 to 5.70%, as Brazil was becoming relatively more attractive for British investors.

III

German Overseas Investment 1900-1929

The expansion of German foreign trade following the nation's unification in 1870 increasingly drew attention to the issue of overseas capital. Although early efforts to enter the international capital market as a creditor suffered from losses of up to 1 b marks between 1885 and 1893,(53) total overseas investment reached 13 - 15 b marks. (£640-735 m) by the turn of the century.(54)

Analogous to the trends observed in German foreign banking, investments were equally seen to perform specific tasks in the drive to assist industry through exports. Rather than being solely judged in terms of yield, their relative merits were measured also in terms of contributions to trade. Consequently, foreign investment was largely stimulated by industry and banks.(55) Given the close link between the two, it was natural that the latter should encourage export growth orientated investment, which would ultimately secure their domestic industrial loans. The large German banks were not merely agents in arranging foreign loans but frequently retained significant portions and controlling interests in their portfolio and direct investment participations were domiciled in associated companies such as the Deutsch Uberseeische Elektrizitatsges, a joint venture of AEG and Deutsche Bank.(56) Yet, despite a well organised structure, total overseas investment never reached proportions comparable to Britain, contributing but 3% to national income.(57)

The primary reason behind this scenario was a relative capital scarcity or, conversely, a substantial internal demand for finance as illustrated by Tables 6.7 and 6.8 according to which the expansion of industry and particularly the rapid growth of public credit in later years absorbed the bulk of new investment. External capital issues, on the other hand, declined in relative and absolute terms.

Table 6.7 Public Capital Issues in Germany, (marks m)

Period	Internal			
	Govt.	Commercial/Industrial	Total	External
1896 - 1900	1.679	4.295	8.216	2.420
1901 - 1905	3.320	2.659	8.339	2.147
1906 - 1910	6.073	4.859	12.615	1.497

Source: Dr. K. Helffrich, 'Auslandswerte', Bankarchiv, 15 April 1911, Berlin, p. 212;
M. Pohl, Deutscher Kapital export in 19.Jahrhundert, (Frankfurt, 1977), p. 59.

Table 6.8 Home vs. Foreign Investment through Public Issues, (%)

	Foreign	Home
1896 - 1900	22.75	77.25
1901 - 1905	20.47	79.52
1905 - 1910	10.61	89.39

Source: Dr. K. Helffrich, 'Auslandswerte', Bankarchiv, 15 April 1911, Berlin, p. 212;
M. Pohl, Deutscher Kapitalexport in 19. Jahrhundert, (Frankfurt, 1977), p. 59.

Paradoxically, officials and the introvert agriculturist factions in Berlin were still wary of flooding Germany with external obligations, thereby creating much public concern about capital outflows. In 1911 the Ministry of Trade rejected the launching of a 450 m mark share issue of the "Chicago Milwaukee Railway" on the grounds that there was already excessive foreign paper in circulation.(58) This was an isolated incident but it did not inspire confidence in the capitalist seeking to invest abroad.

Other more practical reasons also stood in the way of a more pronounced development of foreign investment. As seen from Table 6.9, Germany's capacity to lend was curtailed by a growing deficit on the current account.

Table 6.9 German current account, (marks m)

Period	Current a/c	Invisibles	Trade balance
1899 - 1903	187	1.260	- 1073
1904 - 1908	- 122	1.350	- 1472
1909 - 1912	- 352	1.490	- 1842

Source: A. Moulton and C. McGuire, Germany's Capacity to Pay, (New York, 1922), p. 268.

Overseas lending, therefore, had to be complemented by means of short-term borrowing in France and Britain. One estimate put pure interbank borrowings at 200-300 m marks, (59) the size of which was later confirmed by a British investigation into the activities of 'enemy' banks in London. Under these circumstances, the willingness of foreign banks to lend to Germany provided an effective limitation to her foreign capital ventures.

Furthermore, the German "Stock Exchange Act" of 1896 and the "Stock Exchange Tax Act" levied an expensive stamp duty on foreign securities issued and traded in the Reich with the effect that German investors and banks switched their dealings to alternative European bourses. Riesser estimated that before 1914 German banks held securities worth over 1b marks outside the Reich,(60) thereby confirming Platt's view that a significant portion of London issues was actually purchased by foreign investors. Similarly, finance companies organised to handle foreign investments were often set up and partially funded in low tax areas such as Switzerland or Belgium so as to avoid German income and capital taxes.(61) Finally, relatively high interest rates in Germany as well as a traditional reliance of foreign borrowers on the reputation of London bankers, also played a certain part in the limitation of official German capital exports.

Estimates of the actual level of German foreign investment are extremely vague and scarce as, with the exception of a study published by the Imperial Marine Office in 1905, no official records were kept.

Consequently, one has to fall back on private data. According to Table 6.10, these vary the amount between £0.98 and £1.5 b with a consensus emerging between £1.2 and 1.4 b, about one third of total British investments. As might be expected, the geographical distribution of these assets reflected German trade flows, underlining their mutually supportive role. Europe alone accounted for just over half of the total investment, while another 30% was spread over North and South America.

Table 6.10 Estimated Total German Investment in 1914,
(£ b)

Feis	1.22	Lenz	1.52
Woodruff	1.38	Steinmetz	1.42
Melchior	0.98		

Source: H. Feis, Europe the World's Banker 1870-1914, (New York, 1941), p. 71;
W. Woodruff, Impact of Western Man, a Study of Europe's Role in the World 1750-1960, (New York, 1961), p. 154;
Dr. C. Melchior, 'Deutsche Kapitalinteressen im Ausland', Bankarchiv, 15 May 1914;
F. Lenz, 'Wesen und Struktur des deutschen Kapitalexports vor 1914', Weltwirtschafliches Archiv, 1923;
W. Steinmetz, Die deutschen Grossbanken im Dienste des Kapitalexports, (Luxemburg, 1913), p. 140.

Table 6.11 Geographical/Sectoral Distribution of German Investment before the War

(%)

Austria	12.76	State Loans	65.80
Russia	7.60	Muncipal	2.50
Turkey	7.60	Land credit	
Total Europe	53.00	Institutions	4.40
Africa	8.50	Banks	1.18
Asia	4.20	Railways	24.00
North America	15.74	Industry	1.40
Latin America	16.14		

Source: J. Riesser, Die deutschen Grossbanken und ihre Konzentration (Jena, 1910), p. 324; H. Feis, Europe the World's Banker 1870-1914, (New York, 1964), p. 78.

A glance at the foreign securities quoted on the Frankfurt stock exchange in 1912 further confirms a clear preference for continental investment. Out of a total of 439 flotations only 103 were non-European.(62) The above breakdown of listed securities reveals that over 90% was concentrated in sovereign and railway obligations, whereby two thirds of the former were again in Europe. Yet, this is somehow misleading because publicly listed securities largely excluded private direct investments in commerce and industry and total capital therein was certainly more important than suggested by Table 6.11.

The outbreak of World War I put an abrupt end to most investment activities. As during the Balkan crisis in 1911, foreign banks immediately withdrew their deposits from Germany, leaving a substantial funding shortfall. Retail holdings of foreign securities were soon sold to the large German banks in exchange for higher yielding (and more patriotic) war loans.(63) The latter, in turn, liquidated their positions in external obligations so as to gain foreign exchange. According to official statistics, German ownership of foreign securities was thus reduced from 16.25 b marks in 1916 to 2.10 b marks in 1922.(64)

Following the war, overseas capital was further diminished through the Versailles Treaty granting victors the right to confiscate German assets in compensation for war damage. During the 1920s the situation hardly improved. A consolidated current account deficit of 15.20 b marks between 1924 and 1930 (65) had to be funded through additional sales of overseas assets and substantial foreign borrowings, which were also used to rebuild industry.

Whilst foreign investment was not completely abandoned and some German banks launched new foreign issues in 1925/26,(66) the scale was too modest to counteract dis-investment in other areas. By 1929 aggregate foreign investment was reduced to some 5 b marks (£245 m i.e. 20-25% of the pre-war level). The remaining capital centred upon Europe, 1.8 b marks, and Latin America, 1.5 b marks, whereas holdings in Africa, Asia, Russia and North America were virtually lost. Similarly, portfolio investment had been decimated by virtue of its liquid character so as to earn foreign exchange. Ownership of foreign government obligations had dwindled to 300 m marks (£14 m) and dividend paying company stocks to 590 m marks (£29 m).(67)
The consequences of the war on German capital flows had thus been severe and long-lasting, preventing any material recovery as could be observed in her visible trade. From being a creditor, Germany had turned into a major debtor during the post-war period.

German Investment in Brazil 1900-1929

Statistical evidence regarding German capital in Brazil is conspicious by its virtual absence. While some data is still available for 1913/14, as shown by Table 6.12, assessments of the 1920s are almost completely lacking, reflecting a misconception that the war eliminated German capital in Brazil altogether.

Table 6.12 German Investment in Brazil 1913/14 and 1929, (£, marks m)

	1913/14	1928/29
Source	£ m (marks)	
Cornelius	29.50 (600)	19.60 (400)
United Nations	35.30 (720)	-
Association of Teuto Brazilian firms in Brazil	40 (816)	-

Source: C. Cornelius, Die Deutschen im brasilianischen Wirtschaftsleben, (Stuttgart, 1929), pp. 77-78; Centre National de la Reserche Scientifique, Histoire quantatitive du Bresil 1800-1930, (Paris, 1973), p.20; Verband Deutsch-Brasilianischer Firmen in Brasilien, Jahresbericht 1924, (Rio de Janeiro, 1924), p. 16.

Moreover, little is known about the particular methodologies used in existing studies. Published data appears to be based on private enquiries in Brazil and information supplied by banks, merchant banks and the various stock exchanges in Germany. Although the problems of using stock exchange material, encountered in British statistics, apply similarly in this case, they are somewhat mitigated by the fact that very few Brazilian securities were ever listed in Germany. In fact, it might even be possible to argue the reverse, as external portfolio holding of German nationals were known to be substantial. Finally, attention must be drawn to the different nature of German and British statistics since the former covered a wide spectrum of investments by including capital invested privately outside the stock exchange.

Given this degree of uncertainty, it is difficult to pursue a detailed sectoral analysis of German investments in Brazil within the framework of this study. Nevertheless, the following discussion will still draw a representative picture thereof, which permits some interesting conclusions concerning the nature and role of German investment in this particular market.

German capital was first introduced into Brazil through the merchant houses of the Hanse, which probably also backed the participation in the sovereign loan of 1824 through a part issue on the Berlin stock exchange.(68) Subsequently, investments relied mostly on private initiatives of the growing merchant network as well as the colonisation movement in the southern states, counting about 350,000 German settlers by 1900. The placement of a second Brazilian loan of £1.08 m, covering the obligations of the Oeste de Minas Railway in 1884, however, was ill fated. As a result of the rapid devaluation of the milreis, the borrower was unable to meet his obligations payable in gold and the State of Minas refused to accept its liability under a covering guarantee.(69)

By 1900 total German capital amounted to approximately 400-420 m marks (£20 m).(70)

Table 6.13 Allocation of German Investment in 1900, (£'000)

State	Commerce	Industry	Land	Banking
Rio de Janeiro	1.421	392	-	490
São Paulo	2.840	588	441	2.205
Rio Grande do Sul	1.568	147	1.960	
Santa Catherina	294	49	98	
Parana	735	392		
Bahia	-	588		
Amazonas	441	49	122	490
Total	7.299	2.205	2.621	3.185
				15.310

Source: K. Wyneken, Die Entwicklung der Handelsbeziehungen zwichen Deutschland und Brasilien, (Köln, 1958), p. 74.

Table 6.13, providing a tentative outline of the allocation of funds, indicates that the bulk of investment was of a direct nature in commerce, industry and agriculture. The remainder, which is not included in the above list, was invested in public utilities and transport ventures.

Commercial capital was centred around Rio de Janeiro, São Paulo and Rio Grande do Sul where large merchants, such as Stolz, Bromberg and Bulow operated. Undoubtedly, one of the most prominent companies was T. Wille, founded in 1844. By the turn of the century, its equity in Rio and Santos had risen to £50,000 and the accumulated capital of the Head Office in Hamburg (£1.2 m) allowed it to invest a further £40,000 in a coffee estate in Ribero Preto as well as lending £100,000 to the State of São Paulo in 1902.(71) In total, funds invested in the trade sector represented 40% of aggregate investment.

Land investment, on the other hand, was largely based upon the German community in the south, where the Hanseatische Kolonisationsges. used its 2 m mark capital to purchase 650,000 hectare of land for colonisation purposes. Although the colonial movement was never a genuine success, German owned land provided the basis for a large part of agricultural and cash crop production in these states.(72)

Industrial investments were spread throughout the country. Activities in the North concentrated on the tobacco industry which was controlled by the German-owned factories of Danneman, Stender & Co., and 'Cias de Fumos', employing over 3,000 people by 1914.(73)

As in most cases of German industry in Brazil, Danneman and Stender received their capital from merchant houses, in these instances Stolz, indicating that at least part of their investments were funded out of locally accumulated trading profits rather than imported capital. These investments proved to be very profitable and Danneman became the largest cigar factory in the whole of South America. Attempts of a British syndicate to take over its business failed in 1912 when pressure from the German community in Brazil caused Danneman to decline a sales offer made for 2,400 contos.(74) Further substantial investments were made in the brewing industry in Rio de Janeiro and São Paulo. Following a series of acquisitions of small breweries and the amalgamation of the four larger brewers, Stolz gained virtual control over beer and soft drinks production in the state of Rio de Janeiro under the umbrella of the Cercejaria Brahma, whose capital counted £252,000 in 1904.(75) At the same time, the rival trade house of Bulow monopolised the brewing industry in São Paulo through the Companhia Antartica Paulista capitalised at £430,000.(76) To limit competition, the two concerns finally signed a market-sharing agreement while consolidating their position further through vertical integration into the manufacture of bottles.

Contrary to other parts of Latin America and Argentina in particular, Germany's involvement in Brazilian public utilities was limited and short-lived. After the award of a tender for the construction of the telephone exchange in Rio de Janeiro, Siemens launched the Brasilianische Elektrizitatsgesellschaft (BEG) with a share capital of 5 m marks. (77) The BEG was characteristic of the way in which the German electro-industry financed its overseas ventures. In order to overcome a lack of demand arising from insufficient native funding in foreign markets and to limit the risk of the contractor, Siemens as well as AEG entered into so called Unternehmergeschäfte, limited liability subsidiaries, whose shares were bought by the parent and selected banks. Existing public work concessions were transferred to the newly founded company who then signed management and supply agreements with the parent. Rather than financing the project through an immediate listing on the stock exchange, as in Britain, the shares were kept by the joint venture partners until a sufficient dividend record allowed for a public flotation.

The BEG was thus financed by Siemens, T. Wille, Deutsche Bank and the Elektrische Licht und Kraftanlagen AG, Siemens' finance subsidiary, established for the exclusive purpose of such joint ventures. Following its foundation, the BEG purchased the Villa Izabel Tramway in Rio for 1.9 m marks lending it a further 1.8 m marks to cover the costs of the electrification works undertaken by Siemens. Finally, the BEG also participated with 530,000 marks in a German-Belgian syndicate which acquired the Carris Electricos de Bahia, a further tramway system being converted by Siemens. The subsequent performance of the BEG, however, fell short of initial expectations. Excessive construction costs of the telephone exchange and a lack of demand for its services lowered the return on the investment and the dividends achieved did not justify a public emission of its shares on the Berlin stock exchange. Consequently, the BEG was finally sold to the 'Rio de Janeiro Tramway Light & Power Co.' in 1905 and Siemens continued its Brazilian business through a representative office.

German capital in railway ventures was equally scarce. The only known German involvement in railways, apart from the liquidated Oeste de Minas line and a participation of the Deutsche Bank in the Farqhar Syndicate,(78) was the Santa Catherina railway founded in 1906. Long standing suspicions about its economic viability and the reluctance of German banks cast serious doubts over its success right from the beginning. It was only after some pursuasion of the Foreign Office in Berlin, that a syndicate of banks (79) founded the Santa Catherina Eisenbahn AG. By 1911, the total investment in the project was 12 m marks (£590,000). Heavy losses, however, induced its sale during the same year to the Federation. Subsequent plans of the Deutsche Bank to finance an extension of the railway through a £2.4 m loan issue (80) were equally futile. Having already deposited £600,000 with the Federation, the bank had to withdraw its proposal because liquidity constraints in Europe rendered a loan flotation impossible.

German participation in large capital intensive projects was, therefore, rare and unsuccessful. Little capital availability, the experience of an early default and the overwhelming competition of Britain's financial strength were all limiting factors. Consequently, the bulk of German capital in Brazil was in the form of small to medium-sized direct investments financed by private enterprises out of internal resources or with the help of domestic banks. This is further underlined by the fact that the annual year book of the Berlin stock exchange showed but four Brazilian obligations in 1912.(81)

Indeed, little is known about the size of German portfolio investment in public debt issues. Cornelius, for instance, only reported four loan participations while other writers such as Braun, Wyneken and Rippy ignored the subject or only made passing references. The general impression thus given is that Germany abstained from this sector.

Table 6.14 German Participation in Brazilian Loans,
(£ m)

Borrower	Date	Total loan	German Share	Pro rata o/s 1913
Oeste de Minas Railway	1889	1.08	1.08	in default
Fed. Republic	1898	8.6	0.49	0.48
Fed. Republic	1903	8.5	0.17	0.15
City of Rio de Janeiro	1904	4.0	2.0	1.85
State of São Paulo (railways loan)	1905	3.8 (50% Paris)	1.9	1.9
State of Amazonas	1906	-	0.10	0.10
State of São Paulo (coffee)	1906	-	1.0	1.0
Ditto	1908	15.0	2.0	-
Ditto	1909	2.0	0.80	0.68
Rio de Janeiro	1910	-	2.0	2.0
Fed. Republic	1910	10.0	0.05	0.05
Fed. Republic	1911	4.5	0.15	0.13
State of São Paulo	1913	7.5	1.0	0.97
Fed. Republic	1914	0.5	0.5	
				9.31

Sources: C. Cornelius, Die deutschen im brasilianischen Wirtschaftsleben, (Stuttgart, 1921), pp. 78-81; Jahrbuch der Berliner Borse 1914, (Berlin, 1914) M. Pohl, Deutsch Kapitalexport in 19. Jahrhundert, (Frankfurt, 1977), pp. 89, 90, 140-145.

Table 6.14, however, based on a general study of German overseas investment, provides a more detailed list of her participations in Brazilian securities as well as an estimate of the pro rata outstanding value thereof in 1913.

Save for the loans dated 1889, 1904/5 and 1910, Germany's share always remained relatively modest, ranging from 2 - 13% and participations were usually acquired via the London market. Direct negotiations with the borrower only occurred in 1889 and 1905. However, it is interesting to observe that the flow of funds into Brazilian obligations was far steadier and larger than was hitherto assumed. Total outstanding portfolio investment is then estimated at some 9.3 m (190 marks). This figure may well have been higher since it does not cover capital invested by German nationals operating directly in Paris, Amsterdam or London. Fresh flows of capital into Brazil were thus not only confined to direct investments but also geared towards the purchase of sovereign debt obligations. Finally, in order to value total German investment in Brazil by 1913, the direct capital component shall be based on Cornelius' estimate of £29.50 m which is widely considered as the most reliable one.

This figure now has to be complemented by the above findings on portfolio investments, yielding an aggregate investment of about £38.8 m. Although comparatively lower, in relation to Britain, the implicit rate of growth since 1900 was still substantial and certainly a reflection of the parallel growth in German trade.

The events of the war led to a significant reduction in these capital holdings and existing plans for new investment in a mining and railway project (30 m marks) as well as a participation in the projected Brazilian loan for £20 m were immediately abandoned.(83) Contrary to some speculation,(84) the reason behind the following decrease in investment was not so much a confiscation of assets by the Brazilian government which released them back to the original owners shortly after the war, but the sale of Brazilian securities by German banks. In addition, numerous German companies in Brazil invited local partners as shareholders so as to change the equity structure sufficiently to evade the enemy blacklists and sequestration by the state.(84) According to Rippy, total investments fell to £30.31 m (628-630 m marks) by 1918, which seems to be still too optimistic because he gave excessive consideration to naturalised assets of settlers.(85) In any event, 1918 did not mark the low point for German capital in Brazil and the following decade witnessed further reductions in value.

The basic overiding reason for such a net decline was the acute supply stringency in German capital markets. New investment was scarce and contrary to earlier periods, disposals of existing investments in Brazil could not be replaced by fresh inflows of equal proportions. While additional sales of securities probably still contributed to this trend, currency factors also played a role. Initially, the devaluation of the milreis did not affect German capital in marks because the latter devalued at even higher rates until the end of 1923 when the introduction of the goldmark finally restored financial conditions. Thereafter, however, the value of investments, having been converted into milreis before 1914, was subject to partial depreciation on reconversion into the new currency.(86) Some German entities operating in Brazil, such as the 'Brasilianische Bank für Deutschland', foresaw this problem. They attempted to avoid capital losses through naturalising the investment and converting their equity base. To some extent such companies may have been excluded from later capital estimates.

Trends in the commercial sector may have also played a role in the decrease of German investments in Brazil. Given the reduced trade flows between the two countries, particularly in exports to Germany, commerce may have felt that it was over-capitalised and that the smaller turnover had diminished the return on capital. Investors may have thus been induced to re-allocate part of their resources to other markets, one possibility being Argentina where German capital actually grew from £51 m in 1914 to £82 m in the late twenties.(87) Re-allocation, however, did not mean complete withdrawal. Import statistics show that the merchant network of a total of 350 German firms was still carrying a significant share of the import trade.

A further argument, put forward by Dr. Hastedt blamed a stagnant industrial structure in Brazil for failing to attract the interest of the German investor who allegedly saw little prospect for his capital.(88) Yet, this hypothesis seems doubtful. Although industrial growth was arguably lower in Brazil during the 1920s, new industries in metallurgy, chemicals, perfume and soaps performed rather better,(89) offering attractive opportunities for investors. Moreover, Hastedt's view loses further credibility in light of the fact that American investors found significant interest in Brazilian industrial investment and by 1929, £9.5 m and £4.75 m had been channelled into manufacturing and petroleum projects respectively.(90) Opportunities did exist, therefore, even for German capital. Cornelius estimated that in 1924, 14.5% of 20,000 factories in Brazil were financed by German investors.(91) Apart from continuing interests in the dominant sectors of the pre-war period, merchant houses had made some inroads into domestic industry, applying local income in investments, while having been barred from trade during the war. Wille invested in metallurgy as well as over £250,000 in three textile enterprises.(92)

Fresh capital also came out of Germany and two chemical companies, one being MERCK, founded subsidiary factories in Brazil. Finally, a German syndicate concluded negotiations with the state of Minas Gerais for the erection of a blast furnace which would smelt Brazilian ores using German coal. The syndicate, consisting of industrialists, banks and import firms, agreed to provide £610,000, 50% of the required capital.(93) Although these may be isolated examples, it may be feasible to maintain that, contrary to Hastedt's view, German capital in Brazilian industry did actually rise either directly through new investments or indirectly through expansion of existing firms and the capitalisation of accumulated earnings.

Finally, a completely new sphere of investment was being opened for the future with the introduction of aviation to Brazil. Operating initially only in Rio Grande do Sul and Porto Alegre, in 1927 the German aviation company CONDOR launched the Brazilian airline Varig which remained under German ownership until nationalisation in 1942.(94)

This relatively small area of possible growth was insufficient to counteract the overall decline of German investment. By 1928/29 its value had fallen to £19.60 m (400 m <u>marks</u>) whereas official statistics refer to £24.50 m (500 m <u>marks</u>) for the following year.(95) At this stage, virtually all remaining capital was invested in agriculture, banking, trade and industry. Any remaining portfolio holdings were negligible and no further references to Brazilian securities were found in the annual year book of the German stock exchanges published in 1930.(96)

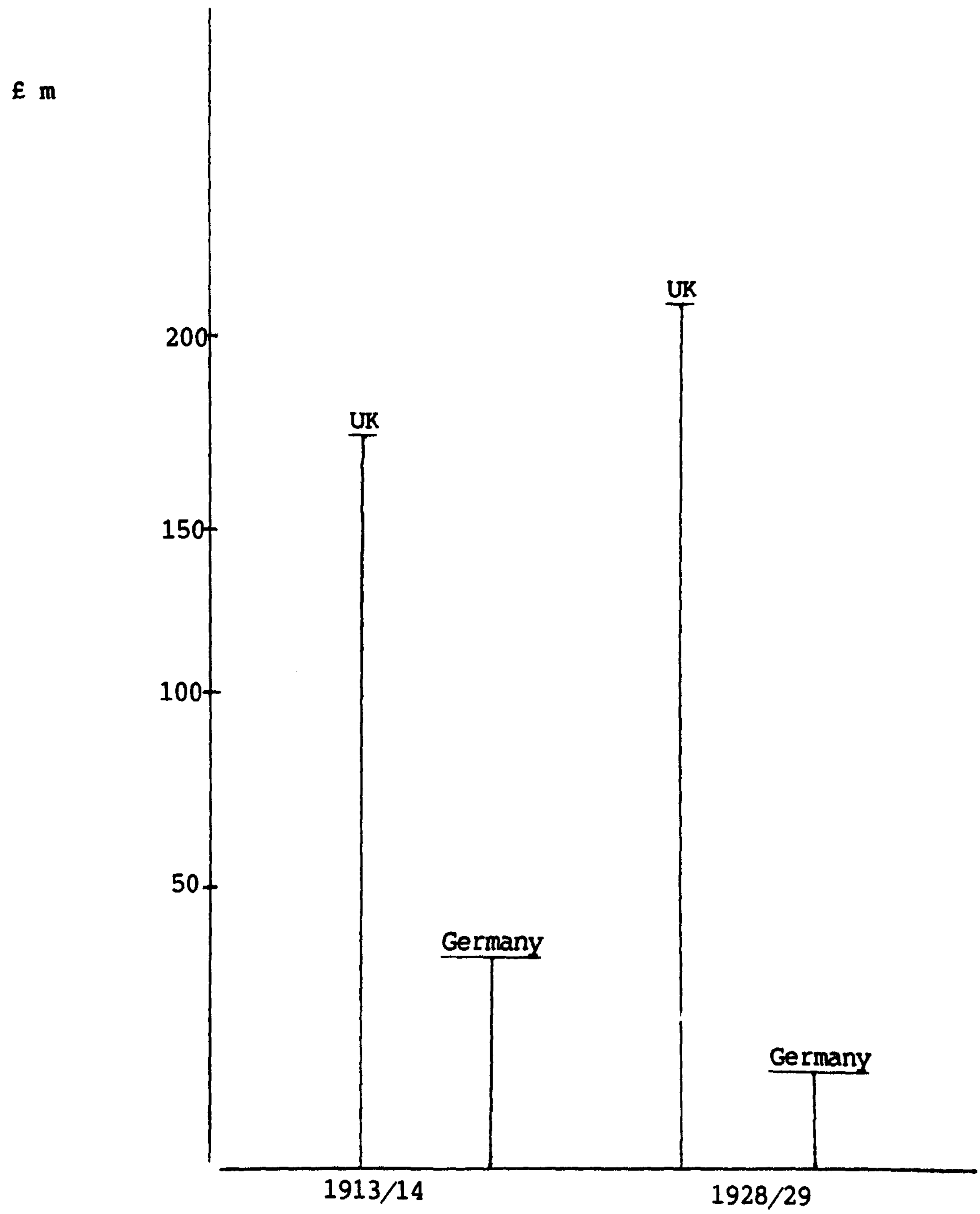
Germany's historically limited role as a capital donor for Brazil had, therefore, come to an end in 1914. Somewhat ironically, her investments in Brazil gained in importance in relative terms, their share having risen to 8 - 10%. Yet, unlike in the case of Britain, this had not been a function of accentuated growth but rather one of a less than proportionate decline.

Before concluding the analysis with a structural comparison between British and German investment in Brazil, attention should once more be drawn to the main results of the statistical research.

The reassessment of British investment data for 1914 and 1928 has yielded statistics which do not conform to either side of the existing debate in their general validity. Although investment figures may be difficult to judge objectively since they are always a function of the underlying individual approach, one can feel fairly confident when arguing that the over-optimistic works of Rippy, further augmented by Stone, were far from reality. When taking into account some of the well known problems with their approaches and actually endeavouring to quantify them for the first time through the application of a new set of assumptions to the raw data, the outcome is not too far away from the other, lower end of the scale. Remaining differences may be potentially due to the implicit modesty of an 'inland revenue' basis. On the other hand, it might be maintained that a differentiated discount factor should have been applied to the entire volume of securities floated in London so as to further eliminate foreign participations. Yet, I feel that this could easily lead to a reverse distortion. As an alternative, further ground has been broken, away from the strictly historical cash expenditure approach, by looking at investment from a 'current' market valuation and using it as a proxy to eliminate accrued interest receivables. The result was an even greater reduction in value, falling below the conservative work of the Royal Institute.

Certainly none of these revisions claim to be free of error, but this departure from tradition might well provide the grounds for new research in this area. While revising and expanding the known data so as to obtain a more reliable picture of British capital in Brazil, the analysis also confirmed that investors took a growing material interest in the country after the war, despite the adverse change in supply and demand conditions on the London market.

Figure VIII British/German investments in Brazil



A similar restatement of German data was simply not possible due to the distinct lack of data. Nevertheless, the research undertaken still pulled together a wide variety of information and more importantly it indicates that German portfolio investment in Brazil was more extensive and, consequently, her total capital invested in the country, higher than suggested hitherto.

When comparing both British and German capital, little needs to be said about differences in absolute size. Subject to the different treatments of privately introduced investments, Figure VIII clearly shows the significant divergence in investment portfolios.

Absolute comparisons are, then, distorted but since the omissions in the former case are limited, an analysis in relative terms will still serve to highlight some important structural differences. When studying the British capital structure, one immediately notices an overwhelming predominance of portfolio investment. Although a bias was introduced by larger holdings of public debt, portfolio capital was also widespread and growing in public utitities and railways. By 1928, the proportion of portfolio to direct investment was about 72:28. Given this structure and the lack of any meaningful control over the ultimate use of funds, the main driving force behind British capital outlays in Brazil was clearly the profit-motive of the investor seeking to maximise his return. The purpose of the investment itself was of relevance mostly from a risk-reward point of view leaving little room for national aspirations in the direction of capital. By the same token, allegations concerning expatriate control of the host economy through large-scale investments have to be viewed with care. Foreign capital only accounted for a minor share of gross capital formation and, moreover, the bulk of it did not afford the investor any direct control.

Profitability was of course not the sole concern of the British investments. Construction projects related to railways, ports and utilities were often initiated by merchants or construction firms seeking to expand their business and to consolidate their position in

Brazil through long-term undertakings. However, to achieve these aims they fell back on the London market where they could secure the backing of the 'professional' investor. This again underlines the preponderance of third party funding through public issues, in many instances a necessity by virtue of size. Conversely, the British entrepreneur leading an investment project in Brazil could minimise the amount of personal/corporate capital he had to put at risk.

Although classified as direct investments, they were not so much in the form of British multinational companies operating abroad but rather of an 'expatriate' character, frequently consisting of little more than a 'brass plate' in the City of London. Multinational investment in marketing or production units in Brazil was scarce. Nicholas' study showed that out of 119 British companies operating abroad, only 5% were in South America.(97) Merchant houses still provided an adequate service rendering vertical integration through cross-border investment in what appeared to be a relatively low income market, largely unwarranted. It was only during the 1920s that this pattern begun to be broken.

Pilkington, J.P. Coats, Bryant and Lever Bros.,(98) were amongst the early British manufacturing companies to invest directly in production units in Brazil during that time. The development of the market and incomes were then reaching a stage when it paid manufacturers to transfer their domestic experience in technology and marketing in Brazil. Moreover, it was also a question of securing existing market shares since import duties and competition from domestic producers could only be overcome through direct investment (99) while the containing of the growing U.S. involvement in domestic manufacturing through local investment might have also played a role. Yet, these investments, as well as the still predominant capital in the merchant sector, remained insignificant when compared to the total amount of British (portfolio) investment in the country.

German capital, on the other hand, was largely confined to private direct investment in commerce, industry and agriculture and as such distinctive in size as well as form. Similarly, public capital markets only played a subordinate role even for the small amount of portfolio investment which was normally acquired through London bankers.

Liquidity constraints, higher transaction costs arising out of taxation and a relatively small demand for 'exotic' securities rendered the German market and the investing public less receptive for Brazilian obligations. Hence, German projects had to be financed internally by the investing company, with the help of banks through straight loans or, in larger cases, through joint ventures between banks and the company. This implied that, contrary to Britain, there was less of a distinction between the actual investor and the 'manager' of the capital and, by the same token, underlying motivations were more complex.

The banks' involvement was a service to industry and a way of securing the important domestic commitments to this sector. It was, therefore, no coincidence that the Sao Paulo railway loan of 1905 was one of the few loans led directly by German banks outside London and that it was arranged with the help of Krupp's representative in Rio de Janeiro and the Deutscher Stahlverband für Sudamerika.(100) The purpose of the loan was to enable the state of Sao Paulo to buy a derelict railway from the federal government and to finance the necessary repair works, offering substantial supply orders for German industry.(101) In the light of Krupp's involvement and the more pragmatic stance of German banks, it is very likely that at least part of these orders did go to Germany.

Investing companies also refrained from looking purely at expected returns. As the investment was funded out of the firm's global budget, it formed part of the company's overall strategy bringing additional entrepreneurial considerations into play. Given that the bulk of such investments were carried out by merchant houses, the main exceptions of the pre-war period being Siemens and sales office of AEG, Deutz and Mannesman,(102) market expansion and increased turnover were other main targets. Vertical integration into warehousing, transport and technical services all formed part of this strategy. Investment in industry was driven by the need to diversify and, moreover, by the desire to take advantage of anticipated market growth, partially stemming from tariff protection. At the same time, it also allowed the investor to capitalise and exploit existing experience gained in pure commerce. Stolz, Danneman's financial backer, for instance, had long been exporting raw and semi-prepared tobacco before finally investing in the tobacco industry itself. The main carrier and stimulant of German investment in Brazil was, therefore, the merchant community. This may have given rise to a further distinction from British capital in so far as the reinvestment of local income, as opposed to its repatriation should have played a greater role in the case of Germany. An emergence of direct multinational manufacturing as a natural progression from this stage, however, was mostly delayed beyond the 1920s since industry at home had to use available capital funds to rebuild its domestic capacity, while the remaining stream of German exports was handled by the merchant network.

Finally, it should again be noted that a not insignificant portion of German investment was linked to the colonisation movement in Southern Brazil where it was spread over numerous small scale holdings in agriculture and local industry. Much of it became naturalised over time and little direct benefit in terms of income accrued, its importance lying rather in complementing the element of human capital both of which provided the basis for the German stronghold over the south.

Given such differences in character, funding and motivation between British and German investments in Brazil, what is the conclusion regarding their respective roles in the Anglo-German rivalry, and to what extent did they support the competitive drive for market expansion?

There can be little doubt that the sheer weight of British capital in the Brazilian economy was bound to favour British trade. Yet, this positive effect should not be overestimated since only a fraction of total capital related directly to British trade. Whilst it is possible to maintain that her capital provided the basis for an expansion of trade, creating new demands in Brazil which were satisfied through increased imports, it is equally true that this development was of benefit to all foreign competitors and that there was little exclusivity. A one-sided beneficial effect may have prevailed until the early 20th century when Britain dominated railway and public utility investment as well as the manufacture of the necessary inputs and it was natural for English engineers to buy British. The subsequent dilution, however, of British capital holdings and the increased export capacity of her rivals diminished this advantage. Essential supplies of rails, railway accessories and iron materials for building purposes from Britain, were actually superseded by imports from Germany between 1910 and 1914.(103)

Minority shareholdings in other foreign ventures, being at least 25% of total capital in railways and 50% in the case of public utilities, were of even less benefit to trade as no control could be exercised over the management of the project. Even in the case of the 'Brazilian Traction Light and Power Co.', which contained the largest single block of British portfolio capital, merchants repeatedly complained about the company's unwillingness to purchase British goods.(104) Finally, it might be tempting to argue that London's financial backing of the Brazilian public sector (60% of total investment) created sufficient goodwill in official circles to favour British supplies. It is, however, virtually impossible to to measure this spin off effect and in light of the growing nationalist conscience in Brazil, resenting the high profile of expatriate capital, official attitudes were by no means always too favourable. Moreover, British loans were not tied to the procurement of English goods. Although bankers may have occasionally expressed their wish for some direct reciprocity, as was the case in 1924 when the federal government approached the London market for a new loan,(105) lending, in general, was a strictly financial exercise focusing on security and returns.

While offering great opportunities for British trade, the primary role of the majority of her investments in Brazil was, therefore, not to foster trade but a function of investment banking and yields. By contrast, Germany's investors were more pragmatic and investments geared directly towards trade. Whereas the extent of portfolio investment was certainly larger than assumed and the individual purchasing Brazilian securities on the stock exchange decided so, on the basis of the expected yield, the overall pattern of investments tended towards a reverse polarisation to the one observed in Britain. As such, investment integrated closely into the German business community in Brazil and assumed a more active part in the Anglo-German trade rivalry. Capital invested by the German merchant sector may well have exceeded the investments of British trade. In global commercial terms, however, it could only offer competition to a fraction of British investments and it was in these terms that she was unable to rival Britain's supremacy, particularly so after 1914 when economic circumstances at home did not allow for a rebuilding of her previous portfolio.

Chapter 6.

Footnotes

1. A. Villela and W. Suzigan, Government Policy and the economic Growth of Brazil, (Rio de Janeiro, 1975), p. 368.

2. see for instance A. Frank, Capitalism and Underdevelopment in Latin America, Historical Case Studies of Chile and Brazil, (London, 1967);
   T. Dos Santos, 'The Structure of Dependence', AER, LX, (1970).

3. W. Suzigan, Investment in the Manufacturing Industry in Brazil 1869-1939, (London, 1984), p. 82;
   N. Leff, Underdevelopment and Development of Brazil, Vol.II, Reassessing the Obstacles to Economic Development, (London, 1982), pp. 78 and 80.

4. During the period under review Brazil only experienced 3 deficits in her balance of trade.

5. O. Carneiro, Past Trends of structural Relationships in the Economic Evolution of Brazil 1920-65, (Harvard, 1966), pp. 48 and 49.

6. H. Feis, Europe, the World's Banker 1870-1914, (New York, 1964), p. 23.

7. S. Pollard, 'Capital Exports 1870-1914: Harmful or Beneficial', EHR, XXXVIII, (1985), p. 491.

8. Feis, Europe the World's Banker, p. 93;
   see also M. Simon, 'The Pattern of new British Portfolio Investment 1865-1914', in A. Hull (ed.), The Export of Capital from Britain 1870-1914, (London, 1968).

9. Feis, Europe the World's Banker, p. 5.

10. U.N. Dept. of Economic Affairs, International Capital Movements during the interwar period, (New York, 1949) p. 4.

11. Royal Institute of Int. Affairs, The Problem of International Investment, (Oxford, 1937), p. 60.

12. League of Nations, Balance of Payments 1930, (Geneva, 1932), p. 159;
see also Royal Institute The Problem, p. 134.

13. Sir. R. Kinderseley, 'British Foreign Investment in 1929', EJ, XLI, (1931), p. 373.

14. Royal Institute, The Problem, pp. 6 and 7. The League of Nations put forward a lower figure of £3.4 b for 1929, League of Nations, Balance of Payments, p. 163.

15. J. Normano, Brazil, A Study of Economic Types, (North Carolina, 1935), p. 154.

16. J. Rippy, 'A Century and a quarter of British Investments in Brazil', IAEA V., (1952), p. 83;
see also J. Rippy, British Investments in Latin America 1822-1949, (Minneapolis, 1955).

17. Centre National de la Reserche scientifique, L'Histoire quantitative du Bresil 1800-1930, (Paris, 1973), pp. 295-7.

18. Normano, Brazil, pp. 157 and 158.

19. U.N., E.C.L.A. Foreign Capital in Latin America, (New York, 1954), p. 157.

20. Royal Institute, The Problem, p. 273.

21. Rippy, 'A Century and a quarter';
I. Stone, 'British direct and portfolio Investment in Latin America 1865-1913', BHR, XLII, (1968);
Stone, 'British direct and portfolio Investment in Latin America before 1914', JEH, XXXVII, (1977).

22. Sir. G. Paish, 'The Export of Capital and the Cost of Living', The Statist, 14 Feb. 1914.

23. U.N. Dept. of Economic Affairs, International Capital Movements;
U.N. ECLA, Foreign Capital.

24. D.C.M. Platt, 'British Portfolio Investment Overseas before 1870, some Doubts', EHR, XXXIII, (1980);
Platt, Britain's Investment Overseas on the eve of the First World War, (London, 1986).

25. Platt, 'British Portfolio', p. 5.

26. Platt, 'British Portfolio', p. 16.

27. Platt, Britain's Investment, pp. 54-59.

28. The USD/STG used in this study was 4.86, the average for the year as per the 'Banker' magazine while the original is unknown.

29. Rippy, 'A Century and a quarter', p. 83.

30. Stone, 'British long term Investment', pp. 321-331.

31. Kinderseley, 'British Foreign Investment', p. 199.

32. Normano, Brazil, p. 216.

33. A comparison of the data supplied by the Royal Institute yields a similar rate of 28% for the latter period.

34. see page 295

35. R. Graham, Britain and the Onset of Modernisation in Brazil, (New York, 1968), pp. 52 and 54.

36. Norton, Megaw Co. Ltd. Archive, private letters 29 Sept. 1904.

37. Graham, Britain and the Onset, p. 58.

38. Coffee tonnages as a proportion of total freight actually fell over time as domestically required articles gained in importance, C. Lewis 'Railways and Industrialisation, the Argentine and Brazil', LSE Brazil workshop paper, pp. 23 and 24.

39. By contrast, Stone put these at £22.9 m, Stone, 'British direct and portfolio Investment', p. 716.
A review of the Pearson papers held at the Science Museum Library, London, revealed no information about British holdings in the company.

40. Centre National, L'Histoire quantitative, pp. 295–297.

41. Stone, 'British direct and portfolio Investment,' see also P. Svedberg, 'The Portfolio - Direct Composition of private foreign Investment in 1914 revisited', EJ, LXXXVIII, (1978).

42. The study does, however, include the net worth of the Brazilian subsidiaries of J.P. Coats, Pilkington and Bryant and May.

43. Kinderseley, 'British Foreign Investment' EJ, XLI, (1933) pp. 199 and 200.

44. Rippy, 'A Century and a quarter', p. 86.

45. PRO FO 11117/A 2221/1222/6, Ramsey to Chamberlain 21 Feb. 1926.

46. PRO FO 371/7190/A 1857/1857/6, Tilley to Curzon 20 Feb. 1922.

47. PRO FO 371/8461/A 5944/3481/51, Kelly to FO 5 Oct. 1923.
PRO FO 371/7190/A 1857/1857/6, Tilley to Curzon 20 Feb. 1922.

48. Normano, Brazil, p. 216.

49. Suzigan, Investment in the Manufacturing Industry, pp. 290 and 295.

50. see Knowles & Foster, The History of Knowles & Foster 1828-1948, (London, 1948).

51. see Wilson Sons & Co. Ltd. letterbook 1899-1900, University College, London.

52. On merchant investments see W. Dean, The Industrialisation of São Paulo 1890-1945, (Austin, 1969), pp. 26-28;
F. Versiani, 'Industrial Investment in an 'Export' Economy: the Brazilian Experience before 1914', (London, 1979), pp. 8 and 9.

53. Feis, Europe the World's Banker, p. 70;
W. Steinmetz, Die deutschen Grossbanken im Dienste des Kapitalexports, (Luxemburg, 1913), p. 19.

54. Feis, Europe the World's Banker, p. 71.

55. Steinmetz, Die deutschen Grossbanken, p. 7;
Dr. P. Hastedt, Deutsche Direktinvestitionen in Lateinamerika, (Gottingen, 1970), pp. 17-24;
J. Riesser, Die deutschen Grossbanken und iure konzentration, (Jena, 1910), pp. 316-319.

56. J. Wendler, Deutsche Elektroindustrie in Lateinamerika, AEG und Siemens, (Stuttgart, 1982), p. 72.

57. Feis, Europe the World's Banker, pp. 61, 62 and 72.

58. M. Pohl, Deutscher Kapitalexport in 19. Jahrhundert, (Frankfurt, 1977), p. 70.

59. H. Moulton, and C. McGuire, Germany's Capacity to Pay, (New York, 1923) p. 273.

60. Riesser, Die deutschen Grossbanken, pp. 425, 426 and 533.

61. Dr. C. Melchior, 'Deutsche Kapitalinteressen im Ausland', Bankarchiv, (1914-1915), p. 264.

62. Pohl, Deutscher Kapitalexport, p. 42.

63. H. David, 'Das deutsche Auslandskapital und seine Wiederherstellung nach dem Kriege', Weltwirtschaftsarchiv, (1919), p. 292.

64. Reichsstatistikamt, 'Wirtschaft und Statistik 1923', (Berlin, 1923), p. 64.

65. Royal Institute, The Problem, p. 238.

66. Annual Reports Deutsche, - Dresdener Bank, 1925, 1926.

67. League of Nations, Balance of Payments, p. 91;
Reichsstatistikamt, Wirtschaft und Statistik 1929, (Berlin, 1929), p. 893.

68. Steinmetz, Die deutschen Grossbanken, p. 7.

69. G. Brunn, Deutschland und Brasilien 1889-1914, (Köln, 1971), p. 253.

70. K. Wyneken, Die Entwicklung der Handelsbeziehungen zwischen Deutschland und Brasilien, (Köln, 1958), p. 74.

71. Brunn, *Deutschland und Brasilien,* p. 245.

72. C. Cornelius, *Die deutschen im brasilianischen Wirtschaftsleben,* (Stuttgart, 1929), p. 11.

73. Cornelius, *Die Deutschen,* p. 27.

74. Staatsarchiv Hamburg, Senatskommission fur die Reichs-und Auswartigen Angelegenheiten, cid178, 21 Feb. 1912.

75. Cornelius, *Die Deutschen,* p. 28.

76. E. Dettman, *Brasiliens Aufschwung in deutscher Beleuchtung,* (Berlin, 1908), p. 257.

77. Wendler, *Deutsche Elektroindustrie,* p. 130.

78. Cornelius, *Die Deutschen,* p. 70.

79. See Chapter 7.

80. Cornelius, *Die Deutschen,* p. 71.

81. *Annual Year Book of the Berlin Stock Exchange,* (Berlin, 1912).

82. Cornelius, *Die Deutschen,* p. 70.

83. Royal Institute, *The Problem,* p. 273.

84. Hastedt, *Deutsche Direktinvestitionen,* p. 35.

85. Rippy, 'German Investments in Latin America', *Journal of Business of the University of Chicago,* XXI, (1948), p. 64.

86. For Britain the devaluation problem was less acute as the bulk of her investments was sterling denominated.

87. Hastedt, Deutsche Direktinvestitionen, pp. 50 and 51.

88. Hastedt, Deutsche Direktinvestitionen, p. 50.

89. Villela and Suzigan, Government Policy, p. 130;
A recent article by Versiani also disputes this view, maintaining that industrial performance was appreciably better than assumed and that traditional conclusions were clouded by the sluggish performance of the textile sector.
F. Versiani, 'Before the Depression, Brazilian Industry in the 1920s, in R. Thorpe, (ed.) Latin America in the 1930s, the Role of the Periphery in World Crisis, (Oxford, 1984).

90. U.N.ECLA, Foreign Capital, p. 157.

91. Cornelius, Die Deutschen, p. 24.

92. Zimmerman, Theodor Wille, p. 148.

93. Cornelius, Die Deutschen, p. 37;
Verband Deutsch-Brasilianischer Firmen in Brasilien, Jahrsreport, (Rio de Janeiro, 1926).

94. H. Kellenbenz, Deutsche Unternehmer in Brasilien im 19. und 20. Jahrhundert, (München, 1979), P. 73.

95. Cornelius, Die Deutchen, p. 78; Statistisches Reichsamt, Vierteljahrshafte zur Statistik des deutschen Reiches, III, (1935), pp. 193 and 199.

96. Saling's Börsenijahrbuch, 1929-1930 (Berlin, 1930).

97. J. Nicholas, 'British Multinational Investment before 1939' JEEH, II, (1982), p. 625;
see also J. Stopford, 'The Origins of British based Multinational Manufacturing Enterprises', BHR, XLVIII, (1974).

98. Stock Exchange Official Intelligence 1929, (London, 1929); BOLSA, - 'Monthly Review', (London, 1929) p. 472.

99. for further information on the motives of British multinational investment, see also G. Jones, 'The Expansion of British Multinational Manufacturing 1890-1939', in A. Okochi and T. Inoue, (eds.), Overseas Business Activities, (Tokyo, 1984).

100. Pohl, Deutscher Kapitalexport, p. 89.

101. Hamburg Chamber of Commerce, 95.C.2.4. Consulate to Chancellor Bulow; Staatsarchiv Hamburg, Deputation fur Handel und Schiffahrt; Spezialakten XIX C.30.2 No. 7730/04, 11/10/04, Officials also endorsed the loan because it was thought to break the British monopoly over transportation in the state.

102. Kellenbenz, Deutsche Unternehmer, p. 70.

103. See Chapter 2.

104. PRO FO 371/7186/A 6870/52/6, Mackenzie to Tilley 3 Oct. 1922.

105. PRO FO 371/9508/A 994/70/6, Acting Consul General to D.O.T. 15 Feb. 1924.

Chapter 7.

Commercial Diplomacy and the Anglo-German Rivalry

Up until now, the analysis of Anglo-German competition has focused exclusively on commercial and financial strategies and their results, leaving aside the question of official attitudes to the course of the underlying trade rivalries.

Yet governments were obviously aware of the importance ascribed to international trade and the opening up of new overseas markets. Britain's repeated commercial missions to Latin America, as well as the appointment of special agents to overseas legations, signalled a concern about the growth in competition. Whitehall considered it "its business to [even] the path for British commerce, enterprise and capital".(1) By the same token, slower economic activity in Germany during the 1880's called forth a more active governmental stance in the promotion of exports through the bolstering of consular services, preferential tariff treatment of export industries and, ultimately, even a "prophylatic expansionism"(2) into foreign territories to preserve existing trade advantages.

The question as to how these concerns were put into practice and to what extent the government abetted an active commercial diplomacy so as to assist in the expansion of capitalism, has been widely studied under the banner of imperialism, both in the formal character of colonisation and its informal version.(3) In the absence of formal political ties between Europe and Brazil during the period under review, discussions focused on the nature of informal imperialism.

This notion was first formally raised by Robinson and Gallagher in their challenge to existing Marxist and non-Marxist views on imperialism. By defining imperialism as a "sufficient political function of [the] process of integrating new regions into the expanding [capitalist] economy"(4) its character and degree was thus decided by the extent to which political and economic factors allowed for integration. Hence, "only when the political structures of new regions fail to provide adequate conditions for commercial or strategic integration and when their relative weakness allows, will power be used imperialistically to adjust those conditions".(5) Formal colonialization was, therefore, only one extreme form of imperialism.

Both Robinson and Gallagher as well as Strachey concluded that Latin America provided sufficient security for British capitalism to forego formal annexation and to consolidate itself through informal means instead.(6) Control could then be exerted through political and diplomatic pressures in conjunction with private capital exports to the periphery so as to impose a liberal regime which would suit the needs and surplus requirements of the centre.(7) This, according to the Steins and, similarly, Frank, was "Britain's informal imperialism of free trade and investment".(8)

The notion of imperialism had now been widened to cover the overseas activities of commercial enterprise and the covert support and diplomacy of the government.(9) Its informality was taken to the extreme by Richard Graham, who regarded it as an unconscious policy of the capitalist nation, rather than a function of necessary government involvement.(10) Writing largely about the British 'informal rule' in Brazil, Graham argued that economic penetration was complemented by the export of British values of laissez-faire and free trade so as to secure local consent and support to the unhindered benefit of British commerce.

Informal imperialism then encompasses not only the political and economic aspects of capitalism but also the transmission of its philosophy.(11) In a similar vein, Cain and Hopkins recently stressed the importance of social values in the evolution of imperialism. (12) In exploring the growing status of the so-called gentlemanly (as opposed to industrial) capitalism in British society, the authors highlight its role in developing the economic power of the City's service sector and, moreover, its close association with Whitehall. The former's need for safe investment opportunities and the latter's interest in promoting the economic and political penetration of external markets was, thus, seen as creating a community of interests the coherence of which was strengthened by common social and political ideals. Under these circumstances informal political influence could be instrumental in supporting the external expansion of capital and with it the spread of British imperialism.

Germany's rising role in international trade and finance has equally been subjected to allegations of imperialism. Ian Forbes applied the concept to the presence of German commerce in South America. He argued that in an attempt to extend her field of economic influence, Germany used all available "strategies of informal imperialism"(13) which he simply equated with the general development of overseas commerce as demonstrated by the expansion of her banking, shipping and merchant network. Implicitly assuming that capitalism and imperialism were synonomous, external trade thereby constituted imperialism. J. Hell (14) went considerably further in his argument on Teuto-Brazilian relationships. Basing his work on contemporary sources, he supported the view that Germany was planning to formally annex the southern states of Brazil to turn the same into an exclusive trading post.

While definitions vary, according to a number of authors, the history of Anglo-German overseas commerce was, therefore, one of informal imperialism. In the context of this thesis, however, the key question is confined to the presence of informally imperialistic tendencies in British and German foreign policy. Following H. Ferns'(15) study of Anglo-Argentine relations and his conclusion that they were guided by free market principles and not governmental interference, Professor Platt(16) launched an elaborate attack on the Robinson and Gallagher hypothesis. Essentially, he argued that Latin America was politically uninteresting and economically backward, giving British policy no incentive to divert from its non-interventionist stance. Almost by necessity these views also neatly coincided with his defense of the decline of Anglo-South American trade, which was based on the unattractive character of the local business environment. If the latter had been the case and British commerce had pulled out of the market, there would have indeed been no need nor motive for any covert government support.

While admitting that after 1880 Britain may have been forced into a more promotional policy, leaving some application for informal imperialism as politics and commerce formed a new relationship(17) his earlier and far more detailed critique of the subject left little room for such reservations. At this stage Platt found "no evidence [of] British diplomats before 1914 taking an active part in promoting British contracts and concessions".(18)

This view soon gained a wider acceptance. Although not prescribing to the overriding stance of Professor Platt, Charles Jones found it to be "sufficiently clear, nevertheless, for it to be common ground .. that the British state was disinclined to interfere on behalf of British capitalists with Latin American interests".(19) Platt's views found further confirmation in the writings of W. Mathew, who concluded that in the case of Peru the periphery was not a victim of informal imperialism. Accordingly the laissez-faire attitudes of the British governments were seen to give way to the play of uninterfered with free market forces.(20)

Views on and definitions of informal imperialism, therefore, vary and the boundaries of the discussion could accordingly be set wide. Given a sufficiently broad definition, after all, transnational capitalism is bound to be imperialistic, particularly if viewed from a marxist angle. For the present purpose the following analysis shall concentrate on the question of covert government intervention. Informal imperialism is thus to be taken as foreign policy and commercial diplomacy.

Even in this circumstance, however, it would still be possible to distinguish between different layers of informal imperialism. In the first instance, it could fulfill the sole purpose of fostering overseas trade and the economic penetration of particular markets. Secondly, and closely aligned to the above, it could also be pursued with the aim of subverting the political autonomy of another state by means of manipulating its domestic policy affairs. In this scenario the objective would be largely of a strategic, though ultimately also economic, nature as strategic thinking may imply political stability as well as the secure access to vital raw materials. Finally, it might also be conceivable that strategies of an informal nature precede a formally imperialistic stage, thus preparing the ground for the latter. To remain within the limits of this present thesis, however, the discussion will focus upon the first stage of informal imperialism which is concerned purely with a potential correlation between the growth of overseas business and official actions. In the particular framework of this thesis it may be tempting to argue that the rapid ascendency of German interests in Brazil was at least partially indebted to the assistance and intervention of the Wilhelmstrasse. Conversely, one should enquire whether the threat posed by the increase of foreign competition to Anglo-Brazilian interests was translated into a political reaction.

In other words, did commercial diplomacy supplement the business strategy of either competitor and, if so, in what form and to what extent? The answers to these questions are of importance since they throw a new light on the commercial rivalry debate, which has mainly ignored political factors. If politicians and diplomats were found to make a significant contribution to the commercial struggle, its relatively free and competitive character would be distorted. Consequently, the conclusions reached on comparative performance and efficiency would be drawn into question or possibly even invalidated.

By widening the conventionally one-sided focus to include a study of the German official philosophy, the following discussion will simultaneously provide an interesting test case for the ongoing debate on informal imperialism.

To this purpose, the discussion will proceed in two stages, dealing with British and German commercial policies individually. The two sections will differ somewhat in nature, because some consideration will have to be given to the effects of the accusations concerning Germany's alleged designs for formal intervention. Finally, in comparing British and German diplomacy the analysis will draw conclusions on the issues addressed above.

I

When reconsidering the case of British foreign policy, it is impossible to ignore the extensive research undertaken by Professor Platt. Admittedly, Whitehall's policy was reluctant to adopt an active stance in commercial matters. Ignorance and 'snobbish prejudices' against business affairs were widespread in diplomatic circles.(21) Collaboration between business and politics remained low and "conspiracy theories are little inspiring".(22) The individualistic nature of commerce and industry made it difficult to support particular groups as such a choice would have displeased rival interests. Officials frequently preferred to stay clear of the realms of competitive business life. They were 'disinclined' as Jones put it. Nevertheless, disinclination did not mean total abstinence nor did it imply complete independence.

It seems natural that there was a positive correlation between diplomacy and commerce. In other words, British trade, initially boosted by the preferential import duties negotiated under an early(23) trade treaty induced a larger diplomatic presence which, in turn, gave an air of comfort and security for merchants.

As foreign competition in the Brazilian market developed, the initial passivity of this mutually beneficial relationship came increasingly under pressure from commercial circles, particularly in view of the chauvinistic behaviour of other diplomats. A blatant example thereof was the French government's veto and effective blocking of an Argentinian loan on the Paris Bourse in 1909 following Argentina's decision to grant an ordnance contract to Krupp in lieu of a French company (24) Similarly, at a tender in Brazil, the French minister threatened to resign his post if a French company was not awarded the contract for the construction of the port at Pernambuco.(25) Although in cases such as the Pernambuco tender, official steps may have been little more than empty threats designed to receive the attention of the Brazilian counterpart, business and diplomatic circles seemed to be slowly converging.

As a result, the non-interventionist philosophy of officials began to waver and, as Platt admitted, "officials were compelled to see themselves in an entirely new relationship to British trade and financiers".(26) Given this new relationship, diplomats were faced with several options to do justice to their enlarged tasks. In the first instance, diplomats may have been concerned with the general safeguarding of Anglo-Brazilian trade flows, ensuring the removal of impediments to the free expansion of British interests in Brazil. In this context the general issue of concessionary duties granted exclusively to American imports under a reciprocal trade agreement frequently caught the attention of the British legation. As it was considered detrimental to the import of British goods, the legation attempted to attain a most favoured nation status by mustering local support for its cause, while lodging official protests with the government.(27)

The commercial diplomacy, therefore, dealt with a global issue of economic policy. Yet the attitudes in this respect remained cautious and hesitant. Before taking the matter beyond the stage of mere protest, any potential course of further action was discussed with other European legations at Rio. While the aim of these consultations was obviously to strengthen the lobby through joint action it also served to avoid a situation whereby Britain could be identified as the sole protestor which could have implied a worsening of her relations with the Brazilian authorities.

On the basis of such collusion, various forms of retaliation, ranging from reciprocal tariff increases on imports from Brazil to a prohibition of her coffee propaganda in Europe, were considered but, given the diversity of interests, no conclusion was reached. Potential short-term benefits of current projects under negotiation such as the employment of British instructors in the Brazilian navy were also valued higher than the latent long-term benefit derived from tariff reductions.(28) As a result of such a positive time preference, Britain's commitment to negotiate free trade conditions diminished rapidly. Moreover, the Foreign Office was reluctant to see her envoys leading any retaliatory action because it was not willing to be identified as the driving force behind this strategy.(29) In fact, it was thought to be more promising to engineer another nation into the lead position and to receive some credit from the Brazilian government by withdrawing the support at the last moment. As Germany apparently adopted a similar strategy the initial resolution to firmly approach the government was effectively neutralised by the diplomatic manoeuvering between the two legations.

Hence, whereas the concept of serving commercial interests through achieving a reduction in duties certainly formed a general aspect of the developing commercial diplomacy, its execution remained unconvincing. Political considerations and a preference for short-term gains overruled the underlying willingness to fight for free trade conditions, thereby rendering any official protests more symbolic than real. Although this may be interpreted as a remainder of a traditional laissez-faire stance, diplomats nevertheless found other ways of backing Britain's commercial interests in Brazil. Consequently, the focus shifted to the support of particular projects as an alternative way of aiding the general cause.

Strategy in this field was normally based upon officials' relationships with the local authorities. This confined their effectiveness to commercial transactions containing a public element either as a buyer or a seller. Being acquainted with the characteristics of the Brazilian authorities and their willingness to accept 'favours' in private negotiations, the foreign legation could provide a valuable service by introducing companies to the most suitable official so as to enhance their chances of success.(30)

More importantly, however, they took the opportunity to propagate British products and services directly by means of personal representations to the appropriate body. In 1909 the British Secretary at Rio thus enquired at the Foreign Office about the possibility of the legation making deliberate requests to the federal government for orders to be placed with British firms. The response was to interpret existing rules fairly liberally. In other words some form of support for British firms was sanctioned.(31)

The change in British official attitudes was further emphasised by Secretary Haggard's report on the tender for the supply of a floating dock at Rio de Janeiro harbour. The report shows that a year later British diplomats were actively engaged in lobbying for British firms and that they were even authorized to make direct representations to the President.(32) The Foreign Office advised Rio that "in view of pressure exercised by the French legation with regard to the naval arsenal and docks(33) you should continue to give strong but impartial support for British tenderers". Given this clearance, Haggard met the President's brother, the Chef de Cabinet, impressing on him "the hardships inflicted on the British tenderers [and] the injury to Brazil which might follow any step calculated to drive British engineers and contractors out of the country."(34)
The ambiguity of this rather theatrical remark makes it difficult to determine the exact extent of this representation. It is possible to construe 'injury' to be purely an opportunity cost for Brazil when using other foreign contractors but it is also feasible to consider it to be a veiled threat pointing to the possibility that the contract award to a non-British company could well have an adverse impact on Britain's willingness to assist Brazil in her future (credit) needs. If the latter interpretation was correct, it would certainly have implied more than a polite request for fair treatment.

In either event, as trade rivalries had been transmitted to the diplomatic arena, British officials directly pursued commercial interests by supporting and promoting their marketing efforts. The departure from a strictly arms length approach was finally admitted by the Foreign office when it informed Rio on a new naval tender after the war that "it would be wrong of us not to do all we can to see that British yards and British labour get a full share".(35)

Although the shift in philosophy may, to a certain extent, be interpreted as a logical defensive reaction to rivaling diplomatic activities aimed . at securing business, it nevertheless still represented a significant break with tradition.

In addition, it must be pointed out that the diplomatic behaviour of competing nations soon became a popular and easy way of getting authorization for and justification of similar actions, rendering the underlying concept somewhat ambiguous. German officials complained equally about the extent to which their foreign colleagues were willing to support business interests.(36) The idea of ensuring mere equality can, therefore, not always be accepted at face value.

A further area of official intervention concerned disputes between British interests and their Brazilian counterparts. The case of the Manaos Improvement Company shows that British officials did persistently lobby on behalf of businessmen to support their claims vis a vis the Brazilian authorities.(37) In this instance, a serious conflict arose between British contractors and investors, on the one hand, and the state of Amazonas on the other, whereby the latter repeatedly revised agreed contract terms, covering the construction and management of a sewage and water supply system. On accusations that the contractors charged excessive rates to consumers the state refused to pay outstanding amounts of interest and withdrew the company's right to import implements free of duties.(38) As a result, local operations came close to a standstill and the firm faced great difficulties in raising new finance at home, since its debentures could only be sold at heavy discounts.

The conflict finally culminated in local riots during the course of which the company's property was seriously damaged (39) increasing British claims to £839,321.(40) It was at this stage that the full extent of potential official British intervention became clear. Previously Haggard confined his actions to a mediatory role, leading to prolonged negotiations with the federal government to find a settlement.(41) Following the riot, however, he did not hestitate to call for the protection of a British gun boat which the Foreign Office immediately sanctioned.(42) This drastic step was finally rejected because the Admiralty claimed to have no suitable vessel available.(43) The length of this conflict and Haggard's continued involvement (1911-13) illustrate the readiness of diplomats to support businessmen in contractual disputes and its particular nature underlines how quickly apparently laissez-faire attitudes could be substituted by most resolute actions, which were at least in tone reminiscent of crude gun-boat diplomacy.

Whereas the diplomatic files of the pre-war period admittedly contain few such incidents of arbitration, official intervention became more frequent during the 1920's as Brazil's financial difficulties seemed to become more pronounced. The embassy's report for 1921 clearly reflected a new attitude by noting that "its work is not only with the ordinary diplomatic and commercial relations... but with the affairs of the great British institutions in this country, the railways, public utilities and banks".(44) Indeed, it became almost a routine for members of the legation to make representations on behalf of commercial interests to Brazilian officials and even the president of the republic.

Most public utilities and railways experienced conflicts with local authorities at some time. A Foreign Office memorandum to the Brazilian ambassador in London listed some major disputes between Brazil and British enterprises the core of which is briefly shown in the following table.

Table 7.1 Selected disputes of British companies in Brazil

Claimant	Nature of dispute
Leopoldina Railway	Prevented from increasing rail tariffs after the war
Great Western of Brazil Railway	Prevented from increasing rail tariffs after the war
Brazil Great Southern Railway	Non-payment of interest due from government subsequently nationalized without compensation
Porto Alegre and Hamburg Railway	Non-payment of compensations due from government
	Government refusal to pay £2m of interest under its guarantee
Manaos Market and Slaughterhouse Ltd.	Assets taken over by municipality without compensation. Misuse of municipal revenues due from the enterprise as they were originally pledged under a British loan but used for other purposes. The loan remained unpaid

Source: PRO F0371/10609/A4557/3174/6, Ramsay to Chamberlain, 22 Aug. 1925.

Some diplomats still tried to play down the nature of certain claims. At times they were correct in doing so because demands for compensation could be exaggerated and one-sided. This was the case with the Sao Paulo and Leopoldina railways where the proclaimed urgency of requests for higher tariffs stood in blatant contrast with current profitability records.(45) Other officials favoured the application of stern measures to combat the alleged "persecution of British enterprise". This stance found further support in that private pleas from British investors, who were defaulted upon by Brazilian borrowers,(46) received additional sympathy from the London press. Parliamentary enquiries followed suit and the traditional F.O. policy of laissez-faire was seen as "despising trade".(47)

Pressure on the legation to act was, therefore, certainly mounting and diplomats sought to step up the assistance given to claimants. Although such support was often justified it still did not go too far. Success was limited and solutions were normally only found after long periods of persistent lobbying, since the Brazilian ministries appeared little impressed with the efforts of the legation. Politically unpopular solutions such as tariff increases were postponed as long as possible, while authorities were reluctant to accept responsibility. In the case of the state of Amazonas' default on its London loan, the legation approached the federal government, demanding the earmarking of federal payments due to the state in compensation of its debts. The Minister of Foreign Affairs, however, quite legitimately refused to accept responsibility since the government did not act as quarantor for the loan.(48) Yet in the case of the Great Western Railway, on the other hand, the federation refused to liquidate its <u>own</u> debt, proposing instead a tariff increase despite vehement resistance at the regional state level.(49)

Already being in a difficult position due to the dubiety of some British claims, the legation was consequently caught between the conflicting interests of central and local government, which further aggravated the situation as they could conveniently neutralise any diplomatic representations.

Furthermore, the options open for action were somewhat limited to persistent negotiations and some vague threats. The most widely used argument with any hope of leverage was the fact that the treatment of British capital and lax attitudes of Brazilian authorities increasingly upset the London financial market, leading up to a potential halt of further capital flows and certainly to more expensive borrowing costs. In one instance the Department of Trade actually refused an application of the Sao Paulo government for a £1.2m loan carrying the H.M. guarantee under the Trade Facilities Act, even though its proceeds would have been used exclusively for British supplies. Whitehall argued that it would not sanction any guarantees for Brazil under the Act as long as British investors were defaulted upon.(50)

This, however, remained an isolated incident. In 1922 the British government speaker stated in a parliamentary enquiry on the question of supporting injured investors that "it is not the practice of H.M. government to interfere with the flotation of loans by recognised governments. Public interest is best served by dealing with these questions on business lines".(51) Moreover, the effectiveness of the discussed measures waned overtime as a result of the keen competition of American bankers, who provided a ready alternative when the London market was hesitant. The Foreign Office realised, in the above enquiry, that any official retaliation would be counter productive to the extent that potential British business would have only been transferred to New York.

Leaving the value of intervention aside an insight into the Foreign Office correspondence provides sufficient grounds for the hypothesis that over time diplomats saw their tasks as being extended to the commercial arena. Competitive market pressures, the evolution of international business, an active commercial diplomacy developed by rivaling nations as well as Britain's falling market share, increasingly drew the reluctant diplomat into commercial rivalries.

A growing number of confrontations between British and local interest as well as some pressure from London further sped up this process.

As a result the traditional laissez-faire character of diplomacy became outdated and less compatible with the exigencies of international business. Official support was, therefore, given to British companies participating in tenders while the pursuance of commercial claims was also accepted when considered of use.

On balance, however, it appears that in relation to the overall size of Britain's economic representation diplomatic intervention remained on a modest scale both in terms of measures taken and frequency. Diplomats carefully assessed the feasibility of any interference with commercial matters, frequently turning down pleas for assistance.(52) Furthermore, the potential pitfalls of official interference should not be under-estimated. In the first instance it could lead to suspicions of favouritism. On two occasions the company of C.H. Walker accused Haggard of favouring competitors to the exclusion of Walker.(53) While apparently unfounded, such speculation created unwanted ill-feelings between the parties concerned as well as an official reluctance to assist on future occasions. Similarly, the legation's involvement in negotiations between the "Anglo-Brazilian Iron and Steel Syndicate" and a Brazilian ministry prompted the Chairman of the British bond-holders of the rivalring "Light Power Co" to formally warn the Department of Trade to abstain from any further interference.(54) In addition, diplomatic support was a precarious balancing act bordering on the involvement in Brazilian political intrigues.

As commercial diplomacy was a function of good political connections, domestic political factions could interpret their use as 'taking sides' of British diplomats with the opponents. In the case of the Rio docks, for instance, Britain was assured the backing of the Admiral of the Navy, whereas French interests had enlisted the support of the President.(55) Since the Admiral was known for his anti-presidential stance, his 'alliance' with British diplomats could have been misconstrued by the government, causing substantial embarrassment for the legation. Consequently, support of business interests had to be exerted in a subtle way and the potential drawbacks frequently outweighed the merits.

In conclusion, it seems that views on British informal imperialism might have to be revised at both ends. On the one hand, there appears little evidence of a consistent 'imperialistic' policy with regards to Brazil. Traditional allegations, in this view, were largely based on broad ideological concepts which were removed from reality. Attempts to move towards free trade conditions were hardly of the vigorously enforcing character envisaged by the advocates of imperialism (56) but rather feeble and symbolic. Potential commercial jealousies and the prospects of being drawn into domestic political rivalries appealed little to the diplomat rendering him reluctant to act. In addition, diplomatic rivalries between the foreign legations in Brazil would have provided a further check on any advances made by a single nation as the other ones would have soon colluded in an attempt to block the rival.(57)

On the other hand, the view represented by Platt also requires qualification. It was clearly seen that diplomats participated not only in the pursuit of commercial disputes but also in the promotion of British contracts. The consular service, therefore, realised that its earlier lack of interest in and prejudice against business was no longer in line with comtemporary requirements. This change in attitudes, however, did not equate to informal imperialism in the sense of there being a persistent strategy to attain control. Commercial diplomacy was, in fact, in its infancy followed, on an ad-hoc basis, sometimes being too hesitant or alternatively over-reacting.

II

Having investigated the extent of British official backing for Anglo-Brazilian commerce, one has to turn to the case of Germany and Teuto-Brazilian trade. Before considering Berlin's foreign policy with regard to Brazil, it is important to be aware of its peculiar position arising out of contemporary fears of a German annexation of Southern Brazil.

Speculations along these lines were widespread and had a profound impact on the legation. Being disturbed by the growth of colonialist propaganda and its radical philosophy about Germany's "legimate right of economic dominence in South Brazil", the Brazilian press increasingly warned against the(58) danger of the German element in the country. As a reflection of alarmist rumours the eminent Jornal do Comercio concluded in 1906 that the German community was hostile to the country.(59) Politicians and even the British Secretary, Haggard, joined the chorus that warned congress and the Foreign Office about the threat of colonization.(60)

As a result, the German legation was left facing popular mistrust and sensitivity. Diplomats in Rio became very defensive trying to conciliate the host government so as to eliminate unrealistic (and unfounded) ambitions. This self-restraint even bordered on helplessness in 1902/03 when a planned land reorganisation in Rio Grande do Sul threatened German settlers with expropriation by the state. Although this would have implied direct damage to the property and rights of German nationals,(61) Berlin ordered Rio not to intervene. Consul Koser pointed out that the slightest suspicion of an involvement in domestic affairs could lead to a withdrawal of diplomatic status.(62)

Germany's political handicap was further reinforced by the powerful influence of the Monroe doctrine. There prevailed a constant concern about a confrontation with American interests, particularly since the United States were warmly welcomed as a strong ally by Brazil's foreign minister, Baron Rio Branco.(63) The Wilhelmstrasse consequently cautioned that "any intervention would afford the US an occasion to extend its position as protector of Pan Americans at our cost".(64) The respect for America's political presence in South America was finally formalised during the Venezuelan crisis of 1902 subsequent to which Germany realised that it could not afford any further worsening of its ties with Washington.(65) Later directors of the Foreign Office, therefore, briefed German diplomats in Brazil to avoid political issues and to concentrate strictly on business matters,(66) as any efforts to the contrary would be futile and, moreover, dangerous, jeopardising existing commercial interests.

Although the perigo alemao had little substance and, indeed few German supporters, it certainly aroused local and American suspicions, which had to be calmed down at the expense of freedom of action. Brunn concluded that with regard to Brazil, German politics were facing a significant handicap whichever initiative was adopted.(67) Being hamstrung in this way, German commercial diplomacy had to pursue a more cautious approach. This leaves the question as to what extent and in what manner foreign policy still aimed to assist economic interests.

In the first instance diplomatic action was frequently linked to and triggered by the wish to foster Deutschtum in Brazil. Newly assigned staff considered this to be the best way of creating a safe market for German exports. Contrary to their expectation, however, German colonists were not receptive to such ideas. Sensing the general suspicions referred to earlier, their will to assimilate locally was greater than any loyalty to the Reich. They were reluctant to be associated with German foreign policy as they realised that behaviour to the contrary would have impeded their prosperity in the new environment, to which they had to adapt themselves.(68) By the same token, entrepreneurs at home were sufficiently frustrated with the notion, viewing it as an obstacle, which should not interfere with economic matters.

Nevertheless, despite the pending political constraints Berlin's policy was not yet entirely free from the concept of Deutschtum. There remained at least two major incidents when officials interfered directly with the business community in the misguided belief that it would foster Deutschtum and therefore automatically Germany's general commercial strength on the Brazilian market.

In the first instance, the Foreign Office in conjunction with the consular service sought German control over coastal shipping services in Brazil. Hence, as a direct result of official pressure, the Hamburg firms of HAPAG, HSDG and Freitas purchased the bankrupt Lloyd Brasileiro in 1906(69) As anticipated by the reluctant investors, however, the venture proved to be a financial failure and the newly founded Companhia de Navegacao Cruzeiro do Sul had to be sold within the same year.(70) Despite the obvious failure, German diplomats were disappointed about the 'unpatriotic' withdrawal of the companies involved. In a letter to Chancellor Bülow, Treutler complained about the lack of private foresight and interest in Germany's future in Brazil,(71) again advocating his plans for a German monopoly over coastal shipping.

The contrasting views between private and official thinking were clearly spelled out by Theodor Wille's petition to the Hamburg Chamber of Commerce in 1909 requesting a final abandoning of the project as there was no capital, let alone desire, for a renewed venture in this field.(72)

The unfortunate combination of official investment planning and private capital was further underlined by the history of the Santa Catharina Railway Co., designed to link the 'colonies' Hansa and Blumenau. As in the above case, the Foreign Office considered the project instrumental in furthering its emigration policy in the hope of gaining economic advantages at the expense of American interests.(73) German banks, already disillusioned with this notion and still remembering the shipping failure, persistently declined any financial support. It was only after the Prussian State Bank agreed to advance the venture capital for a period of five years and allegedly offered return favours in Africa, that a consortium of banks finally agreed to the project, knowing full well that it was doomed to failure. As before they proved to be correct and the railway company was sold to the Brazilian government in 1911.(74)

Excessive concern about Deutschtum, as a way to commercial success, was therefore misguided and detrimental to private investors. Official involvement, characterised by a sad lack of understanding of financial realities, caused exactly the opposite of the desired effect and the naive idea that even in the absence of sufficient returns on capital such investments were worthwhile simply because of their contribution to local Deutschtum, was of little comfort to the business community.

The Wilhelmstrasse finally reached the same conclusion when it advised all German consuls to abstain from supporting further investment projects unless they were certain to be economically sound.

Having learnt from experience, government influence over overseas loans became increasingly informal and confined itself to informative exchanges of views between bankers and officials.(75) Only in one further instance, namely a loan for the state of São Paulo to be floated by the Dresdener Bank in 1914, officials interfered by trying to impose a settlement of outstanding claims as an a priori condition on the loan. The effectiveness of this intervention, however, was limited because the bank could have floated subscriptions to the loan outside the country.(76)

Governmental behaviour in matters of investment reveals some interesting points. First it demonstrates that, contrary to British diplomacy, Germany did not shy away from direct interference and, indeed, direction of private commerce, thereby indicating some rudimentary features of informal imperialism. This comparatively more aggressive behaviour had its origins in the existence of a relatively large German community in Brazil which may have created some moral obligation or possibly also a convenient pretext, but, moreover, it led to a serious misjudgement in so far as it created the false belief that investment in Deutschtum would have fostered the commercial penetration of the Brazilian market. Secondly, it throws a new light on the traditional hypothesis of informal imperialism.

Hence, an informal alliance of politics and business does not automatically benefit the latter; in the above cases it was quite disastrous and, furthermore, it is not always sought after by private enterprise. Again, in the case of Brazil, investors and merchants attempted to get away from and to stay clear of official interference. Generalisations about the effects of informal imperialism may then be misleading and the theory should be considered on a case by case basis.

Relations between commerce and diplomacy were, of course, not always negative and the latter frequently performed useful services outside the heavy handed tactics described above. As noted by British observers, there existed a close link between German merchants and diplomats, who stayed in frequent contact.

Before taking up his new assignment as ambassador in Rio, Treutler, for instance, followed up an invitation by the main Brazil houses in Hamburg for discussions on the requirements of German merchants in Brazil.(77) A review of the state archive in Hamburg showed an active and constant dialogue on Brazilian trade issues between the Chamber of Commerce on the one hand, and the Senate and, finally even the Reichstag on the other. It was common practice for the Foreign Office to appoint German merchants in Brazil as new consuls,(78) thereby further intertwining commercial and diplomatic interests. The weight assigned to business circles, in this matter, is underlined by the fact that the Foreign Office and the Senate normally awaited the endorsement of new appointments by the main merchants in Hamburg.(79) While this practice implied the potential misuse of consular powers for personal gains, it also meant that other merchants in the district could rely upon capable support from the local consul. Hence, it is not surprising that many consuls displayed a keen interest in commercial matters,(80) regarding them as an integral part of their assignment.

Apart from performing routine functions such as the gathering and screening of commercial intelligence for distribution to interested parties at home, the legation also became involved in the rare occasions when German entrepreneurs voluntarily investigated local capital projects. Thus, when Krupp's representative and the Brasilianische Bank studied the rehabilitation of the Sorocabana railway, German officials took a detailed interest in the subject. Seeing an opportunity to limit Britain's influence in the coffee state of Sao Paulo, while potentially securing an order for Krupp, they informed Chancellor Bülow accordingly in the hope that the project would be well received by the German banks.(81) By the same token they intermediated in the settlement of disputes between companies, such as Siemens, and local authorities.(82) Through representations made to the appropriate ministry, they also granted their support to German companies participating in public tenders.(83) This was the case, in particular, when arms contracts were at stake. Through the mediation of the German embassy at Rio, the Brazilian Minister of Defence was invited to attend the German autumn manoeuvres in 1908, a time when Brazil had expressed its intention to build up its army. The same year, the government then purchased military equipment worth 22 m marks from Krupp,(84) underlining a successful interplay between business and diplomacy.

Consequently, German commercial diplomacy had a role to play, a role which was useful and welcome as long as it did not imply direct interference. The tactics pursued were not dissimilar to those used by their British colleagues. Its function in the spreading of German business in Brazil, however, should not be overestimated. While being closely linked to commerce, its role was more of an auxilliary nature and there is little evidence of excessive covert support or intervention, save for the cases referred to above. Essentially from this point of view the German businessman had, therefore, no decisive advantage over his British competitor. Furthermore, German foreign policy with regard to Teuto-Brazilian trade was not always consistent in its approach. The Foreign Office had to be frequently reminded by merchants and industrialists of the intrinsic value of keeping friendly contacts with Brazilian officials abroad and particularly during their visits to Germany. The visit of the newly elected

President Campos Salles to Germany in 1898, for instance, was ignored by the Foreign Office and it was the private sector, led by Krupp in conjunction with the Senate of Hamburg, which hosted a large reception for the Brazilian guest.

Like Campos Salles other Brazilian politicians, such as the ex-president Rodrigues Alves in 1908 and Prof. Oliveira Lima in 1923, were hosted by the private element with little or no official contributions.(85) The obvious lack of interest and imagination displayed by German politicians was certainly not conducive to creating a favourable opinion in the Brazilians mind, and the fact that the Foreign Office did not recognise the potential for goodwill created by these occasions, but had to be 'educated' by private commerce, speaks for itself.

When domestic policy issues were at stake, moreover, considerations regarding trade with Brazil were pushed into the background. Despite resistance from the Chamber of Commerce in Hamburg and the Association of Exporters, the Reichstag ratified a doubling of the import duties on Brazilian coffee in 1909 to be followed by a further increase in 1922.(86) Members of the assembly found little interest in matters of foreign trade, the prospect of an additional 60m marks in revenue outweighed any potential harm to German exports to Brazil. Hence, German efforts to obtain a most favoured nation status(87) and equality with the United States suffered a serious setback and the representations made by the German legation in Rio lost in credibility.

As reflected in the behaviour and attitudes of domestic politicians, it should be borne in mind that, as is to be expected, in the overall picture of German politics matters pertaining to Brazil remained somewhat marginalised. Existing interest therein, confined mostly to the consular services and parts of the Foreign Office, were quickly overruled when not in accordance with domestic priorities.

III

The foregoing comparative assessment of British and German commercial diplomacy within the framework of their eonomic rivalry yielded a number of interesting findings.

It was seen that, contrary to non-interventionist schools of thought, during the first decade of the twentieth century British diplomats began to play an active part in commercial matters ranging from the settlement of disputes to the support of British companies in tenders. The main driving force behind this shift in attitudes lay in the changing nature of international business and the competitive pressures thereof. As other foreign diplomats developed a more than just observant interest in business issues, British officials followed suit. Whether this was merely to ensure fairness in the market or to push British business, is uncertain. The distinction between official support to counteract undue pressures of other foreign officials and support to simply hold up a falling market share, treads a thin line and the former could have been used largely as a pretext for the latter. In any event, it was somewhat irrelevant as the effect was the same. The increasing international rivalry on the Brazilian market did prompt a reaction from the diplomatic service, which realised that its traditional absence in the commercial area was no longer appropriate as Britain was losing her supreme status. Having found little support in terms of trade and commerce, Professor Platt's notion of calculated disinterest thus also loses some of its credibility in the diplomatic sector. Nevertheless, given some of the pitfalls of commercial diplomacy, interest therein remained at relatively modest levels and business and politics remained sufficiently wide apart.

German policy in this respect, on the other hand, was different. While being handicapped by the aftermath of ongoing speculations concerning a perigo alemao, the misguided belief in Deutschtum and its market power as a barrier to the growth of American business still played an important role in the official mind. In some cases, the result was a much more aggressive stance and direct intervention in private business affairs. Resentment against such directives as well as their blatant failure finally convinced the Foreign Office to abstain from further actions. In general, however, close links between commerce and diplomacy ensured a more open and practical approach to trade related matters. While this was reflected in official attitudes and the performance of local duties, calling for the backing of German companies in Brazil, there is little evidence suggesting any out of the ordinary intervention.

Neither country embarked on a full scale programme to back its commercial interests. Global German policy in respect of Brazil lacked the consistency required for such an approach. It was seen that domestic attitudes and priorities were in fact counter-productive to the efforts of diplomats in Brazil. Britain, on the other hand, was reluctant to act firmly on wider trade issues such as the question of preferential duties on American imports. Although a most favoured nation status for Britain would certainly have been in the interests of her trade, thus being a prime target for any informed strategy, she was reluctant to take any leading initiative in the issue. Potential short-term gains were valued higher than the potential benefit of a long-term reduction in tariffs.(88) Such short sightedness and the diplomatic hesitance to take "energetic steps"(89) underline the adhoc character of British diplomacy and are incompatible with a well thought out long-term strategy.

It seems that traditional exponents of informal imperialism implicity attribute an excessive degree of importance to diplomacy and political support. Yet it should be emphasised that, in a competitive international market such as Brazil, the extent to which commercial diplomacy - whether British or German - contributed to economic success, should have been limited, its functions being supplementary rather than instrumental. In the German case, it was actually detrimental and unwanted by private commerce.

Moreover, the effectiveness of any course of action was constrained first by rivaling diplomatic manoeuvres of the foreign legations and secondly by the potential interplay (whether intentional or not) between regional and central government, which led to indecision and confusion.

What were the realistic options available? Britain's main trumpcard consisted of her large capital investments. Yet Whitehall was clearly not willing to withhold a particular loan to the benefit of one group while damaging the interests of another. Germany, on the other hand, was in a weaker position, already handicapped by contemporary suspicions. As the second largest buyer of Brazilian coffee she could have presumably threatened an import ban but this would have meant withholding around 60% of coffee supplies from the German market, which was hardly possible.

While oral and, thus undocumented, pressures brought to bear by German or British local representatives cannot be excluded or may even seem probable, and the latent power inherent to the diplomatic legations of two of Brazil's most important trade partners should not be underestimated, their effectiveness remains difficult to quantify. Consequently, as far as international trade was concerned the decisive factors had to be competitiveness and responsiveness to market changes. In their absence official support alone would have helped very little.

Finally, with regard to the notion of informal imperialism, a conclusion depends very much on the definition used. If informal imperialism merely denotes diplomatic support for commerce, however infrequent, one could argue for its existence, particularly so in the case of Germany but then such support is natural and should be viewed in a positive fashion. To expect complete impartiality on behalf of an embassy would be unreasonable and not particularly productive. By the same token, the potential power conferred upon the core's political apparatus by virtue of its superior economic forces could also be construed as informal imperialism, particularly if its mere existence induces the periphery sufficiently to adhere to an unconditional open door policy. Yet, it is difficult to judge how much of this perceived self exposure would indeed be pure self-interest. For instance, Brazil's attempts to stabilise currency rates and export revenues were designed to comfort foreign investors while, on the other hand, they also protected the country's credibility and resources. In any event, the repeated lack of respect shown for loan agreements and foreign capital, leaves at least some doubt over the viability of this second definition. If, however, informal imperialism is understood to be a consistent strategy aimed at control, through the exclusion of other competitors and to the detriment of the host country, one should definitely reach a negative conclusion since the aforesaid analysis provides little grounds to support such a view in the case of Brazil.

Chapter 7

Footnotes

1) D.C.M. Platt, Finance, Trade and Politics, British Foreign Policy 1815-1914, (Oxford, 1967), pp. 689 and 699.

2) H. Wehler, 'German Imperialism: Robinson and Gallagher and Bismarck's Colonial Policy', in W. Louis (ed.) Imperialism, The Robinson and Gallagher controversy, (New York, 1975), p.210;
H. Wehler, 'Industrial Growth and early German Imperialism' in R. Owen and B. Sutcliffe (eds.), Studies in the Theory of Imperialism, (London, 1972), pp. 80 and 84.

3) On Imperialism, see Owen and Sutcliffe (eds.), Studies;
W. Mommsen and J. Osterhammel (eds), Imperialism and after, Continuities and Discontinuities,(London, 1986);
W. Mommsen, Imperialismustheorien, Ein Uberblick uber die neueren Imperialismusinterpretationen, (Gottingen, 1980);
W. Mommsen, Der europaische Imperialismus, (Stuttgart, 1971);
A. Brewer, Marxist Theories of Imperialism, (London, 1980);
B. Warren, Imperialism, Pioneer of Capitalism, (London, 1980);
W. Louis (ed.), Imperialism;
A. Hodgart, The Economics of European Imperialism, (London, 1977);
P. Cain and H. Hopkins, 'Gentlemanly Capitalism and British Expansion overseas II: New Imperialism', EHR, XL, (1987).

4) R. Robinson and J. Gallagher, 'The Imperialism of Free Trade', EHR, VI, (1953), P.5.

5) Robinson and Gallagher, 'The Imperialism', p.6.

6) J. Strachey, The End of the Empire, (London, 1959), p.118.

7) Louis (ed.), Imperialism, p.16.

8) S. and B. Stein, The Colonial Heritage of Latin America, Essays on Economic Dependence in Perspective, (New York, 1972) p.55;
A. Frank, Lumpenbourgeoisie, Lumpendevelopment, (New York, 1972), p.70;
A. Frank, Capitalism and Underdevelopment in Latin America: Historical Case Studies of Chile and Brazil, (New York, 1967).

9) M. Beaud, A History of Capitalism 1500-1980, (London, 1981), p.143.

10) R. Graham, 'Robinson and Gallagher in Latin America; The Meaning of informal Imperialism', in W. Louis (ed.), Imperialism, p.218.

11) R. Graham, Britain and the Onset of Modernisation in Brazil, (New York, 1968), pp. 105-107.

12) Cain and Hopkins, 'Gentlemanly Capitalism'.

13) I. Forbes, 'German informal Imperialism in South America before 1914', EHR, XXXI, (1971), p.384.

14) J. Hell, DerGriffnach Sudbrasilien. Die Politik des deutschen Reiches zur Verwandlung der drei brasilianischen Sudstaaten in ein uberseeisches
Neudeutschland, (Rostock, 1966).

15) H. Ferns, 'Britain's informal Empire in Argentina 1875-1900', Past and Present, IV, (1953).

16) D.C.M. Platt, 'The Imperialism of Free Trade, some reservations', EHR, XXI, (1968);
'Further objections to an Imperialism of Free Trade', EHR, XXVI, (1973);
Trade Finance and Politics.

17) D.C.M. Platt, 'Further Objections', p.87.

18) Platt, Trade, Finance and Politics, p.333.

19) C. Jones, 'Business Imperialism and Argentina 1875-1900', JLAS, XII, (1980), p.347.

20) B. Mathew, 'The Imperialism of Free Trade, Peru 1820-1870', EHR, XXVI, (1968).

21) Platt, Trade, Finance and Politics, p.394.

22) Jones, 'Business Imperialism', p.437.

23) Platt, Trade, Finance and Politics, p.86.

24) J. Viner, 'Political Aspects of International Finance', Journal of Business, I, (1928), pp. 353 and 354.

25) PRO FO 368/276/19423 - Cheetham to Grey, 24 May 1909.

26) Platt, 'Further Objections', p.87.

27) PRO FO 368/391/3198 Haggard to Grey, 28 Jan. 1910.
PRO FO 368/391/2663 Telegram Haggard to Grey, 22 July 1910.

28) PRO FO 368/391/30497 Grey to Haggard, 30 Aug. 1910.

29) PRO FO 368/391/32168 Haggard to Grey, 5 Sept. 1910.

30) PRO FO 368/390/44937 Hambloch to Grey, 21 Nov. 1910.

31) PRO FO 368/276/19423 Cheetham to Grey, 24 May 1909.

32) PRO FO 368/390/7264 Foreign Office to Haggard, 2 March 1910.

33) PRO FO 368/390/7216 Foreign Office to British Legation, 28 Feb. 1910.

34) PRO FO 368/390/10546 Haggard to Grey, 29 Oct. 1910.

35) PRO FO 371/A763/763/6 Foreign Office comment on a letter from Vickers Ltd. to the Under Secretary of State for Foreign Affairs 11 Feb. 1925.

36) Staatsarchiv Hamburg, Senatskommission F.D. Reichs U. Auswartigen Angelegeheiten, C1 d178, 4 Aug. 1904.

37) PRO FO 368/515/6187/ Haggard to Grey, 31 Jan. 1911.

38) PRO FO 368/515/31955 Haggard to Grey, 28 July 1911.
PRO FO 368/515/33007 Letter of Manaos Improvements Ltd. to O'Reilly (Charge d'affair) Rio de Janeiro, 17 Aug. 1911.

39) PRO FO 368/796/27828 Haggard to Grey, 18 June 1913.

40) PRO FO 368/796/3978 Haggard to Grey, 8 Aug. 1913.

41) PRO FO 368/796/26424 Haggard to Grey, 9 June 1913.

42) PRO FO 368/796/27828 Haggard to Grey, 18 June 1913.

43) PRO FO 368/796/28147 Foreign Office to Haggard, 20 June 1913.

44) PRO FO 371/7190/A1857/1857/6 Sir Tilley to Curzon, 20 Feb. 1922.

45) PRO FO 371/7190/A1857/1857/6 Sir Tilley to Curzon, 20 Feb. 1922

N.B. Both companies filed claims in 1922 arguing for the importance of tariff increases to supported he continued operation of this lines. Their annual reports, for this year, however, show that they still managed to raise net income from £302,000 to £542,000 and from £374,000 to £428,000 respectively.
Ministry of Foreign Affairs, Brazil 1933, (Rio de Janeiro, 1934), p.349.

46) Loans raised by the states of Amazonas, Alagoas, Bahia and the Ciy of Manaos were defaulted on.

47) PRO FO 371/9516/A4352/2770/6 Parliamentary question Samuel to Under Secretary of State for Foreign Affairs, 14 July 1924.
PRO FO 371/7188/A7332/496/6 Tilley to Curzon, 9 Nov. 1922.

49) PRO FO 371/9516/A3751/2770/6 Tilley to MacDonald, 27 May 1924.

50) PRO FO 371/9516/A2968/2968/6 Tilley to Foreign Office, 14 May 1924.

51) PRO FO 371/7186/A2953/101/6 Sir Thomas to Under Secretary of State for Foreign Affairs, 3 May 1922.
PRO FO 371/7180/A2990/101/6 Foreign Office note 4 May 1924.

52) e.g. the case of the rubber merchants in Para
PRO FO 368/173/37869 Eilbert Symons and Co. to Grey, 30 Oct. 1908.
368/173/39355 Eilbert Symons and Co. to Grey, 6 Nov. 1908.
368/173/40953 Casement to Grey, 24 Oct. 1908.
368/173/40955 Casement to Grey, 7 Nov. 1908.
368/173/41343 Foreign Office Note, 10 Nov. 1908.

53) PRO FO 368/390/4828 Haggard too Grey, 10 Feb. 1910.
PRO FO 368/656/18622 Haggard too Grey, 2 May 1912.

54) PRO FO 371/7186/A5993/52/6 Tilley to Curzon, 6 Sept. 1922.

55) PRO FO 368/390/72642 Gey to Haggard, 2 March 1910.

56) Louis (ed.), Imperialism, P.16.

57) PRO FO 368/391/34802 Haggard to Grey, 29 Oct. 1910.

58) L. Braun, 'German political Designs with reference to Brazil', HAHR, II, (1919), p.589.

59) G. Brunn, Deutschland and Brasilien, (Koln, 1971), p.207.

60) Brunn, Deutschland and Brasilien, pp. 207 and 208.

61) PRO FO 128/354 Haggard to Grey, 9 Sept. 1912, 28 May 1911; Brunn, Deutschland and Brasilien, p.171.

62) Brunn, Deutschland and Brasilien, p.170.

63) F. Ganzert, 'Baron do Rio Banco, Joaguim Nabuco and the Growth of the Brazilian-American Friendship', HAHR, XXII, (1942).

64) I. Forbes, German Commercial Relations with South America 1890-1914, (Phd, Adelaide, 1975), p.72.

In 1903 the US President informed the German ambassador that business cicles had attempted to pursuade him that the spread of Geman commerce in South America jeopardised American interests.(i) Eight years later, the Hamburger Nachrichten reported of renewed anti-German feelings in the Brazilian Chamber of Deputies which it considered the result of an American-Brazilian alliance.(ii) How much truth there was to such speculation is uncertain but the basic idea is plausible.

As far as political ill feelings in Britain were concerned, these arose when Germany's sympathies for the Boers during the war in South Africa became obvious.(iii) Furthermore, the fact that American circles accused Britain of violating the Monroe Doctrine jointly with Gerany during the Venezuela crisis in 1902/3, caused a great deal of embarrassment which the press attempted to deflect by pointing to the old German peril.(iv)

(i) Forbes, German commercial Relations, p.78.

(ii) P.R.O./F.O. 128/354 Granville, Berlin, to Grey 27 Oct. 1911.

(iii) Brunn, Deutschland and Brasilien, P.211.

(iv) Times 17 Feb. 1903, 16 Jan. 1903.

65) Graf E. zu Rebenstow, Deutschlands auswartige Politik 1888-1904, (Berlin, 1915).

This incident revolved around the joint efforts of Germany and Britain to recover their oustanding loans in Venezuela, estimated at 26.5 million pounds sterling. The unwillingness of the Venezuelan government to repay these loans and excesses against British nationals and property in the country led to prolonged negotiations aimed at a settlement. Given the uncompromising stance of Venezuela, German and British warships finally blocked the port of Caracas, sinking two gunboats. This action, however, was not taken before an accord with the American government was reached, assuring it of non-violation of the Monroe Doctrine. The true importance of this incident lay in the fact that both creditors accepted the Monroe doctrine and thus America's political supremacy in the southern continent. In addition this affair once again shifted speculations concerning Germany's intention in Latin America into the limelight, thereby adversely impacting her relationship with the US.

For details see: M. Hood, Gunboat Diplomacy 1895-1905, Great Power Pressure on Venezuela, (London, 1974);

D.C.M. Platt, 'The allied Coersion of Venezuela 1902/3 a Reassessment',- IAEA, XV, (1961).

66) Brunn, Deutschland and Brasilien, p.68.

67) Brunn, Deutschland and Brasilien, p.77.

68) See Hamburg, Senatskommission, c.d178, 6 May 1908.
Brunn, Deutschland and Brasilien, pp. 172 and 173.

69) Chamber of Commerce Hamburg, 95.C.4.16; 29 Sept. 1906, letter of Rio Embassy to chancellor Bulow; see also Dep. fur F. Handel, 20 Feb. 1900.
Brunn, Deutschland and Brasilien, p.257.

70) Chamber of Commerce Hamburg 95.C.4.16
Letter of the "Amerika" line to the chamber, 7 Dec. 1906.

71) Chamber of Commerce Hamburg, 95.C.4.16, 29 Sept. 1906.

72) Chamber of Commerce Hamburg, 95.C.4.16, 16 Jan. 1909.

73) Brunn, Deutschland and Brasilien, pp. 258 and 259.

74) PRO FO 368/8/3688 Young to Foreign Office, 30 Jan.1906.
Staatsarchiv Hamburg CIIC48II, Jahres 1913.

75) Forbes, German Commercial Relations, p.238.
H. Laves, 'German governmental Influence on foreign Investments 1871-1915', Political Science Quarterly, XLIII, (1928), P.498.

76) Brunn, Deutschland and Brasilien, P.254;
Viner, 'Political Aspects', p.519.

77) Staatsarchiv Hamburg Cl d178, 16 Feb. 1901.

78) Staatsarchiv Hamburg A III c.9.

79) Staatsarchiv Hamburg A III c.9. 9 March 1907.

80) EJ/UCL private letters, 10 June 1902.

81) Staatsarchiv Hamburg Cl d181, 28 Oct. 1904, XIX c.30.2, No.7730/04, 11 Oct. 1904.
Chamber of Commerce Hamburg, 95.c.4.2.

82) J. Wendler, Deutsche Elektroindustrie in Latin Amerika, Siemens and AEG 1980-1914, (Stuttgart, 1982), p.127.

83) PRO FO 368/276/19423 Cheetham to Grey, 24 May 1909.

84) PRO FO 128/328/ Vol.II Cheetham to Grey, 12 July 1908.

85) Staatsarchiv Hamburg, Staatliche Pressestelle, 19 Nov. 1923; Brunn, Deutschland and Brasilien, pp. 79-81.

86) Staatsarchiv Hamburg, Archiv der Hanseatischen Gesandschaft in Berlin II 22, 25 April 1909.
Chamber of Commerce Hamburg, 95.c.4.6 - Handels-Vertragsverhandlungen mit Brasilien; 5 May 1922.

87) Staatsarchiv Hamburg, Hanseatische Gesandschaft H II 22, 13 Dec. 1907.

88) PRO FO 368/391/26630 Haggard to Foreign Office, 22 July 1910; PRO FO 368/391/32168 Haggard to Grey, 5 Sept. 1910.

89) PRO FO 368/391/30497 Grey to Haggard, 30 Aug. 1910.

Chapter 8.

Business Imperialism and Anglo-German commerce in Brazil

Having analysed informal imperialism in terms of commercial diplomacy in the Anglo-German penetration of the Brazilian market it now remains to take a closer look at the conduct of foreign business interests vis a vis the host economy. Even though governmental forces played but a minor and not necessarily effective part in commercial matters, allegations of informal imperialism and an asymetric core-periphery relationship of "dependence and dominance" (1) cannot be excluded, since non-official agencies in the shape of private enterprise played an equally important role in the perceived network of informal control.

This leads to the more specific issue of business imperialism, which was constructed as a further tool in the complex analysis of the interrelation between industrialised and developing countries. It enabled the debate to move away from a global study of the capitalist system as a whole to the micro-level, where the behaviour of the business community, as its main representative, could be analysed. Particular attention was, thus, paid to the degree of control foreign commerce could exert over the host economy by virtue of an existing imbalance of economic power. (2)

There can be little doubt that during the period under review the relationship between Brazil, on the one side, and Germany and Britain on the other, was largely on an unequal footing. Backed by powerful industries and banking concerns, being trained in commercial decision making and having access to international market information, the expatriate community had obvious advantages over native businessmen who suffered from capital constraints as well as inexperience in matters of international trade. Friction between the two groups was almost unavoidable.

Staunch advocates of imperialism went one step further. For Graham and Frank the mere ownership of assets in the periphery already granted control over the economy and its political structures. Moreover, it did so specifically to the exclusive benefit of the metropolis, while strangling local commerce. (3) According to their far reaching views, foreign domination of the export trade led to the exploitation of local resources, manufacturing imports stifled independent industrialisation, and investments gave political power and supported implanted enclave economies.

However, these conclusions always equate a local presence with domination raising the question how it is at all possible to differentiate between a market orientated trading and an imperialistic relationship. (4) A subsequent investigation as to the validity of these radical assumptions finally transformed business imperialism into a scholarly field in its own right. Taking a narrower approach Professor Platt pointed out that the mere co-existance of foreign bankers, investors and traders alone does not necessarily imply control over the host. (5) In line with his general stance on dependency theories (6), he argued against the concept on the basis that businessmen had to succumb to market forces, precluding them from any meaningful influence. Further scepticism was also brought forward by Mathew. He maintained that, even if one was able to detect traces of dominance, business imperialism may still be misleading unless it was possible to establish whether the expatriate wilfully used his power to subordinate the host out of self-advancement. (7) To assume the same as given from the onset would render any discussion a foregone conclusion.

Taking these a priori clarifications into account Greenhill's investigation into the Latin American produce trades acknowledged the presence of restrictive practices amongst exporters, but joined in the trend by concluding that, on balance, the constraints on the merchant were too great to grant him unrestricted control.(8) Views on the subject still remain divided.

M. Finch's study of business imperialism in Uruguay, focussing on the foreign owned public utility companies, concluded that "the influence of foreign public companies undoubtedly affected the internal policy of the country".(9) C. Jones, who generally found charges concerning informal control levied against foreign banks in Argentina unjustified,(10) developed a somewhat different line of thought. In a 'theoretical note' he hypothesises that as a defence against the very nature of competitive capitalism merchant houses in Argentina assumed quasi-monopoly positions of imperialistic character, thereby undermining the state's authority.(11)

The diversity of opinions indicates that an across-the-board generalisation and an "all embracing devil theory" (12) is inappropriate. Conclusions on the issue vary from country to country and indeed sector to sector and as already seen in the discussion on informal imperialism, they depend on the respective definitions used.

Although the analysis of micro-economic behaviour proves to be more rewarding than the conventional study of imperialism, a potential drawback inherent to all the above cases is represented by the fact that, by definition, the informality of control allegedly exerted by businessmen is difficult to trace. The very nature of the evidence sought renders it rare as financiers and merchants would have been reluctant to admit any control, let alone commit it to paper.

In addition, little written evidence may be found because merchants may not have been aware of or even concerned with the extent of control. Their main concern may have been profitability and the smooth running of their affairs, rather than the subordination of local interests. In questioning the usefulness of the debate, Abel and Lewis thus argued that "empiricists have constructed a false hypothesis that cannot be validated in terms of their specific methodology".(13) Yet, although business archives and other sources may not reveal the evidence sought, it is still viable to undertake an investigation into the topic and to draw some general conclusions on the validity of the allegations implicitly raised by imperialistic theories. Simple lack of archival evidence to date should not provide sufficient reason to stop research in this field, and a study of the conduct and practices of expatriates set against local market conditions should still yield some valid deductions.

As observed, theories of business imperialism are usually formulated in such a way as to imply detrimental effects on the periphery. In the context of the Anglo-German rivalry, however, one should turn the argument around to enquire about the extent of benefits accruing to expatriate factions. In particular, the following discussion will assess their willingness and capability to resort to restrictive practices as a means of consolidating their respective market positions. This in turn raises the question as to whether the growth in German and British commerce was built on monopolistic (imperialistic) strategies rather than the outcome of competition. To this end, one has to enquire as to the extent to which either one could practice "business imperialism" and, thus, consider the Brazilian reaction to the external penetration of their home market, for it will obviously impinge on the expatriates' room to manoeuvre.

Contrary to the main part of the thesis this study will not pursue a strict behavioural differentiation between British and German business. Differences in commercial practices did exist, as already seen in the foregoing chapters. However, to compare German and British business imperialism presupposes a coherent community of interests on either side, but this was lacking in commerce which covered a wide spectrum of individual interests segregated except for the common notion of being capitalistic. Hence rather than asking which side was more "imperialistic", one has to investigate the general opportunity for developing business imperialism and restrictive practices. If they are to be found present, there can be little doubt that any entrepreneur, whether German or British, would utilize them, if only to avoid being squeezed out of the market. Primarily, the analysis will therefore have to probe into the allegations levied against expatriate business in order to determine their impact on the Anglo-German rivalry. National comparisons in this context are of little relevance, for what counted was the nature of the business (14) and the local conditions facing it.

Analogous to the investigation thus far, the following chapter will be divided into two main sections, dealing first with the export-import complex and then with the Anglo-German financial activities in banking as well as long-term investments in government debt and local enterprise. Having examined the main sections of the Anglo-German commercial rivalry the conclusion will determine the extent and possibilities of restrictive practices and, finally, their influence on comparative competitiveness.

I

Domination by the expatriate was particularly prominent in the export sector, where produce shipments were largely channelled through foreign merchant houses. The coffee trade was handled by only a handful of companies led by Wille and Johnston. As noted in Chapter 4, Wille alone handled 17% of all coffees shipped from Rio and Santos between 1895 and 1911, leaving little room for native traders, who exported no more than 10% of the crop by the turn of the century. (15) Similarly cocoa and tobacco shipments from Bahia, Brazil's main growing area for these products, were dominated by German merchants. In 1900 eight Hamburg-based houses purchased two thirds of the total tobacco exports from Bahia. (16) In this case control was further amplified by the fact that Germany was virtually a monopoly customer, purchasing around 90% of annual crops before 1914.

Before examining the potential for unfair practices given rise to by this concentration of power, it is important to understand the reasons behind this situation, for it was by virtue of the nature of the trade itself, rather than because of foreign traders <u>per se</u>, that access was restricted. The large risks inherent in tropical commodities required substantial capital and reserves which automatically precluded smaller merchants. Volatile prices dictated by the international market rather than the exporter alone, could easily result in annual price movements of up to 40%, (17) leaving any trader with stocks or oversold positions potentially exposed. In addition the avoidance of quality claims, stock financing, the ability to service margin requirements on futures exchanges, all needed expert management and great liquidity, requirements scarcely met by domestic merchants. Furthermore, obvious cost savings achieved through simple economies of scale in bulk handling of goods, larger borrowing capacities, the all-important contacts in consumer markets and, finally, the ability to spread risk over a larger volume of turnover naturally tended to leave smaller firms at a disadvantage as they could no longer compete in this environment.

Hence, expatriate traders had an almost natural advantage and it was by virtue of this strong position that business practices detrimental to local interests did occur. The oligopsonistic standing of the foreign merchant in the clash between producer and buyer was particularly pronounced in the highly localised and fragmented rubber and cocoa growing areas where the few existing traders could easily exploit their power vis a vis the large number of small scale farmers. As producers frequently lacked the financial means to cover their expenses, they became dependent upon the local comissario and thus ultimately the foreign merchant for the supply of the necessary working capital. Cost saving measures, such as moving closer to the source, reduced the role of local middlemen and increased the farmers' direct dependence upon the exporter.(18) Being bankers for the farming community, they pre-financed their produce purchases, enabling them to buy at substantial discounts.

Consul Cheetham noted that "cocoa growers were in the hands of the money lenders".(19) The rubber trade represented a similar picture.(20) In both cases merchants could procure their supply at below market levels and store the goods for prolonged periods of time, thereby regulating the supply to overseas buyers and raising their sale prices. Price manipulation through stock control, that is hoarding during down-swings, while releasing stocks during up swings,(21) further protected their profit margins depriving local farmers of the benefit of higher prices.

Similarly, the gathering of detailed information about crop and weather conditions, prevailing in the country's various interior growing regions, enabled the merchant to collate fairly accurate crop forecasts and to exploit the same to his advantage. Johnston's regularly despatched employees to collect this basic information, which could be subsequently used on the European coffee exchanges, where expectations of a bumper crop were translated into heavy selling activity, precipitating a future price decline.(22) Conversely, news about crop failures could be used to buy physical stocks in advance at still lower levels.

Finally, overseas speculators could also bring pressure to bear upon local prices paid to the farmer. In 1908 a ring of Hamburg merchants combined to sell large quantities of cocoa, thereby lowering prices on the Bahia market. Once prices had dropped sufficiently, the traders could cover their short position at much lower levels, yielding a healthy profit.(23) Similar accusations were raised against European rubber traders, who, having already purchased the bulk of Amazon rubber, cornered the market and forced consumers to buy at substantially higher prices.(24) The exporter thus commanded a variety of means through which he could exploit his dominance in such a way so as to exert some control over the buying environment in the local market.

Nevertheless, when studying the behaviour of the produce merchant it should not be forgotten that they were in a high risk business and greater risks call for higher rewards. To some extent, the discounts on produce prepayments had to reflect an element of interest cost and risk. In some instances, it could take up to three months after payment until the merchant finally received his goods from the interior.(25) The farmers' readiness to break existing contracts and to resell higher prices could lead to significant losses, Wille, for example, had to pursue claims totalling £500,000, whereby a straight financial loss of a loan could be further augmented by the exporter's need to repurchase goods at higher levels in order to meet outstanding sales commitments.(26) Given the lack of discipline in the interior the merchant had no meaningful guarantees or, indeed, recourse to the farmer in case of non-delivery. All these considerations had to be reflected in his buying price.

By the same token one has to acknowledge that the exploitation of crop information was not designed to wilfully harm the farmer, but that it was a legitimate precaution taken by any commercial enterprise to stay ahead of the market and the competition. In fact the larger merchant houses with substantial assets in the country were wary about their public image, which was incompatible with the allegedly relentless efforts to cut prices. Johnstons was anxious to avoid the reputation of a baixista, who was seen to drive prices down as an "enemy of the nation".(27) Such allegations would have attracted unwanted attention from local authorities, whose co-operation was necessary to secure the ongoing safety of the business. This need for public goodwill should have equally encouraged Wille to assist and co-finance the initiation of the valorisation scheme.(28) Although his involvement was in all likelihood also a profitable one, it nevertheless restricted his previous ability to operate on the market, indicating that the company's want for local credibility must have been at least partially behind its willingness to forego its accustomed freedom.

Despite the concentration of foreign traders in the export sector, competition amongst the participants remained keen, setting again a limit to the extent to which they directed prices downwards because, ultimately, this would have destroyed their supply sources or played them into the hands of a competitor who paid a marginally higher price. Restrictive practices per se did, therefore, not automatically shore up the merchant's market position. Whilst this may not have been so much the case with cocoa and tobacco, the growth of direct American buying in the coffee trade during and after the war forced established houses, such as Wille, to intensify their attempts at maintaining and widening good supplier relationships.(29) At the same time, all Brazil houses had to compete with other shippers worldwide, particularly so after World War I when alternative suppliers entered the world market and their profitability was increasingly subject to prices set internationally rather than purely at the domestic level. Furthermore, in the absence of purchase monopolies restrictive practices would have only worked under collusive arrangements. Yet collusion amongst merchants was short-lived, particularly in a volatile price environment which rendered effective price controls difficult to enforce and monitor. The cocoa ring in Hamburg, for instance, failed to last even for one season that year.

Such cartels could only function if all participants faced the same situation and if pricing agreements were supported by a quota system, which would have required an unlikely degree of discipline. Any change in a company's trading position, whether by means of a large purchase or sale, could alter its outlook on the market, causing it to break ranks. If, in the absence of selling quotas, a company concluded a major sale, it would have had to cover its position, inducing it to offer marginally better prices so as to ensure sufficient supplies to fulfil its contract in time.

Conversely, local resistance against price cutting should also not be underestimated. A further attempt by German speculators to depress cocoa prices failed, as growers in Bahia and Para successfully combined raising prices from 6 to 21 milreis, forcing the traders to buy back on a rising market.(31) Collusion amongst exporters could, thus, prompt a local counter-reaction, pushing growers into a unified front, which regulated or even halted supplies to the former until a more realistic price level was attained.

Resistance was not only confined to such ad hoc actions but it also took more formal shapes. In 1908, Brazilian merchants in the Amazon combined to lobby congress for concessionary export duties exclusive to Brazilian firms. Following the ratification of the law(32) native merchants were able to compete on better terms as their cost price to the world market was lower.

It is interesting to see, however, that the original purpose of the new law, of assisting the domestic rubber industry at large,(33) was probably not fulfilled. Indeed it made little difference to the small farmer because a group of local traders and politicians who had initially advocated the reform as champions of the seringueiro, formed a selling syndicate to take advantage of the new legislation.(34) Pressure from foreign merchants was, therefore, substituted by local capitalistic interests.

Large fazendeiros, controlling substantial parts of the coffee sector, on the other hand, represented a strong counter-force to the merchant. The close association of coffee farming and politics, in the state of São Paulo and ultimately in the Federation, ensured that the government gave particular consideration to the problems of the coffee sector. This concern finally culminated in the first coffee valorization programme of 1906 which interposed the government as the largest buyer guaranteeing fixed prices on the coffee market, thereby restricting the room for internal price manipulations pursued by foreign merchants.(35) While the price support directly contravened the consumers' interests in the industrialised countries, the government's increasing role in the coffee business reduced the risks of internal trading, allowing Brazilian coffee exporters to raise their share of the crop to around 40% by the beginning of the 1920's.(36) Hence, its aim of stabilizing farm incomes and national foreign exchange revenues inadvertently also provided more operating room for native interests at the expense of the foreign oligopoly.

Despite the fact that the Brazilian export trade was largely in the hands of foreign merchants, such concentration in effect being a pre-requisite for an efficient handling of exports, oligopolistic price control and profiteering to the detriment of the host was sporadic, limited and not necessarily aimed at depressing price levels. Competitive pressures, local resistance and the changing market position of any trader prevented coherent collusion. As illustrated by Table 8.1 overall commodity prices of coffee, cocoa and tobacco tended to increase over time. Although it remains uncertain how much of this price increase was effectively passed on to the farmer, the equation of the expatriate capitalist in the export sector was still not as one sided as it may appear at first sight.

Table 8.1 Selected export price indices
(100 = 1895/9)

	Coffee	Cocoa	Tobacco
1900/04	77	130	135
1905/09	86	155	144
1910/14	141	129	174
1920/24	150	98	146
1925/29	223	125	195

Source: Anuario Estatistico do Brasil 1939, (Rio de Janeiro, 1940), p. 1378.

Given that foreign companies frequently assumed a dual function, handling exports as well as imports, the case of business imperialism and the merchant falls into two parts and allegations of restrictive strategies equally apply to the import sector.

Some of the accusations levied against the import merchant, however, seem contradictory and inconsistent. On the one hand, he was charged with destroying domestic industry through cheap imports while other writers accuse him of applying monopolistic practices to fend off competition and to keep prices up,(37) which in turn would have encouraged competition from domestic producers.

As to the first, it is undoubtedly true that initially inefficient producers were driven out of business as they were unable to compete with cheaper imports. The statistical analysis of the Brazilian import structure, however, has shown that over time, the reverse picture seemed to emerge, namely that basic home products replaced imported goods. Moreover, it has been clearly demonstrated that imports and industrial development were positively related, imports of inputs and machinery were, after all, necessary to build up and equip industry. Similarly one should not lose sight of the fact that a wide range of industrial activities in Brazil had their origins in the foreign merchant community where import houses invested in production facilities. Although this could then be immediately dubbed(38) as the internalisation of imperialism and a reinforcement of domination, the bold assertion regarding a negative relationship between imports and industry is certainly an oversimplification.

Changing the focus to the consumers' point of view, allegations of systematic price rigging also seem hard to maintain. Business in the import sector was extremely fragmented and subject to continuous competition not only between expatriates but also with Brazilian firms. Already in 1903, Greene of Johnstons noted that their role as middlemen in the import trade was unsatisfactory because there was a growing class of local wholesale buyers who were able to circumvent the commission agent.(39)

Given the size of the market and the large number of import houses, (2,890 firms in 1922), in relation to the size of any one company, control of the import sector or parts thereof was difficult if not impossible to attain.

Moreover, Brazil was a low income and thus price conscious market, where prices did matter most and the price elasticity of demand should have been sufficiently high to make excessive price increases uneconomic.

Despite attempts to erect barriers to entry through specialisation and higher capital requirements in the shape of necessary fixed assets such as engineering workshops and showrooms,competition, particularly from the German houses, remained fierce to the benefit of the consumer. Norton, Megaw repeatedly noted that they were undercut by competitors in their efforts to sell iron and steel products. A decade later Krupp still quoted almost half the price offered by British suppliers at a public tender for steel tyres.(40) Reports of price wars and sales at liquidation prices were common, regaining in importance during the 1920's as both British and German importers had to fend off American suppliers. Only collective efforts through collusion would have enabled suppliers and traders to achieve some control.

In 1898 Siemens and AEG, for instance, reached a market sharing agreement, whereby the former was given exclusivity over the market for electrical supplies in Rio de Janeiro and Bahia while the latter received an equal status in Valparaiso and Santiago de Chile.(41) This kind of agreement limited the German competition on the Brazilian market but it still did not give control as Siemens had to compete with manufacturers of other nationalities. A more comprehensive agreement existed in the import of rails and related auxilliaries where an international producers' combine prefixed bids submitted by its members at Brazilian public tenders.(42) In this manner the rail trust was able to predetermine the supplier for new contracts as well as the price received. Evidence of collusion of this scale, however, remained scarce. If similar arrangements existed between import merchants in Brazil they were likely to be of a short-term nature because price-fixing agreements could always be circumvented and eliminated through differences on credit, delivery and after sales terms.

In view of the large number of players involved in the market any attempts at a cartel were normally doomed to failure. Platt correctly pointed out that as a non-monopolistic supplier of manufacturing goods Britain (as well as Germany) was in a weak position, affording her little or no influence.(43) Competition between merchants in the import sector set an effective limit on the extent to which control over the market could have been exercised. After all, if there had been any effective control or satisfactory price rigging, there would have been no need for the virtually endless comments about relative competitiveness and ways to improve the same. By the same token it would have been virtually impossible to gain a lasting competitive advantage by means of a restrictive mode of conduct.

II

Closely linked to the export-import sector was the network of foreign banks in Brazil which provided the trade with the necessary liquidity. As an integral part of foreign commerce they found themselves as frequent targets of public criticisms as well as the subject of numerous writings on business imperialism. "Extending their influence into every nook and cranny of Brazilian economic life", according to Graham, banks were essential to the maintenance of Britain's informal empire.(44) Likewise, Germany was seen to consider an extension of her banking system in South America as an important ingredient in her imperialistic designs.(45)

Apart from being merely a pillar of informal spheres of influence, more specific accusations were levelled against foreign banks in Brazil, as in Latin America in general.

Jones and Luck found that at the onset of foreign banking, local interests in the host country expected substantial capital inflows which would be used for productive, developmental purposes.(46) Yet none of these expectations were really fulfilled and the usefulness of foreign banks was put into question. A closer look at this first level of criticism reveals that it is based on an unfortunate misconception of commercial banking, namely foreign banks were not investment trusts which channelled large amounts of their own resources into long-term projects in the country. Jones correctly pointed out that "the money is lent where it is borrowed".(47) In other words, European banks mobilised domestic funds and put them to work locally, mainly in the export-import sector.

The accusation that they imported too little capital and worked with insufficient resources of their own, while syphoning funds out of the domestic economy, can be examined briefly by means of the capital ratio, commonly defined as the percentage of assets covered by the banks' own resources. The comparison of the ratios maintained by foreign and national banks (see Table 8.2) in 1900 shows that some of the domestic banks worked on a far smaller capital basis and on average the ratio held by foreign banks was marginally above the domestic level, which illustrates that native banks worked more extensively with local deposits than their foreign competitors. The same held true in absolute terms as only 35% of total deposits in Rio de Janeiro were available to expatriate concerns, leaving the balance of 65% in Brazilian hands.(48) Accusations about capital inadequacy, which ignore the funds introduced into Brazil in the form of Head Office loans, are fallacious when judged by the standards maintained by domestic banks. It is only after the war that such an allegation may have some credibility but even then the differences between the ratios maintained remained too small to build a sufficient case against foreign banks. In any event, it must also be remembered that it was not rational to import large amounts of capital into a highly volatile currency climate as this implied unnecessary risks and losses.

The second misconception contained in the above criticism concerned the use of funds raised by foreign banks. Contrary to the expectations of nationalistic banking theories(49) they did not have a developmental mandate. Industrial and agricultural banking was mostly left to domestic banks,who were again more sympathetic to the agricultural and export sector, and thereby equally neglected a meaningful diversification into industry.(50) Even the Federal government, having control over the Banco do Brasil, preferred to support and channel public funds into private enterprise in business, which entailed a lower risk and more tangible returns.(51)

The raison d'être of foreign banks, on the other hand, lay firmly in the commercial field, that is in the servicing of international trade.

It was this area which they considered to be most productive in terms of the returns generated. Profitability, rather than development, was their main target, particularly so in view of the fact that they were answerable to private shareholders at home. Although this policy may be viewed as a reinforcement of foreign capitalism in the host economy, which it undoubtedly was, it should be borne in mind that their intervention assisted and enhanced the growth of Brazil's involvement in international commerce. By using local funds, they financed and serviced exports and collected receivables in foreign exchange abroad so as to pay for imports, not only of consumer items but as the Brazilian import statistics show, mostly of raw materials and manufactures used for industrial development.

In addition, it has recently been pointed out that local staff of foreign banks did not always conform to their supposed role but expanded into domestic fields.(52) This was certainly the case in Brazil where lending limits of local branches were broken and loans were extended to non trade activities, particularly after the main shipping season at which time trade and the potential for profit were meagre.(53) The Brasilianische Bank für Deutschland, for instance, financed the construction of the new municipal market in Rio de Janeiro with £312,500, whereas the British Bank of South America was quite willing to advance funds to cotton mills, while also lending to state governments against Treasury Bills.(54)

Table 8.2

Assets, Capital and Capital of selected foreign and national banks in Rio de Janeiro and São Paulo as of 1900 and 1924 (milreis m)

	1	2	3
I 1900)	Capital	Assets	Capital Ratio (1/2 x 100)
London and Brazilian Bank	13.3	54.8	24.3
British Bank of South America	8.9	35.7	24.9
Brasilianische Bank für Deutschland	10.0	63.3	15.8
Banco Comercial de Rio do Janeiro	20.0	99.2	20.1
Banco Nacional Brasileiro	5.0	34.2	14.6
Banco do Comercio	16.0	71.5	22.4
Banco do Comercio Industria de São Paulo	10.0	87.8	11.4
II 1924			
BOLSA	20.6	724.4	2.8
Banco Alemao Transatlantica (incl. Santos, Curityba)	7.4	240.8	3.1
Brasilianische Bank (incl. Porto Alegre)	20.0	348.1	5.8
Banco Comercial do Estado de São Paulo	50.0	623.2	8.0
Banco do Comercio and Industria do São Paulo	50.0	828.7	6.0

Sources; *Wileman's Review*, Dec. 1900, pp. 1 and 2; Dec. 1924, pp. 1556, 1592, 1661, 1693.

Hence, whereas the emphasis of foreign banks was on the servicing of international trade, thereby being directly instrumental in its growth and facilitating the development of a domestic industry indirectly, the pressure for additional profits and interbank competition invariably involved the foreign banker in domestic business affairs.

The second criticism of foreign banks concerns allegations of excessive currency speculation to their own advantage and to the detriment of the host. Doubtlessly, it is true that foreign banks did engage in such speculation. It was seen that following the turn of the century the Brasilianische Bank attempted to corner currency markets and that the British Bank of South America incurred heavy losses due to unauthorised trading. To assume the contrary would be unrealistic in view of the profit potential offered by the imperfections of the local market. The manager of the River Plate Bank made this clear when he wrote to his colleague in São Paulo. "It is not difficult to move the market. I think the way we want it to go in order to make money is zig-zag".(55) As Head Office was extremely risk averse, however, strict control mechanisms were put into place to limit such speculation; hence the advice of the main board in London to "avoid all speculation and any attempts to govern rates".(56)

Most importantly, bankers admitted in 1905 that their effective control over exchange rates was very limited as the Banco da Republica maintained a firm grip over the interbank market(38) and any serious efforts to contravene this control would have led to substantial losses. Following the Federation's takeover of the bank that year official intervention through the Banco do Brasil (formerly Banco da Republica) and later the Caixa do Conversão intensified in order to support the milreis and the ability to service the mounting sovereign debt. Partial ownership of the country's largest bank rendered its potential market power a significant check on speculative activities. Overseeing all foreign exchange transactions during the war, the Union finally reasserted its authority by formalizing its control rights in the form of a General Inspectorate of Banks as well as the foundation of the Caixa da Estabilização.(57) Consequently, the state took active steps to protect its interests and implicitly those of foreign investors against the potentially harmful speculation of expatriate bankers.

While admitting that there is little evidence of banks moving rates in one direction only, Richard Graham still alleged that 'powerful interests'(58) closely connected with banks may have induced them to intervene in the market on their behalf. Yet given the fact that banks serviced 'powerful interests', on both the export and the import side, which favoured falling and rising exchange rates respectively, there was an obvious conflict of interests. Assistance to one client would have hurt another and if such intervention had been detected it would have implied a serious loss of confidence in the integrity of the banks. By the same token it must be said that a continuous currency depreciation would have also run against the banks' interests, because it would have devalued local earnings and capital resources. In view of these limitations, it seems that foreign banks did not engage in any consistent speculation and neither did the environment allow them to exploit the same as a means of enlarging their market share.

The case for business imperialism among foreign commercial banks, therefore, seems somewhat unjustified. A closer look at the most common accusations against foreign banking leaves them largely untenable. Being in the most part removed from the domestic economy, and agriculture and industry in particular, bankers neither had the opportunity nor the inclination to control the host economy. Foreign exchange markets were largely untampered with due to pending state intervention, while local interest rates were influenced by the actions of the Banco do Brasil.(59) Their dominance was clearly confined to the import-export sector where their long-standing experience and their international network, linking buyers' and sellers' markets, were liable to give a more efficient service than the domestic banks. Taken as a whole their role in Brazilian banking also declined over time. Whereas by 1913, British and German banks still accounted for 33% and 13% of total banking assets in the country, all foreign banking assets together had fallen to 25% of the grand total by 1928.(60)

In view of this weaker than assumed position it is unfeasible to argue that either the British or German banks owed their balance sheet growth to restrictive practices. On the basis of its excellent reputation and London connections the former had no need to resort to these strategies, even if they were available, while the latter, on the other hand, could only advance through competitive pricing and services rather than the reverse. To a certain extent this leaves the criticism that by reinforcing the export monoculture through export finance, their presence was detrimental to Brazil (61), while fulfilling the 'imperialistic task' of slowing down development in the periphery.(62) To assume this to be their wilful purpose, however, seems rather far-fetched. Bankers would have financed any export activity, providing the transaction appeared to be viable and moreover, domestic banks contributed equally to the reinforcement of export monocultures by channeling most of their funds into coffee farming.

Much of the debate on business imperialism amongst foreign bankers is based on broad conceptual arguments which do not account for the realities of day to day business, nor the constraints thereof, and finally they ignore the positive sides of foreign banking, their contribution to growth in trade and the introduction of more competitive and stable financial institutions to the benefit of the consumer.

As indicated during the foregoing discussion British and, to a lesser degree, German commerce was supported through capital exports to Brazil. These complemented the commercial banks' provision of short-term finance through portfolio investments in government debt and direct investments in utilities and railways. Traditionally considered as an essential feature, if not the underlying cause of imperialism, the issue of control through capital also figures prominently in business imperialism.(63)

The "paternal tutelage of Lombard Street over Brazilian public finances"(64), directed by the country's main banker, Rothschild, exerted a powerful and widely noted influence over local politics. Similar to the present day IMF conditions, in 1898 Rothschilds could stipulate some drastic deflationary policies, which entailed the reduction of paper monies in circulation to support the external value of the milreis, as well as the mortgaging of government revenues.(65) Turning Brazil into South America's largest debtor, her politicians became much concerned with the economy's credit rating, its ability to repay debts and, ultimately, to secure access to new funds.(66) Inevitably, the underlying political current became moulded by the creditors' philosophy, which favoured a laissez-faire, market orientated economy, as opposed to the expansionist stance of the preceeding encilhamento. The potential influence of large scale creditors was again visibly demonstrated after the war when, in response to the government's request for a new loan, Rothschilds stipulated that such a proposal required a prior investigation of the state of Brazilian finances.(67) The result was the British economic mission of 1924 which produced a lengthy report detailing a series of far reaching policy measures.

Apart from advocating tighter budgetary limits, constitutional controls over capital expenditure and higher taxation, the report went on to recommend the encouragement of private foreign investment while alluding to, although ostensibly rejecting, the idea of tying funds to purchases of British goods.

Although not being directly involved in the mission, the Foreign Office correctly recognised its political (68) sensitivity. It agreed with local press reports that the entire issue entailed a loss of sovereignty for the Brazilian government (69) in so far as a group of private investors could advocate such elaborate domestic policy prescriptions.

Ultimately, of course, the acceptability and enforcability of this precarious package clearly depended on the government's need for fresh funds. Given that no new loan was raised in London until 1927 and that Brazil refused to fully adopt the report, it appears that no final agreement was reached.

In this sense there certainly prevailed some control and failure to adhere to the same could result in a withdrawal of support. Nevertheless, in the absence of tied loans the lender still had no influence over the use of funds and London-based finance did not necessarily assist British manufacturing exports. Furthermore essentially these conditions were of a commercial nature designed to protect the creditor in a way any long-term loan would stipulate certain covenants to encourage performance. To forego the same entirely would have bordered on negligence vis-a-vis the bondholders.

In any event the growth of Brazil's debt also entailed a potential change in bargaining power. A suspension of debt payments, the possibility of which was to be increasingly demonstrated by numerous state and municipal defaults during and after the war, could act as an effective negotiation tool to avoid excessively stringent creditor demands. During the post war revival of the international trade rivalry the Board of Trade in London acknowledged this delicate balance of power when noting that Britain was in too weak a position to aggressively discuss her commercial treatment with Brazilian government.(70)

Most importantly, however, Brazil did have a choice of financial sources. As a result, Britain's influence over public finances began to slip after the war when American financiers became increasingly involved in South America , giving Brazil the opportunity to play the two competitors against each other. In 1926 the Brazilian Minister of Foreign Affairs admitted to the British legation that the President of the Republic had intentionally awarded the latest Federal loan (probably a substitute for the failed Rothschild credit) to New York, so as to demonstrate to Britain that she was not the only available source of funds.(71) Yet, having been turned down by the United States only four months earlier on the basis that the borrower was violating American trust legislation, the State of Sao Paulo, on the other hand, was welcomed with open arms on the London financial market.(72) Consequently, given the existance of ample funds, competition amongst bankers could be exploited to the borrower's benefit, while loosening Britain's earlier financial stranglehold.

The situation was somewhat different in the case of direct investment in public services. Deficient local capital and technical expertise had initially caused national authorities to put work concessions up for public tender. Some attempts at running public services by the state or local capitalists, as in the case of the water supply in Sao Paulo or the Leopoldina railway, failed, leaving Brazil little choice but to hand the operations over to a foreign company.(73) On the other hand, the federal government also willingly chose to forego its contractual rights of management as in the case of some railways and port facilities, because it saw little advantage in public control and it shied away from the responsibility, preferring to use a high profile scapegoat for any public criticism of the quality of services provided.(74)

As a result public utility and railway companies came to represent the highest concentration of foreign interests in any one sector, granting them the powers of quasi-monopolies. Being empowered by the host to maintain exclusivity they could be considered the ideal prototype of what is perceived to be an imperialistic concern. In view of their strong positions, there can be little doubt that they succumbed to the temptation of exploiting their powers while the lack of resources put the contracting state or municipality in a weak position. This enabled the counterparty to extract favourable income guarantees as well as gold redemption clauses, which maintained the real investment value over time in spite of any currency devaluation. Having secured these or similar concessions, enterprises such as the São Paulo Gas Co. and the São Paulo Tramway Light and Power Co.(75)

subsequently neglected their general service duties and concentrated merely on profitable operations. It will be seen, however, that there existed equally powerful considerations which effectively constrained their room to manoeuver.

In the first instance, the extent of their profiteering was limited by the goodwill they commanded in public. Given their substantial assets in the country, they obviously had to secure their long-term existence at the expense of any extraordinary gains in the short-run. Their prominence in the public eye rendered them vulnerable to local government officials who tried to make political capital out of popular attacks on their activities.(76) Goodwin's study of the foreign railways in Argentina illustrated how politicians skilfully exploited popular nationalistic feelings in their refusal to give in to the expatriates' demands for higher railway tariffs, while using the dispute to rally political support.(77) Similar situations can be found in Brazil where at the beginning of the 1920's both the São Paulo and Leopoldina railways were unable to raise freight rates above the pre-war level despite a long standing public argument. More or less at the same time the Great Western railway company faced confiscation on allegations that it had failed to carry out its concession.(78)

The fact that the Leopoldina, the Great Western and the Brazil Railroad managed to obtain control over 60% of the Brazilian network was incompatible with local nationalism.(79) Sentiments were decisively in favour of nationalising operations and relations between the two factions became increasingly acrimonious. Public pressure coupled with governmental difficulties in meeting guaranteed interest payments and the resultant financial crisis of a number of private railways finally forced the state to reverse its previous liberal stance and take over their operations. As a result the proportion of railways under local management rose accordingly from 20% in 1914 to 52% in 1930.(80)

Foreign companies constructing and subsequently managing port facilities, were equally dependent upon the goodwill of the Federal government, which had to approve the port duties and thus their major source of income. As the controlling body the Federation also reserved the right to redeem the port works and to annul management concessions at any time ten years after the completion of construction.(81)

The pending right of repossession should have been a crucial check on the foreign administrator since any extraordinary misconduct or the exploitation of its vested powers could easily have led the authorities to exercise their option.

How precarious the expatriates' dependence upon official decision making could be is underlined by the experience of Siemens following its award of the tender for the construction and management of the telephone system in Rio de Janeiro in 1897. Without Siemens' prior consent, the municipality of Rio fixed the maximum tariffs to be charged as well as reserving the right to confiscate the entire enterprise with its assets for reasons of 'public order'. In addition, recourse to the municipality and claims for recompensation were only available under local law.(82) While a settlement was finally reached, after being assured that these conditions would be of little practical consequence, the point remained that, as in the above case, the future of the company was a function of the goodwill of the authorities which, given the right inducement, (political or material) could prove to be very volatile and potentially damaging.

A high public profile and the proximity to local authorities thus subjected the public utility company to unwanted scrutiny, while the psycological impact of strong popular suspicions of unfair practices should also not be underestimated.

British official fears during the 1920's that their public utility ventures were systematically persecuted by the authorities were, of course, exaggerated and the very fact that conflicts between large foreign utilities, railway enterprises and local authorities did occur, indicated that the former still attempted to overstep the "rules of the game". Diplomatic enquiries thus normally found that the Brazilian party had grounds for complaints and subsequent action. However, it remained equally true that the strength of local authorities and their ability to retaliate whether through tariff and income-capping or the withdrawal of licences, concessionary import treatment on inputs and interest guarantees certainly curtailed the expatriates' room for manoeuvre, encouraging them to follow a more prudent policy.

Consequently despite being in a monopoly situation, control and profit potential were effectively restricted. H.M. Consul at Para succintly remarked that "in view of the attitude in Brazil towards British public utility companies, failure to comply....invited plunder by the state authorities".(83)

Whereas most arguments between the opposing interest groups could be settled after lengthy negotiations the potential intensity of a conflict had been illustrated by the fate of the British managed 'Manaos Improvements Co.'.

Taken to the extreme, restrictive practices, here in the form of overpricing, prompted an equally vehement local reaction, which proved to be in the interest of neither party.

As far as investments were concerned the case of business imperialism and Anglo-German commerce differs from the previously discussed sectors. First, Germany's experience in this field was rather limited and little successful, virtually excluding her as a genuine competitive counterforce to British activities. Whatever resistance the latter encountered came from native authorities and later American capital. Secondly in terms of its impact on the commercial rivalry it was the substantially larger value of British capital rather than its monopolistic character which supported Britain's position. While interfering in internal politics, economic stipulations carried by sovereign loans entailed little exclusive benefit, since the imported conservative laissez-faire stance benefited both British and German trade alike.(84)

Characteristics of business imperialism in the investment sphere did little to directly enhance market shares. Domination and exclusivity protected against competition, but then the monopoly was inaugurated by the state and any subsequent misuse of power was aimed at profitability, having little to do with competitive market positions. If anything, malpractices ultimately contributed to the decline of British capital.

III

Having considered the main areas of German and British business interests in Brazil, it may seem a truism to state that their over-riding objective was profit, but it is a fact to be borne in mind before judging the extent of business imperialism. As such, their individual goals did not coincide with or, almost by definition, contravened the interests of the host. The produce merchants' aim to purchase commodities cheaply obviously clashed with the interests of local farmers, while importers and public utility companies attempted to keep prices up. The pursuit of these objectives was facilitated in oligopolistic situations, where the expatriate capitalist could exploit his powerful position to the detriment of his local counterpart. Superior knowledge of business affairs, international markets and their latest developments further compounded the situation as it allowed them to take advantage of the native lack of such information. In addition, a large, often overwhelming, presence in many sectors of the economy as well as the disparity between the resources available to national and expatriate firms, increased the potential for unequal dealings. It is undeniable that foreign business was profitable, otherwise it would have retreated.

The true extent of any profiteering, however, is difficult to determine. Remaining records do not provide and indeed are not expected to provide an indication thereof because businessmen would not have admitted to any extraordinary profits in writing. In global terms it may, therefore, seem tempting to build a case for economic imperialism.

By shifting the focus from such a macro- to the micro-level, the concept of business imperialism is derived and it is at this stage that the issue becomes less clear cut and sometimes misleading. Commodity traders and exporters were not interested in a continuous downward trend in prices, as it would have destroyed their business. By the same token banks had no benefit in pursuing a currency devaluation. Were merchants guilty of destroying industry through cheap imports or of exploiting the consumer through artificially high prices? Some of the classic allegations are ill-founded and confusing. More importantly certain reservations have to be made. The supporters of business imperialism fail to distinguish between domination, a large presence, and the deliberate use of power to gain control and to subordinate local interests.

In view of the latent power inherent to such domination, as was demonstrated by the large-scale banking creditors, the line between the two issues was admittedly a thin one. The discussion, however, has shown that predominance, when present, did not necessarily imply misuse of power and the entire concept of business imperialism must be made subject to two major constraints which limited the foreign company's room to manoeuvre.

First, competition has to be taken into account. Foreign commerce should not be considered as a unity but as a collection of different, competing forces. While British merchants may have enjoyed near monopolies in some sectors through most of the nineteenth century, the situation changed towards the end of the century when other European nations and North America entered the market and the number of foreign entities competing for the latter rose rapidly. The notion of Anglo-German rivalry alone, precludes any long-term peaceful co-existence for the alleged purpose of exploiting local interests. The newcomers to the market engaged in a long struggle for recognition and market share, forcing existing players to leave any comforts of near monopolies and to react.

Competition was most prevalent in the import sector where the fragmentation of the market was the largest and companies would even be willing to sell at a loss, thereby ultimately benefiting the consumer. Control, as assumed by imperialistic writers, could have only come about through large-scale collusion. This, however, presupposes a coherent community of interests, which was scarce in the volatile and competitive import-export markets, being further subject to the well known weaknesses of cartels.

Foreign banks, although more restricted in numbers, competed vigorously with each other, driving margins on foreign exchange and lending business downwards. While currency speculation did occur, effective control over long-term rate movements was limited by the actions of the Federation and the conservatism of management. Finally, competition also increasingly integrated the Brazilian market into the world economy making the Brazilian more aware of international business practices while reducing the potential to exploit his ignorance. In most parts of the expatriate community competition and the availability of choice, as in government financing, acted as an insurance for the host.

The second major constraint was imposed by a growing nationalistic sentiment which frequently veiled the protectionist demands of native business elites, while spurring the public awareness of and the resentment against foreign operations.

Politicians and local businessmen, aware of the potential dangers of being crowded out by expatriate concerns, thus, formed pressure groups to increase the domestic input in commerce. The change in the laws governing coastal shipping which drove the German owned

Cruzeiro do Sul into liquidation, as well as the mandatory employment of Brazilian contractors in the development of the iron industry were but some examples of this new direction.(85) As a result, local legislation (whether in the shape of an increasingly complex tariff system, the creation of a national monopoly as in coastal shipping, or preferential duties for Brazilian exporters) increasingly reflected the chauvinistic mood favouring national enterprise at the expense of the expatriate entrepreneur. While this was sometimes not an efficient way of achieving the objective, local interests were not as helpless and collaborative as implied by advocates of business imperialism but they learned to defend themselves against the encroachment of foreign business.

In parallel, the Federal government inadvertently enhanced its economic power in an attempt to protect the interests of the domestic elite as well as its own financial credibility. Although not being designed to oppose the expatriate, official intervention in the coffee markets, its influence over banking and the transport system, raised the national profile in these sectors and impinged on the foreigners' freedom.

As a result, the larger expatriate concerns, having their very existence and assets based in the country, became more susceptible to public criticism, which opposed their protective need for goodwill. Johnston and Wille wanted to maintain credibility in the same way that the foreign banks sought to collaborate with the Banco do Brasil to forestall further accusations of market manipulations.(86) To some extent the vulnerability to public criticism may have been the Achilles heel of foreign enterprise. Any extraordinary short-term gains had to be compared with potential long-term consequences. Being committed to their business in Brazil, profiteering and misuse of power were not in their own interests. Allegations of monopolistic behaviour, as seen in the case of the Manaos Improvements Company, could lead to seriously damaging consequences.

The expatriate capitalist was then more restricted in his actions than was assumed hitherto. Under these circumstances one has to come to the conclusion that the role of restrictive practices in the success of either German or British business should have been limited, yielding mostly short-term gains. As a strategy for achieving consistent comparative advantages over the competition their function cannot be considered as being of any decisive nature because of the very existence of the above constraints. Save for the investment area and possibly the regionalised commodity trades in the north, profitable control by one side inevitably attracted the other's interest and restrictive practices did little to insulate a business from competition. Since their rivalry was essentially one between a newcomer and a traditional market leader, the former stood to gain substantially from competition, but relatively little from defensive collusion. From the perspective of this thesis the issue of business imperialism was little more than a means of obtaining sporadic windfall profits rather than a way of assuring a long-term market share at the expense of rival interests.

Chapter 8.

Footnotes

1) B. Cohen, The Question of Imperialism; The Political Economy of Dominance and Dependence, (London, 1974), p.15.

2) C. Abel and C. Lewis, Latin America; Economic Imperialism and the State, (London, 1985), p.7.

3) R. Graham, 'Robinson and Gallagher in Latin America, the Meaning of Informal Imperialism,' in W. Louis (ed.), Imperialism; the Robinson and Gallagher Controversy, (New York, 1975), p.218;
Graham, 'Sepoys and Imperialists; Techniques of British Power in 19th Century Brazil', IAEA, XXIII, (1969);
A.Frank, Lumpenbourgeoisie; Lumpendevelopment, (New York, 1972), p.70;
see also A. Frank, Capitalism and Underdevelopment in Latin America; Historical Case Studies of Chile and Brazil, (New York, 1967).

4) W. Mommsen, Imperialismustheorien; Ein Uberblick uber die neueren Imperialismusinterpretationen (Gottingen, 1980), p.75.

5) D.C.M. Platt, 'Economic Imperialism and the Businessman', in R. Owen and B. Sutcliffe (eds.), Studies in the Theory of Imperialism, (London, 1977), p.310;
see also D.C.M. Platt (ed.), Business Imperialism in 1840-1930; An Inquiry based on British Experience in Latin America, (Oxford, 1977).

6) D.C.M. Platt, 'Dependency in 19th Century Latin America', LARR, XV, (1980);
D.C.M. Platt, 'Dependency and the Historian: Further Objections', in Abel and Lewis, Latin America.

7) B. Mathew, 'The Imperialism of Free Trade, Peru 1820-1870', EHR, XXVI, (1968), p.563.

8) R. Greenhill, "The Brazilian Coffee Trade', in Platt, Business Imperialism, pp. 213-218;
R. Greenhill, 'Merchants and the Latin American Trades: an Introduction', in Platt, Business Imperialism.

9) M. Finch 'British Imperialism in Uruguay', The Public Utility Companies and the Batelista State 1900-1930', in Abel and Lewis, Latin America, p. 265.

10) C. Jones; Commercial Banks and Mortgage Companies', in Platt, Business Imperialism, pp. 45-52.

12) P. Goodwin, 'Anglo-Argentine Commercial Relations; A Private Sector View', HAHR, LXI, (1981), p.51.
The trend to critically reassess conventional theory was recently further reiterated by M. Eakin's study of the history of the British St. John d'el Rey Mining Co. Ltd., operating in Minas Gerais; see M. Eakin, 'Business Imperialism and British Enterprise in Brazil: the St. John d'el Rey Mining Co. Ltd. 1830-1960', HAHR, LXVI, (1986).

13) Abel and Lewis, Latin America, p.8.

14) Platt, 'Dependency and the Historian', p.37.

15) S. Topik, 'The Evolution of the economic Role of the Brazilian State 1889-1930', JLAS, II, (1979), p.342.

16) B.P.P. 1902 Vol.CV, consular report No.2696 on Bahia.

17) Anuario Estatistico do Brasil 1939-40, (Rio de Janeiro, 1940) p. 1378.

18) Greenhill. "Merchants and the Latin American Trades", pp. 162-72.

19) PRO FO 368/173/31056, Cheetham to Grey, 19 Aug. 1908.

20) PRO FO 368/173/40953, Casement to Grey 6 Nov. 1908; BPP1914 VOL.89 Consular Report No.5173 on Para.

21) Greenhill,'The Brazilian Coffee Trade', p.213; D. Netto, 'Foundations of the Analysis of Brazilian Coffee Problems', in B.C., Essays on Coffee and Economic Development, (Rio de Janeiro, 1973), p.72.

22) EJ/UCL, private letters, 6 Nov. 1901, 14 Nov. 1901.

23) PRO FO 368/173/31056 Cheetham to Grey, 19 Aug. 1908.

24) BPP 1914 Vol.89 consular report No.5173 on Para.

25) EJ/UCL, private letters, 14 Jan. 1901.

26) EJ/UCL, private letters, 15 Aug. 1903, 26 May 1903.

27) EJ/UCL, private letters, 3 July 1903.

28) S. Zimmerman, Theoder Wille 1844-1969, (Hamburg, 1969), pp. 129-32.

29) Zimmerman, Theodor Wille, pp. 150 and 154.

30) R. Greenhill, 'Britain and the Cocoa Trade in Latin America', Cambridge Working Papers No.8, (Cambridge, 1972),

31) PRO FO 368/173/31056 Cheetham to Grey, 19 Aug. 1908.

32) PRO FO 368/173/37869 Eilbert Symons & Co. to Grey, 30 Oct. 1908;
PRO FO 368/173/40955 Casement to Grey, 7 Nov. 1908.

33) PRO FO 368/173/40953 Casement to Grey, 6 Nov. 1908.

34) PRO FO 368/173/40955 Casement to Grey, 7 Nov. 1908.

35) Netto, 'Foundations of the Analysis' pp. 78-98.

36) Topik, 'The Evaluation', p.342.

37) E. Ridings, 'Business, Nationality and Dependency in late 19th Century Brazil', <u>HAHR</u>, XIV, (1982), pp 94 and 95;
Jones, 'Business Imperialism', p.440.

38) P. Evans, <u>Dependent Development; The Alliance of Multinational, State and Local Capital</u>, (Princetown, 1979), p.80.

39) EJ/UCL, private letters, 12 May 1903.

40) Norton, Megaw Co Ltd archive, private letters, 5 Jan. 1911, 16 Feb. 1911, 7 Dec. 1911.
BCC, Sao Paulo, Monthly Reports, Vol.VIII No.3, March 1925.

41) J. Wendler, <u>Deutsche Electroindustrie in Südamerika, Siemens and AEG 1890-1914</u>, (Stuttgart, 1982), p.13.

42) Norton, Megaw Co Ltd archive, private letters, 28 June 1909, 7 Oct. 1908.

43) Platt, 'Economic Imperialism and the Businessman', p.308.

44) Graham, 'Sepoys and Imperialists', p.33;
Graham, <u>Great Britain and the Onset of Modernization in Brazil</u>, (New York, 1968), p.98.

45) I. Forbes, 'German Informal Imperialism in South America', EHR, XXXI, (1978), p.392.

46) K. Luck, Die Entwicklung der englischen, deutschen and nordamerikanischen Bankinteressen in Südamerika, (Berlin, 1939), pp. 112-115;
C. Jones, 'Commercial Banks', p.18.
C. Jones, British Financial Institutions in Argentina 1860-1914, (Phd, Cambridge, 1973).

47) C. Jones, 'Commercial Banks', p.18.

48) Topik, 'The Evolution', p.334.

49) Jones, British Financial Institutions, p.35.

50) Jones, British Financial Institutions, p.220.
S. Topik, 'The State's Contribution to the Development of Brazil's internal Economy 1850-1930', HAHR, LXV, (1985), pp. 603 and 604.

51) Topik, 'The Evolution', p.334.

52) C. Jones, 'The State and Business Practice in Argentina 1862-1914', in Abel and Lewis, Latin America, p.187.

53) River Plate Bank, letter book D9/2, 7 Feb. 1913.

54) PRO FO 368/171/566, Chapman to Grey, 17 Dec. 1907;
British Bank of South America, letter book, 8 Aug. 1907, 15 Sept. 1908.

55) River Plate Bank, letter book, D12/2, 2 Apr. 1904.

56) River Plate Bank, letter book, D19/1, 2 May 1901.

57) Topik, 'The Evolution', p.333;
Topik, 'The State's Contribution', p.595.

58) Graham, Britain and The Onset, p.99.

59) Topik, 'The Evolution', p.329;
See also River Plate Banks, letter book D12/6, various letters dated June 1925 - April 1926 indicating the Banco's influence over interest rates.

60) Ministerio da Fazenda, Comercio Exterior do Brazil 1914, (Rio de Janeiro, 1914), p.221;
Departamento Nacional de Estatistica, Movimento Bancario, (Rio de Janeiro, 1929), p.27.

61) Platt (ed.), Business Imperialism, P.14.

62) Evans, The Alliance, p.19.

63) for example Evans, The Alliance, p.16;
Lenin's view on capital see R. Owen and B. Sutcliffe, (eds.), Studies in the Theory of Imperialism, p.313;
B. Warren, Imperialism, Pioneer of Capitalism, (London, 1980), pp. 55-60;
Hilferding's view on capital, A. Brewer, Marxist Theories of Imperialism, A Critical Survey, (London, 1980), pp. 81-94.

64) J. Normano, Brazil; A Study of Economic Types, (Chapel Hill, 1935), p.150.

65) Topik, 'The Evolution' p.331;
Graham, Britain and the Onset, p.104.

66) Topik, 'The Alliance', p.609.

67) PRO FO 371/9508/A4050/70/6 Tilley to Foreign Office, 14 June 1924.

68) PRO FO 371/9508/A2167/70/6 Tilley to MacDonald, 17 March 1924; 371/9508/A4076/70/6 Rothschild to Foreign Office, 3 July 1924.

69) PRO FO 371/9509/A4650/70/6 Tilley to MacDonald, 7 July 1924.

70) S. Hilton, Brazil and the Great Powers 1930-39, The Politics of Trade Rivalry, (Austin, 1975), p.134.

71) PRO FO 371/11117/A3013/2160/6 Alston to Foreign Office, 4 June 1926.

72) PRO FO 371/11117/A1222/1222/6 Ramsay to Chamberlain, 21 Feb. 1926.

73) G. Greenfield, 'Dependency and the Urban Experience, São Paulo's Public Service Sector 1885-1913', HAHR, X, (1978), p.47;
Graham, Britain and the Onset, pp. 52-4.

74) Topik, 'The Evolution', p.337;
R. Greenhill and C. Jones, 'Public Utility Companies', in Platt (ed.), Business Imperialism, p.117;
BPP 1909 Vol.92, consular report No.4358 on Brazil.

75) Greenfield, 'Dependency and the Urban Experience', pp. 39-44.

76) Greenhill and Jones, 'Public Utility Companies', p.117.

77) P. Goodwin, 'The Politics of Rate Making; The British owned Railways and the Union Civil Radical 1921-28', JLAS, VI, (1974).

78) PRO FO 371/7190/A1857/1857/6, Tilley to Curzon, 20 Feb. 1922. 371/10609/A4557/3174/6, Ramsay to Chamberlain, 22 Aug. 1925.

371/9513/A270/270/6, Letter from British Great Southern Railways to Under Secretary of State for Foreign Affairs, 16 Jan. 1924.

79) Topik, 'The Evolution', p.338.

80) J. Duncan, Public and Private Operation of Railways in Brazil, (New York, 1932), p.52.

81) BPP1910 Vol.XCVI consular report no.4575 on Brazil.

82) Wendler, Deutsche Elektroindustrie, pp. 126 and 128.

83) PRO FO 371/7186/A1563/103/6, Tilley to Curzon, 2 Jan. 1922.

84) In this context one should note that Brazil was still able to pursue policies, such as the coffee valorisation, which did not find the approval, at least initially, of her London bankers.

85) Chamber of Commerce Hamburg, 95.C.4.16, 7 Dec. 1906;.
Department of Trade, Report on the economic and financial conditions in Brazil, 1921, 1924/5.

86) River Plate Bank, letter book D12/5, 27 July 1923, 8 Aug. 1923.

Conclusion

The close of the nineteenth century heralded major changes in the international economic system. Driven by the rapid urbanisation and the discovery and application of new technologies, the spread of industrialisation in and beyond Europe became the main feature of national and international development alike. The unprecedented growth in manufacturing capacities and the underlying need to cultivate new consumer and supplier markets, aided by improvements in transportation, communications and not least the financial markets, fostered the expansion of world trade and the increasing integration of the periphery into European commerce.

To a large extent, the ensuing conflict of interests between competing economies at the core was epitomised by the rivalry between Germany and Britain, Europe's two leading industrial nations. Their commercial forces met throughout most of the world market although preferential treatment, granted formally or informally, increasingly distorted the character of competition, leaving few markets neutral towards either party. One relatively impartial country, however, was Brazil which, despite being less developed, formed part of the fast growing group of semi-industrialised nations. Attracting the attention of expatriate investors and manufacturers, Brazil provides a valid test case for the study of European economic expansion and competition on the periphery. This competition was a lasting and continuing process, little encumbered by the events of World War I. Hilton has shown that the international rivalry in Brazil was still important during the 1930s.(1)

The thesis argues that the same rivalry which is taken for granted before 1914, also applies to the immediate post-war decade when the outward expansion of American industry and Germany's need to earn foreign exchange rekindled competition, while contributing to the further evolution of international business in Brazil.

The analysis of the Anglo-German rivalry had two specific purposes. First, it served to describe and explain the growth of their respective economic links with Brazil. To this end it was necessary to establish the reciprocal trade flows of manufacturing goods and sub-tropical commodities handled by the merchant houses. Further encompassing the lesser known, yet no less important, areas of banking and investment, the thesis provided a comprehensive picture of the extent and pattern of British and German business interests in Brazil.

Secondly, the study contributed to two prominent debates in economic history. The question of international competitiveness lies at the heart of the ongoing discussion about the trade rivalry between the two countries. Although the thesis may appear to be a historical exercise, its essence is concerned with the timeless theme of the newcomer versus the established market force. At the time Germany, as well as the United States, faced the task of breaking Britain's supremacy in international trade and services. By today, of course, they have long joined the industrial establishment but the basic conflict still prevails as new manufacturers in the Far East now form a strong competitive force worldwide. Given the present day concern about progress and strategy in trade, conclusions on the issue remain as topical now as they did seventy years ago. Roles may have been reversed and competition may have gained in complexity but flexibility and innovation in production, marketing and trade structures continue to provide the key to expansion.

Since the entire thesis relates to the outward growth of transnational capitalism and its activities in the periphery, the discussion inevitably enters a second debate, the contentious realms of imperialism. Although the thesis is not intended to be a full ranging contribution to this often political and technical debate, two specific sub-topics are of concern; namely, informal and business imperialism. Both are seen to be automatic consequences of foreign trade and finance in the periphery. Leaving aside the complex and challenging implications for economic growth in the host country, or rather the lack thereof, the two issues have an immediately distorting effect on the character of foreign commerce and their incorporation in the rivalry debate adds a new dimension to the project.

While there is a growing collection of literature on imperialism and the early Anglo-South American trade, its implications are rarely related back to the analysis of comparative competitiveness so as to see how the two interacted. They should, however, be linked. On the one hand, theories of imperialism and economic dependency should recognise the dynamics of market competition. The impact of a conflict of interests in Europe on the periphery's bargaining power and particularly the extent to which the latter could exploit competition to its benefit should, therefore, be taken into account. On the other hand, imperialism, if identified, could obviously complement genuine competitive efforts or even make up for their absence. Current government backing of national interests in external trade, whether in the form of aid flows, export credit schemes or the politics of economic unions, is considerable while the expanded power base of transnational corporations increases their leverage vis-a-vis the developing world. Both features are now clearly potential co-determinants of business expansion abroad. By the same token, allegations of economic imperialism could have then had an impact on the character of Anglo-German competition some seventy years ago.

Under these criteria, the thesis commenced with an analysis of the import-export complex. Reflecting closely the progress of industrialisation in Europe, manufacturing exports to Brazil assumed a central role in business relations as well as the surrounding debate on comparative efficiency. The statistical evidence in this respect highlighted a negative correlation between the market shares of Britain and Germany. Although, to a certain extent, this was a natural and causal function of new players entering the market place, the dynamic expansion of domestic demand indicated that the newcomer's impact went beyond a static replacement of existing supplies. Essentially Germany owed her advance to two factors. On the basis of increasingly integrated large-scale production units as well as export orientated cartelisation, she was able to supply a price-conscious market cheaply. At the same time, however, a relatively well diversified product mix coincided and changed in accordance with Brazilian demand so that German exports virtually matched the value of British manufacturing exports by 1914. Moreover, Brazil's increasing emphasis on capital goods granted her a selective market leadership in machinery and iron and steel products while securing her a partial and more specialised comeback during the 1920s.

Britain, by contrast, relied heavily on consumer items, cotton textiles as well as coal which secured her absolute market lead until the early twenties. Yet, at the same time, this export dependency focused on sectors of comparatively low growth outside the new thrust of market demand. As a result of her failure to follow local demand patterns and to substitute declining export articles, Britain lost out in the fast growing 'new' product ranges, which in turn caused her overall growth rate to fall behind those of her competitors.

Apart from these structural and largely industry-based explanations, marketing performances played a similarly significant role in the determination of growth rates. Adapting to changes in consumer demand as well as to the technological upgrading of supply goods, the merchant network expanded its historical functions, thereby successfully remaining the main pillar of European overseas marketing. Contrary to much of the conventional criticism of British salesmanship, perceived entrepreneurial deficiencies, such as a lack of commitment or unsatisfactory credit terms, were in fact not simply a matter of irrational behaviour of the merchants but stemmed from possible financial constraints and a lack of assistance from suppliers. Rather than reflecting simple disinterest, it seemed that some manufacturers may have been inexperienced in the rapid changes of the world market, overestimating the saleability of products or conversely underestimating the hitherto unaccustomed degree of competition outside the comparative tranquility of dominion markets. Their German competitors clearly benefited from a larger numerical market representation in Brazil, a supportive banking system and closer co-operation with an export-orientated and commercially-minded industry. In part, domestic structures again favourably influenced her outward expansion. Nevertheless, given that her merchants had little to rely on in terms of past track records and reputation, they introduced and maintained an aggressive and accommodating marketing style which proved to be more strongly competitive in comparison to Britain's tendency towards conservatism and outdated, less consumer-minded practices.

It is now clear that the strength of Germany's merchant community was particularly pronounced in the commodity trades, where her natural consumption needs and the Hanse's entrepot function explained her stranglehold over cocoa and tobacco as well as her influential involvement in coffee. By means of an extensive network of well capitalised tradehouses, her marketing efforts in these sectors soon went beyond the import requirements of the home market and expanded into cross-trades with third parties. Hence, whereas British merchants had always been actively involved in the international distribution of Brazilian produce, particularly to the North American markets, they failed to withstand the growing competitive pressures from Hamburg and lost their leading role in this business. As in the import sector, the events of the war called forth a re-orientation towards the United States to the detriment of Anglo-German interests, the position of which was further weakened by an increase in European purchases from alternative producer countries.

Although from a supply point of view Brazilian exports were only of major importance to Germany during the pre-1914 period they, nevertheless, supported Anglo-German commerce on the whole. In view of Brazil's export dependency, commodity revenues were the major source of foreign currency as well as the predominant determinant of the exchange rate. Coupled with its expansionary effect on domestic demand, the produce trade thus had an immediate bearing on the historical growth and diversification of merchant houses, import volumes, banking activities and, ultimately, even foreign investment.

Turning to the financial aspect of Anglo-German business, the thesis showed that banking and long-term financing grew alongside the import-export complex. Maintaining a mutually dependent relationship expatriate banks were firmly established on trade related business. Their financial mediation facilitated the two way flow of goods, while providing merchant houses with the necessary working capital. Competition in this area was strong as Germany aimed to transact its business independently of London intermediaries. Being indirectly related to industry via the parentage of the domestic banks, managers in Brazil were encouraged to pursue a vigorous expansionary policy, designed to accommodate trade and to gain market recognition. Under the leadership of the Brasilianische Bank, which grew into the second largest foreign financial institution in pre-war Brazil, German banks were found to be instrumental in supporting the growth and subsequent resurrection of Teuto-Brazilian trade. Nevertheless, by virtue of their late entry and a comparative lack of international goodwill, as a group, they failed to seriously threaten the predominant position of their old rivals which continued to lead in terms of income and turnover.

British banking generally enjoyed the significant comforts and protection of its outstanding reputation and a firm belief in its stability. Two out of three London based banks followed a conservative and risk averse policy which assumed a cautiously reactive rather than proactive character. Their focus was on profitability and the returns to a private shareholdership. Being conditioned by these motives and the benefits of goodwill, the River Plate Bank and the Brazilian Bank seemed to reconfirm a contemporary vision of British complacency. They still remained successful, however, in their own approach. Given the attitudes of their clients, there was indeed little incentive to change and one may even speculate that a shift towards more aggressive banking techniques would have jeopardised their reputation and thus their major asset.

For these banks, conservatism may have been a competitive tool in preserving their market share. The diverging and outgoing philosophy of the British Bank finally re-emphasised that business strategies were a function of the conditions facing an enterprise rather than of its nationality.

Perhaps, inadvertently, the contrast between Germany's emphasis on trade related growth and her rival's independent income-orientated policies was most distinct in long-term finance. In contrast to the recently expressed views of Svedberg,(2) British capital in Brazil continued to be largely channelled into portfolio investments, such as public debt issues, where the over-riding concerns were security and the return on assets. Similarly, capital in public utility and railway ventures was increasingly of a minority nature, leaving little opportunity to participate in management. In the absence of control the immediate impact of these investments on British trade should not be overestimated. German funds, on the other hand, were introduced directly through merchant houses, banks or immigrants. As such, they played part of a wider entrepreneurial strategy, serving a specific purpose linked to the expansion of commerce. Yet, the difference in portfolio sizes was such that on the whole, the comparative influence of German capital was of only minor relevance. Even after an overdue downward revision of British investments as well as a marginal upgrading of German holdings, the gap between the two remained insurmountable, growing even wider after the war. Germany's inward-orientated capital markets and large scale divestments during the 1920s prevented her from ever developing this activity in Brazil.

The extent of Germany's market penetration and her resulting competition with Britain obviously varied from sector to sector. By applying the general rivalry debate to a specific case study the thesis illustrates that traditionally one-sided and often superficial criticisms of Britain's performance are misleading and, moreover, inadequate to judge the complex interrelationships in overseas commerce. It was seen that to a large extent sectoral performances and strategies were mutually interlocked, while also being influenced by the structure of the home economies in Europe. The impression of Germany overrunning a grossly negligent British business complex created by some contemporary reports was certainly far from being true. By the same token, however, the redemptionist view of a British withdrawal, based on a calculated lack of interest, is equally misrepresentative.

There were few signs of such a withdrawal. British exports to Brazil grew faster than her trade with some of the most promising Empire markets. The proportion of total exports going to Brazil and Latin America were and continued to be relatively more important than in the case of Germany, whereas British capital invested in this market grew continuously despite a general decline in overseas investments during the 1920s. Finally, British institutions based in Brazil could hardly afford to give up their livelihood and local market experience in search of new outlets in the Empire. As such, Brazil was not an easily dispensable market.

Yet, as far as the trade sector was concerned, Britain's performance was still one of diminishing returns. Essentially she could have done better. The internationalisation of the Brazilian economy set an end to her hegemony in imports as well as exports and to some extent even in banking. New participants had little to lose and, indeed, little choice but to change the 'rules of the game' and competition gained in dynamics. Products were increasingly tailored towards a price-conscious clientele, the role of credit advanced and customer services became more important. Marketing grew in complexity as a result of competition. Merchants now sought to please the customer rather than the other way around and Britain's reluctance to fully adapt to this change took its toll in her market share. Apart from the characteristic 'old versus new' theme behind this development, German business advanced and survived through close, often incestuous co-operation.

Interlocking directorships and cross-shareholdings moved the overseas banks close to industry, creating, at least indirectly, a common interest in the advance of exports. Already highly integrated manufacturing concerns had internalised domestic trading functions and absorbed commercial training into industry, thus recognising the importance of effective marketing mechanisms. It was rarely by direct selling, but rather through closer co-operation with merchants that they expanded overseas sales. This integrated approach, which is still practiced by the present day Japanese conglomerates, combining production, finance and trading under one roof, represented a coherent long-term strategy.

British capitalism, by contrast, still believed in individualism. The dilution of British shareholdings in transport and public utility companies and the failure to retain management control may have been financially sound but it reduced the chances of further imports from Britain to the benefit of American suppliers. Investors and manufacturers were, of course, separate interest groups under no obligation to assist each other; yet did they even acknowledge the possibility of cross benefits? One cannot know the answer but, in view of the separation of the City and industry, there was probably less contact than in the case of Germany where the few Brazilian investment projects were initiated jointly by both groups. Segregated organisational structures critically observed in British industry were reproduced in a specialised banking system, leaving overseas business to privately owned independent organisations, which were highly professional but potentially less conducive to trade. The findings of this thesis indicate that British merchants may well have lacked the understanding and support of banks and suppliers enjoyed by their German competitors. Co-ordination between production, finance and commerce was, therefore, comparatively weaker.

Prevailing views on the rivalry issues should consequently be revised at both ends. On the one hand, the revisionist hypothesis, that the British voluntarily withdrew, appears to be based on an unrealistic assumption while its arguments do not stand up to the evidence of the Brazilian case study. A competitive faltering in trade, on the other hand, cannot be blamed solely on the merchants' conduct but it was also a function of intersectoral lack of co-operation and an excessive reliance on staple products. Moreover, there was no general decline of British business. London's capitalists continued to enjoy a comfortable lead in the financial and service sector where capital resources and, somewhat ironically, conservatism were the decisive assets. Subject to these reservations, on balance, the thesis finally supports the traditionally more pessimistic view that Britain did not stand up sufficiently to competitive pressures of her rival.

The performance of European business in Brazil led the thesis to further consider the related question of imperialism, the unequal balance of power between the host country and its commercial and financial partners. In this context the analysis concluded that, in the case of Brazil, the core-periphery relationship before 1929 cannot generally be characterised by the term imperialism. In a Marxist sense, of course, this would not be true since it cannot be denied that European capitalism at home and abroad had an important impact on the periphery through an interlocking chain of factors.

What is certain and of relevance here, however, was the fact that private interests were not granted any meaningful governmental assistance in the quest for expansion. Neither country was totally impartial in its diplomatic affairs. Germany, in particular, attempted to foster business in a more forthright, albeit misguided and damaging, way. By the same token, Britain also developed a more involved stance, implicitly refuting the far-reaching theme of disinterest. Yet the evidence suggests that allegations of informal imperialism in the sense of coherent political intervention have to be confined to simple and frequently ineffective promotional or arbitrational efforts, which fell substantially short of determining the success or failure of either party.

Similarly, the presence and thus the impact of business imperialism should not be overestimated. This is not to say that available profit opportunities were foregone for any ethical reasons. It can also not be disputed that foreign business set foot and organised itself in Brazil so as to maximise its income; after all this was its very purpose. Frequently, the national interests of the host country and foreign ones did not coincide.

Conflicts of interest were decided according to their respective bargaining position but this did not necessarily imply the wilful subordination of local concerns. Public utility concerns and produce merchants attempted to exploit their power in the same way that the national or political aspirations of local authorities were used to squeeze the former. A growing economic awareness of the state, the spread of nationalism, particularly after the war, and not least competition rather than large scale collusion amongst foreign businessmen were significant constraints on monopolistic practices. As long as there existed dissatisfied concerns, whether of German or American nationality, seeking to expand in the market place, a restrictive strategy could not survive. Nor was it even desired as it mainly served the interests of the established market leadership which, in turn, was not a unitary force but consisted of a number of competing factions. The basic metropolis-satellite structure seems a gross oversimplification of the reality found in Brazil.

Conversely, with regard to Anglo-German commerce, business imperialism may have entailed sporadic short-term advantages but it failed to prevail as a long-term security of market shares. The perceived "informal empire of trade and politics" was far from being an effective deterrent against unwanted outsiders. Nor were diplomatic action and restrictive practices realistic tools in the competitive struggle for expansion. Moreover, unless one accepts the mere presence of a wide ranging body of expatriate concerns as a sufficient characteristic, ultimately there was no informal empire in the sense that there was no "single supreme authority".

This thesis has, therefore, shown that, in contrast to the following years of bilateralism, the respective commercial and financial positions attained by Germany and Britain, notably between 1900 and 1914 but also during the twenties, were largely the result of free market forces as well as the quality and coordination of decision making in production, marketing and finance.

Footnotes

1. S. Hilton, Brazil and the Great Powers 1930-1939, the Politics of Trade Rivalry, (Austin, 1975), p. XIX.

2. P. Svedberg, 'The Portfolio-Direct Composition of Private Foreign Investment Revisited, EJ, LXXXVIII, (1978).

BIBLIOGRAPHY

PRIMARY SOURCES

I Archives

Public Record Office, LONDON

General Correspondence relating to Brazil, commercial:

FO 368	7	1906
FO 368	8	1907
FO 368	171	1908
FO 368	172	1908
FO 368	172	1908
FO 368	173	1908
FO 368	274	1909
FO 368	275	1909
FO 368	276	1909
FO 368	277	1909
FO 368	390	1910
FO 368	391	1910
FO 368	515	1911
FO 368	656	1912
FO 368	796	1913

General Correspondence relating to Brazil, cases:

FO 128	328	1908
FO 128	354	1911/12

General Correspondence relating to Brazil, commercial:

FO 369	7186	1922
FO 371	7188	1922
FO 371	7190	1922
FO 371	8461	1923
FO 371	9508	1924
FO 371	9509	1924
FO 371	9513	1924
FO 371	9514	1924
FO 371	9516	1924
FO 371	10608	1925
FO 371	10609	1925
FO 371	11116	1926
FO 371	11967	1927
FO 371	11968	1927/28
FO 371	12744	1928
FO 371	12741	1928

State Archive, Hamburg

a. Senatskommission für Reichs u Auswartige Angelegenheiten

CII	c48 II	Annual Reports
CI	d178	Commercial conditions in Brazil 1894-1913
CI	d180	Brazilian Railways
CI	d181	Brazilian Coffee Trade 1898-1912
CI	d182	Teuto-Brazilian Trade Association in Hamburg
CI	c9	Consular Reports

b. Archiv der Hanseatischen Gesandschaft in Berlin
H II 22 Trade relations with Brazil 1907-09

c. Deputation für Handel u Schiffahrt
XIX C.30 Vols. 1-11 Trade relations with Brazil 1882-1914

d. Staatliche Pressestelle
I-IV Reports

Archive of the Chamber of Commerce, Hamburg

95.C.4.15	Coastal Shipping in Brazil and German interests therein
95.C.4.16	Coastal Shipping in Brazil and German interests therein
95.C.4.18	Association of Teuto-Brazilian firms
95.C.4.14	Teuto-Brazilian Chamber of Commerce, Teuto-Brazilian Trade relations
95.C.4.2	Brazilian Railways and German interests therein
95.C.4.6	Negotiations of a Teuto-Brazilian trade treaty.

Bank of London and South America (BOLSA) archive, London

a. London and River Plate Bank Ltd

Letter books:	London to Brazil	D19/1	1900-04
		D19/2	1904-09
		D19/3	1909-12
		D21/1	1921-26
		D25/2	1925-27
		D23/1	1912-19
	Brazil to London	D11/7	1907-10
		D29/1	1920-22
		D29/2	1922-23
	Branches to Rio	D12/2	1911-13
		D17/6	1912-20
		D17/1	1912-14
	Rio to Branches	D9/2	1910-20
		D12/4	1920-23
		D12/5	1923-24
		D12/6	1924-26
		D17/7	1926-29

b. London and Brazilian Bank Ltd

Instructions for the management of the affairs of the bank at Rio de Janeiro: - Policy guidelines

Letter books:	Rio to London	G23	1897-1926
	London to Rio	G27(II)	1923-24

c. British Bank of South America Ltd

Letter books:	London to São Paulo	E2.1	1892-1903
	London to São Paulo	E2.2	1892-1906
	London to São Paulo	E2.3	1906-1914
	Letters to and from Sao Paulo	E3.1	1909-1920
	Sao Paulo-London and branches	E1.4)	
	Sao Paulo-London and branches	E1.5)	1892-1913
	Sao Paulo-London and branches	E1.6)	
	Sao Paulo to London	E6.2	1921-1927

Norton, Megaw Co. Ltd, private archive

Private letters London to Rio	1900-05
Private letters London to Rio	1908-10
Private letters London to Rio	1910-13
Private letters London to Rio	1927

E. Johnston & Co. Ltd

Private letters Vols. I and II 1896-1903

Wilson Sons & Co. Ltd

Letter book 1899-1900

Pearson Papers, Science Museum, London Re: Brazilian Traction Light & Power Co.

II British Parliamentary Papers

Consular Reports:

1900	BPP Vol. 92	No.	2475	Rio de Janeiro
1901	BPP Vol. 81	No.	2580	Para
			2591	Pernambuco
			2602	Porto Alegre
1902	BPP Vol. CV	No.	2696	Bahia
			2702	Rio Grande do Sul
			2724	Rio de Janeiro
			2814	Pernambuco
			2844	Para
			2859	Porto Alegre
			2888	Bahia
1903	BPP Vol. LXXVI	No.	2928	Rio de Janeiro
			2938	Brazil
			2986	Pernambuco
			2996	Porto Alegre
			3050	Brazil
			3061	Bahia
1904	BPP Vol. 97	No.	3107	Para
			3191	Rio Grande do Sul
			3209	Porto Alegre
			3217	Imports into Brazil
1905	BPP Vol. 83	No.	3256	Bahia
			3283	Rio de Janeiro
			3436	Para
			3453	Porto Alegre
1906	BPP Vol. 123	No.	3521	Santos
			3540	Brazil
			3669	Pernambuco
			3608	Rio Grande do Sul
			3713	Brazil
			3737	Santa Catharina
1907	BPP Vol. 88	No.	3874	Para
			3878	Brazil
			3901	Bahia
1908	BPP Vol. 109	No.	3922	Pernambuco
			3952	Santos
			4054	Brazil
			4075	Santos
			4096	Bahia
			4111	Para
			4139	Pernambuco
			4154	Brazil
1909	BPP Vol. 92	No.	4248	Porto Alegre
			4284	Rio Grande do Sul
			4299	Santos
			4313	Bahia
			4338	Perambuco
			4358	Brazil

1910	BPP Vol. 96	No.	4435	Pernambuco
			4488	Bahia
			4523	Santa Catharina
			4525	Santos
			4547	Rio Grande do Sul
			4575	Brazil
1911	BPP Vol. 90	No.	4646	Bahia
			4685	Pernambuco
			4686	Rio de Janeiro
			4700	São Paulo
			4763	Santos
			4803	Santa Catherina
1912/13	BPP Vol. 94	No.	4876	Bahia
			4900	São Paulo
			4918	Pernambuco
1913	BPP Vol. LXIX	No.	5049	Rio de Janeiro
			5076	Bahia
			5130	Rio Grande do Sul
			5160	São Paulo
			5173	Perambuco
1914	BPP Vol. 89	No.	5262	Para
			5268	Porto Alegre
			5280	São Paulo
			5317	Santa Catherina
			5380	Para
1914/16	BPP Vol. 71	No.	5392	Rio Grande do Sul
			5412	Pernambuco
			5451	Brazil
			5526	Para
			5527	Foreign Trade of Brazil
	BPP LXXII	No.	808	Annual Report on Germany for 1913

Department of Trade; Reports on the economic and financial conditions in Brazil 1920-29.
Report of the British Economic Mission to Argentina, Brazil and Uruguay, (London, 1930);
Parliamentary Investigations;
BPP 1899 Vol. 96 Worthington Report: An Enquiry into the conditions and prospects of UK trade in certain Latin American countries, part 1 and II - Foreign Trade Competition; Opinions of H.M. Diplomatic and Consular Offices on British Trade Methods.

BPP 1918 Vol. XIII Report of the Departmental Committee on the Engineering Trades;
Report of the Departmental Committee on the Iron and Steel Trades;
Report of the Departmental Committee on Shipping and Shipbuilding

III US Monthly Consular and Trade Reports, Department of Commerce, Washington, Nos. 228, 245, 268, 269, 334, 335, 336, 339, 344, 349, 352, 353.

IV Trade and Business Reports

British Bank of South America, annual reports 1906-13, 1924-29
Deutsche Überseeische Bank, annual reports, 1911-29
Deutsche Bank, annual reports 1925, 1926
Dresdener Bank, annual reports 1925, 1926
Brasilianische Bank für Deutschland, annual reports, 1920, 1921
British Engineers Association, Brazil as a market for the British Engineering Manufacturer, Nos. 16-21, (London, 1920)
The Electrical Engineering Trade in Rio Grande do Sul
British Chamber of Commerce in Brazil, Rio de Janeiro, - monthly bulletins 1919-29
Anglo-Brazilian Trade and Enterprise, (Rio de Janeiro, 1923)

British Chamber of Commerce in Brazil, São Paulo
- monthly journals 1921-1929
British Trade with Brazil, Hints for Manufacturers and Exporters, (São Paulo, 1918)

Verband Deutsch-Brasilianischer Firmen in Brasilien annual reports 1921-27, (Rio de Janeiro, 1921-1927)

Deutsch Brasilianischer Handelsverband, annual report 1928, (Berlin, 1928)

V Statistics

Britain, Accounts relating to the Trade and Navigations of the UK, 1900
Annual Statements of the Trade of UK, 1913-29 various

Bankers' Almanac of Yearbook 1900-29, (London, 1900-29)

Germany, Statistisches Reichsamt
Statistik des deutschen Reiches 1901 Vol. 136,
Statistik des deutschen Reiches, Der Auswärtige Handel, 1929, Vol. 1;
Statistisches Jahrbuch des deutschen Reiches 1913,
Wirtschaft und Statistik 1923, 1930. Einzelheft No. 5 1928;
Vierteljahresheft III 1935.

Brazil, Ministerio da Fazenda; Servicio de Estatistica, Comercio Exterior do Brasil, 1901-13,
Ministerio do Trabalho, Industria e Comercio
- Departamento Nacional de Estatistica, Comercio Exterior do Brasil, 1921-29
- Departamento Nacional de Estatistica, Movimento Bancario, 1929
  Instituto Brasileiro de Geografia e Estatistica
- Anuario Estatistica do Brasil, 1939

- Wileman's Brazilian Review, 1899-1925 various.

BIBLIOGRAPHY

SECONDARY SOURCES

C. Abel and C. Lewis (eds.), Economic Imperialism and the State, the Political Economy of the external connection from Independence to the Present, (London, 1985).

M. de Paiva Abreu, 'Argentina and Brazil during the 1930s: The impact of British and American International economic Policies', in R. Thorpe (ed.) Latin America in the 1930s, the Role of the Periphery in world crisis, (Oxford, 1984);

- 'Anglo Brazilian Economic Relations and the Consolidation of American Pre-eminence in Brazil 1930-45' in Abel and Lewis, Latin America, Economic Imperialism and the State (London, 1985).

B. Albert, South America and the World Economy from Independence to 1930, (London, 1983).

D. Aldcroft, 'Economic Progress in Britain in the 1920s' SJPE, XIII, (1966);

- 'Economic Progress in Britain in the 1920s; a rejoinder', SJPE, XIV, (1967);
- 'Investment and Utilisation and Manpower, Britain and her Rivals' in B. Radcliffe (ed.) Great Britain and her World 1750-1915, (Manchester, 1975);
- 'The Entrepreneur and the British Economy' EHR, XII, (1964);
- The Development of British Industry and foreign Competition, (London, 1968).

D. Aldcroft and P. Fearon (eds.), Economic Growth in 20th Century Britain, (London, 1969).

D. Aldcroft and H. Richardson, The British Economy 1870-1939, (London, 1969).

B.W.E. Alford, Depression and Recovery, British economic Growth 1918-1939, (London, 1972).

G. Allen, British Industry and their Organisation, (London, 1959).

H. Aubin and W. Zorn, Handbuch der deutschen Wirtschaft und Sozialgeschichte, (Stuttgart, 1976).

W. Baer, Industrialisation and Economic Development in Brazil, (Homewood, 1965).

P. Baran and P. Sweezy, Monopoly Capital, An Essay on the American Economic and Social Order, (New York, 1966).

M. Beaud, A History of Capitalism 1500-1980, (London, 1981).

J. Bell, Rio de Janeiro, (London, 1914).

J. Bello, A History of modern Brazil 1889-1964, (Stanford, 1966).

L. Bethell, (ed.), The Cambridge History of Latin America 1870-1930, Vols. IV, V, (Cambridge, 1986).

L. Beutin, Drei Jahrhunderte Tabakhandel in Bremen, (Stuttgart, 1937).

A. Bieler, Brasilien, (Hamburg, 1920).

M. Bleaney, Underconsumption Theories, (London, 1976).

R. von der Borght, Das Wirtschafts-leben Sudamerikas, (Cothen, 1919).

K. Born, International Banking in the 19th and 20th Century, (London, 1983);
- 'The German Inflation after the First World War', JEEH, XI, (1977).

L. Braun, 'German Political Designs with Reference to Brazil, HAHR, II, (1919).

Brasilianische Bank fur Deutschland, Hamburg-Brasilien 1887-1912, Denkschift, (Hamburg, 1912).

A. Brewer, Marxist Theories of Imperialism, a critical Survey, (London, 1980).

British and Latin American Chamber of Commerce, Commercial Encyclopedia, (London, 1922).

W. Bruch, Social and Economic History of Germany 1888-1938, (Oxford, 1938).

G. Brunn, Deutschland und Brasilien 1889-1914, (Koln, 1971).

C. Buchheim, 'Aspects of 19th Century Anglo-German Trade Rivalry reconsidered' JEEH, X, (1981).

E. Buhler, Der deutsche Handel mit Brasilien, (Heidleberg, 1941).

N. Buxton, 'Economic Progress in Britain in the 1920s, a reappraisal, SJPE, XIV, (1967).

P. Cain, 'J.A. Hobson, Cobdenism and the radical Theory of Economic Imperialism, EHR, XXXI, (1978).

P. Cain and A. Hopkins, 'The political Economy of British expansion overseas 1750-1914', EHR, XXXI, (1980)
- 'Gentlemanly Capitalism and British Expansion overseas II; New Imperialism', EHR, XL, (1987).

A. Cairncross, 'The English Capital Market before 1914.' Economica, XXV, (1958).

F. Cardoso and E. Faletto, Dependency and Development in Latin America, (University of California, 1971).

O. Carneiro, Past trends of Structural Relationships in the Economic Evolution of Brazil 1920-1965, (Harvard, 1966).

Centre National de la recherche scientifique, L'Histoire quantitative du Bresil de 1880-1930, (Paris, 1973).

S. Chapman, The Rise of Merchant Banking, (London, 1984)
- 'British based Investment Groups before 1914' EHR, XXXVIII, (1985).

R. Chilcote and J. Edelstein (eds.) Latin America, the Struggle with Dependency and Beyond, (New York, 1974).

B. Cohen, The Question of Imperialism, the Political Economy of Dominance and Dependence, (London, 1974).

C. Cornelius, Die Deutschen im brasilianischen Wirtschafts leben, (Stuttgart, 1929).

P. Cottrell, Industrial Finance 1830-1914, (London, 1980).

P. Cottrell and B. Anderson, Money and Banking in England 1694-1914, (London, 1974).

N. Crofts,'Victorian Britain did Fail', in D. McCloskey, (ed.), Enterprise and Trade.

H. David, 'Das deutsche Auslandskapital und seine Wiederherstellung nach dem Kriege', Weltwirtschaftliches Archiv, (1919).

W. Dawson, The Evolution of modern Germany, (London, 1919).

W. Dean, The Industrialisation of Sao Paulo 1880-1945, (Austin, 1969);
- 'The Brazilian Economy 1870-1930', in L. Bethell, (ed.) The Cambridge History of Latin America, Vol.V.

E. Dettman, Brasiliens Aufschwung in deutscher Beleuchtung, (Berlin, 1908);
- Das moderne Brasilien in seiner neuesten wirtschaftlichen Entwicklung, (Berlin, 1912).

T. Dos Santos, 'The Structure of Dependence' AER, LX, (1970).

J. Dowie, 'Growth in the Inter-war period, some more Arithmetic', in D. Aldcroft and P. Fearson, (eds.) Economic Growth.

J. Duncan, Public and Private Operation of Railways in Brazil, (New York, 1932).

M. Eakin, 'Business Imperialism and British Enterprise in Brazil: The St John d'el Rey Mining Co. Ltd. 1830-1960', HAHR, LXVI, (1986).

B. Elbaum and W. Lazonick, (eds.), The Decline of the British Economy, (Oxford, 1986).

P. Evans, Dependent Development; the Alliance of Multinational, State and local Capital in Brazil, (Princeton, 1979).

M. Falkus, 'The German Business Cycle in the 1920s', EHR, II, (1975).

H. Fanganiello, Roberto Simonsen e o desenvolvimento economico, (Sao Paulo, 1970).

K. Fann and D. Hodges, (eds.) Readings in US Imperialism, (Boston, 1971).

H. Feis, Europe, the World's Banker 1870-1914, (New York, 1964).

H. Ferns, 'Britain's informal Empire in Argentina in 1806-1914', Past and Present, IV, (1953).

A. Fishlow, 'Origins and Consequences of Import substitution in Brazil', in L. di Marco (ed.) International Economies and Development, Essays in honour of Raul Prebisch, (New York, 1972).

A. Fleischer, Patentgesetzgebung und chemisch-pharmazeutische Industrie im deutschen Kaiserreich 1871-1918, (Stuttgart, 1984).

R. Floud and D. McCloskey, (eds.) The Economic History of Britain since 1700, Vol II, (Cambridge, 1981).

J. Fluck, Die Entwicklung der deutsch-brasilianischen Handelsbeziehungen von 1871-1939, (Phd Köln, 1951).

I. Forbes, German Commercial Relations with South America 1890-1914, (Phd Adelaide, 1975)

\- 'German Informal Imperialism in South America before 1914' EHR, XXXI, (1978).

H. Foxwell, 'The Financing of Industry and Trade', EJ, XXVII, (1917).

A.G. Frank, Lumpenbourgeoisie, Lumpendevelopment, (New York, 1972)

\- Capitalism and Underdevelopment in Latin America, historical Case Studies of Chile, and Brazil, (New York, 1967).

R. Fremdling and R. Tilly, 'German Banks, German Growth and Econometric History' JEH, XXXVI, (1976).

C. Furtado, The Economic Growth of Brazil, A survey from colonial to modern times, (Berkeley, 1963).

J. Gallagher and R. Robinson, 'The Imperialism of Free Trade', EHR, VI, (1953).

F. Ganzert, 'Baron do Rio Branco, Joaquin Nabuco and the Growth of Brazilian-American friendship', HAHR, XXII, (1942).

G. von Schulze Gavernitz, Die deutschen Kreditbanken, (Berlin, 1922).

C. Goodhart, The Business of Banking 1891-1914, (London, 1972).

P. Goodwin, 'Anglo-Argentine commercial Relations, a private sector view 1922-1943', HAHR, LXI, (1981)
'The Politics of Rate Making, the British owned Railways and the Union Civica Radical 1921-1928', JLAS, VI, (1974).

R. Graham, Britain and the Onset of Modernisation of Brazil, (New York, 1968);
- 'A British Industry in Brazil; Rio Flour Mills 1886-1920' Business History, VIII, (1966);
- 'Sepoys and Imperialists: Techniques of British Power in 19th Century Brazil'. IAEA, XXIII, (1969);
- 'Robinson and Gallagher in Latin America, the Meaning of Informal Imperialism', in W. Louis (ed.) Imperialism, the Robinson and Gallagher Controversy, (New York, 1975).

R. Gravil, The Anglo-Argentine Connection 1900-1939, (London, 1985).

G. Greenfield, 'Dependency and the Urban Experience: São Paulo's public service sector 1885-1913', JLAS, X, (1978).

R. Greenhill, Britain and the Cocoa Trade in Latin America before 1914, Centre of Latin America Studies, Working papers No. 8, (Cambridge, 1972);
- 'The Brazilian Coffee Trade' in Platt (ed.) Business Imperialism 1840-1930: An enquiry based on British Experience in Latin America, (Oxford, 1977);
- 'Merchants and the Latin American Trades' in Platt, Business Imperialism.

R. Greenhill and C. Jones, 'Public Utility Companies' in Platt, Business Imperialism.

A. Hall, (ed.) The Export of Capital from Britain 1878-1914, (London, 1968).

E. v. Halle, Amerika, Seine Bedeutung für die Wirtschaft und seine wirtschaftlichen Beziehungen zu Deutschland, (Hamburg, 1905);
- The Rise and Tendencies of German Transatlantic Enterprise, (London, 1908).

G. Hardach, The Political Economy of Germany in the 20th Century, (London, 1980);
- 'Banking and Industry in Germany in the inter-war period 1919-39, JEEH, XIII, (1984).

P. Hastedt, Deutsche Direktinvestitionen in Lateinamerika, (Gottingen, 1970).

H. Hauser, Germany's Grip on the World, (New York, 1918).

K. Helffrich, 'Auslandswerte', Bankarchiv, (Berlin, 15 April 1911).

J. Hell, Der Griff nach Südbrasilien. Die Politik des deutschen Reiches zur Verwandlung der brasilianischen Südstaaten in ein überseeisches Neudeutschland, (Phd Rostock, 1966).

W. Henderson, The Rise of German Industrial Power 1834-1914 (London, 1975).

V. Hentschel, Wirtschaft und Wirtschaftspolitik im Wilhelminischen Deutschland, (Stuttgart, 1978).

R. Heras, 'Hostage Private Companies under Restraint: British Railways and Transport Coordination in Argentina during the 1930s', JLAS, XIX, (1987).

U. Hiersemenzel, Die Rolle der Exporte in der wirtschaftlichen Entwicklung Brasiliens, (Gottingen, 1974).

S. Hilton, Brazil and the great Powers 1930-39, the Politics of Trade Rivalry, (Austin, 1975).

H. Hinden, Deutsche und deutscher Handel in Rio de Janeiro 1821-1921, (Rio de Janeiro, 1921).

G. v. Hirschfeld, Das Problem der deutschen Handels-und Wirtschaftsinteressen in Südamerika, (Berlin, 1920).

J. Hobson, Imperialism, (London, 1905).

A. Hodgart, The Economics of European Imperialism, (London, 1977).

R. Hoffman, Great Britain and the German Trade Rivalry 1875-1914, (Philadelphia, 1933).

W. Hoffman, Das Wachstum der deutschen Wirtschaft, (Berlin, 1965).

M. Hood, Gunboat Diplomacy 1895-1905, Great Power Pressure on Venezuela, (London, 1974).

I. Horowitz, Revolution in Brazil, Politics and Society in a developing Nation, (New York, 1964).

W. Hunt, Heirs of Great Adventure, the History of Balfour Williamson & Co. Ltd, (London, 1951).

A. Imlah, Economic Elements in the Pax Britannica, Studies in British foreign trade in the 19th century, (Cambridge, Mass., 1958).

Institute Brasileiro do Cafe, Essays on Coffee and economic Development, (Rio de Janeiro, 1973).

Jahrbuch der Berliner BORSE 1914, (Berlin, 1915).

H. James, 'The Causes of the German Banking Crisis' EHR, XXXVII, (1984);
- The German Slump, Politics and Economics 1924-1936, (Oxford, 1986).

A. John, Anthony Gibbs and Sons Ltd., Merchants and Bankers 1808-1958, (London, 1959).

E. Johnston and Co.,One hundred years of Coffee, (London, 1942).

C. Jones, British financial Institutions in Argentina 1860-1914, (Phd Cambridge, 1973);
- 'Commercial Banks and Mortgage Companies', in PLatt, Business Imperialism;
- 'Business Imperialism and Argentina 1875-1900, a theoretical note', JLAS, XII, (1980).

G. Jones, 'The Expansion of British multinational investment 1890-1939, in A. Okochi and T. Inoue,(eds.) Overseas Business Activities, (Tokyo, 1984).

D. Joslin, A Century of Banking in Latin America, (Oxford, 1963).

H. Kellenbenz, Deutsche Wirtschaftsgeschichte, (München, 1981);
- Deutsche Unternehmer in Brasilien in 19 und 20 Jahrhundert, (München, 1979);
- 'Rheinischer Export nach Rio de Janeiro, Staden Jahrbuch, XX, (1971).

T. Kemp, Industrialisation in 19th Century Europe, (London, 1969).

P. Kennedy, The Rise of Anglo-German Antagonism in 1860-1914, (London, 1980).

W. Kennedy, Industrial Structure, Capital Markets and the Origins of British Economic Decline, (Cambridge, 1987).

Sir Kinderseley, 'British foreign Investment in 1929', EJ, XLI, (1931);
- 'British foreign Investment in 1931,' EJ, XLII, (1932).

C. Kindleberger, 'Germany's Overtaking of England 1806-1914', Weltwirtschaftliches Archiv, III, (1975);
- Economic Response, Comparative Studies in Trade, Finance and Growth, (Cambridge Mass., 1978);
- A Financial History of Western Europe, (London, 1984).

M. Kirby, The Decline of British Economic Power since 1870, (London, 1981).

Knowles and Foster, The History of Knowles & Foster 1828-1948, (London, 1948).

J. Kocka, 'Expansion, Integration, Diversifikation, Wachstumstrategien industrieller Grossunternehmen in Deutschland vor 1914', in H. Winkel, Vom Kleingewerbe zur Grossindustrie, (Berlin, 1975);
– 'Entrepreneurs and Managers in German Industrialisation in P. Mathias and M. Poston, (eds.), The Cambridge Economic History of Europe, Vol. VII (Cambridge, 1978).

R. Koebner and H. Schmidt, Imperialism, Story and Significance of a Political Word 1840-1960, (New York, 1964).

J. Komlos, 'The Kreditbanken and German Growth, a Postscript', JEH, XXXVIII, (1978).

R. Krauel, Deutsche Interessen in Brasilien, (Hamburg, 1900).

R. Krausmuller, Der Konkurenzkampf der Haupthandelsmachte um den brasilianischen Markt, (Frankfurt, 1934).

W. Kundt, Brasilien und seine Bedeutung fur Deutschlands Handel und Industrie, (Berlin, 1903).

S. Kuznet, Six Lectures on Economic Growth, (Glencoe, 1959).

E. Landauer, 'Über die Stellung des Handels in der modernen industriellen Entwicklung', Archiv für Sozialwissenschaften, Vol. XXXIV, (1912).

D. Landes, The Unbound Prometheus; Technological Change and Industrial development in Western Europe from 1750 to the present, (Cambridge, 1969).

H. Laves, 'German governmental influence on Foreign Investments 1871-1915', Political Science Quarterly, XLIII, (1928).

W. Lazonick, 'Industrial Organisation and technical Change, the Decline of the British Cotton Industry, BHR, LVII, (1983);
– 'Factor Costs and the Diffusion of Ring Spinning in Britain prior to World War I, AJE, XCVI, (1981);
– 'Stubborn Mules; Some Comments', EHR, XL, (1987).

League of Nations, Balance of Payments, (Geneva, 1933).

N. Leff, Underdevelopment and Development in Brazil, Vol. I Economic Structure and Change 1822-1947, Vol. II, Reassessing the Obstacles to Economic Development, (London, 1982);
– 'Long-term Brazilian Economic Development', JEH, XXIX, (1969).

F. Lenz, 'Wesen und Struktur des deutschen Kapitalexportes' Weltwirtschaftliches Archiv, (1922).

C. Lewis, 'Railways and Industrialisation, the Argentine and Brazil', LSE Brazil Workshop Paper;
- British Railways in Argentina 1857-1914, a Case Study of Foreign Investment, (London, 1983).

W. Lewis, Economic Survey 1919-1939, (London, 1949).

W. Louis, 'Growth and Fluctuations 1870-1913', (London, 1913);
- 'International Competition in Manufactures', AER, XLVII, (1975).

W. Louis, (ed.) Imperialism, the Robinson and Gallagher Controversy, (New York, 1975).

K. Luck, Die Entwicklung der englischen, deutschen und nordamerikanischen Bankinteressen in Südamerika, (Phd Berlin, 1939).

F. Lutge, Deutsche Sozial und Wirtschaftgeschichte, (Berlin, 1960).

N. Vilela Luz, A Luta pela industrializacao do Brasil 1808-1930, (São Paulo, 1961).

A. Maizels, Growth and Trade, an abbreviated version, (Cambridge, 1970).

A. Manchester, British Pre-eminence in Brazil, its Rise and Decline, (North Carolina, 1933).

L. Marco, (ed.), International Economics and Development, Essays in honour of Raul Prebisch, (New York, 1972).

P. Mathias and M. Poston, (eds.) The Cambridge Economic History of Europe Vol. VII, (Cambridge, 1978).

B. Matthew, 'The Imperialism of free trade, Peru 1828-70' EHR, XXI, (1968);
- The House of Gibbs and the Peruvian Guano Monopoly, (London, 1981).

R. Mattoon, 'Railroads, Coffee and the Growth of big business in São Paulo'. HAHR, LVII, (1977).

C. Maude, Antony Gibbs & Sons Ltd. Merchants and Bankers 1808-1958, (London, 1958).

J. Mayo, 'Before the Nitrate Era, British Commission Houses and the Chilean Economy 1851-80', JLAS, XI, (1974).

C. McGuire and H. Moulton, Germany's Capacity to Pay, (New York, 1923).

D. McLean, 'Finance and Informal Empire before the First World War', EHR, XXIX, (1976).

D. McCloskey, (ed.), Essays on a mature Economy, Britain after 1840, (London, 1971);
- Enterprise and Trade in Victorian Britain, Essays in Historical Economics, (London, 1981).

J. Melby, 'Rubber River, an Account of the Rise and Fall of the Amazon Boom', HAHR, XXII, (1942).

Dr. C. Melchior, 'Deutsche Kapitalinteressen im Ausland', Bankarchiv, 15. May 1914.

Ministry of Foreign Affairs, Brazil 1933, (Rio de Janeiro, 1934).

B. Mitchell, European historical Statistics 1750-1975, (London, 1975).

B. Mitchell and P. Deane, Abstract of British Historical Statistics, (Cambridge, 1962).

W. Mommsen, Der Europaische Imperialismus, (Stuttgart, 1971);
- (ed.) Der Moderne Imperialismus, (Stuttgart, 1971)
- Imperialismustheorien, ein Überblick uber die neueren Imperialismusinterpretationen, (Göttingen, 1980).

W. Mommsen and J. Osterhammel, (eds.), Imperialism and after, Continuities and Discontinuities, (London, 1986).

P. Moon, Imperialism and World Politics (New York, 1926).

D. Netto, 'Foundations for the Analysis of the Brazilian Coffee Problems' in I.B.C., (ed.), Essays on Coffee and Development.

H. Neuburger, 'The Industrial Politics of the Kreditbanken', BHR, LI, (1977).

H. Neuburger and H. Stokes, 'German Banks and German Growth 1883-1913', JEH, XXXIV, (1977).

S. Nicholas, 'The Overseas Marketing Performance of British Industry 1870-1914', EHR, XXXVII, (1984);
- 'British Multinational Investment before 1939', JEEH, II, (1982);
- 'Agency Contracts, Institutional Modes and the Transition to foreign direct Investment by British manufacturing Multinationals before 1939', JEH, XLIII, (1983).

J. Normano, Brazil: A Study of Economic Types, (Chapel Hill, 1935).

H. Nussbaum, Wirtschaft und Staat in Deutschland vom Ende des 19 Jahrhunderts, (Vaduz, 1978).

K. Oberacker, Der deutsche Beitrag zum Aufbau der brasilianischen Nation, (São Paulo, 1955).

C. Oberacker, 'Karl v. Koseritz, ein deutscher als brasilianischer Politiker', Staden Jahrbuch, Vol. 7/8, (1959/60).

J. O'Connor, 'The meaning of Economic Imperialism', in K. Fann and D. Hodges, (eds.), Readings in US Imperialism.

A. Okochi and T. Inoue, (eds.), Overseas Business Activities, (Tokyo, 1984).

T. Orsagh, 'Progress in Iron and Steel 1870-1913', Comparative Studies in Society and History, (1961).

R. Owen and R. Sutcliffe, (eds.), Studies in the Theory of Imperialism, (London, 1972).

Sir. G. Paish, 'The Export of Capital and the Cost of Living' The Statist, 14 Feb. 1914.

C. Pelaez, 'An Economic Analysis of the Brazilian Coffee Support Programme, Theory, Policy and Measurement', in IBC, Essays on Coffee and Development;

- 'The Establishment of banking Institutions in a backward economy, Brazil 1800-1851', BHR, XLIX, (1975);
- 'The Theory and Reality of Imperialism in the Coffee Economy of 19th Century Brazil', EHR, XXIX, (1976).

D. Petzina, 'Staatliche Ausgaben und deren Umverteilungswirkungen, das Beispiel der Industrie und Agrarsubventionen in der Weimarer Republik', in F. Blaich, (ed.), Staatliche Umverteilungspolitik in historischer Perspektive, (Berlin, 1980)

- Die deutsche Wirtschaft in der Zwischenkriegszeit, (Berlin, 1965).

D. Platt, 'British Diplomacy in Latin America since the Emancipation', IAEA, XXIII, (1969);

- 'Problems in the Interpretation of foreign trade statistics before 1914', JLAS, III, (1971);
- 'Economic Factors in British Policy during the new Imperialism', Past and Present, No. 39, (1968);
- 'The Imperialism of free trade, some reservations', EHR, XXI, (1968);
- 'Further objections to an Imperialism of Free Trade', EHR, XXVI, (1973);
- 'Dependency in 19th Century Latin America', LARR, XV, (1980);
- 'British Portfolio Investment overseas before 1870, some doubts', EHR, XXXIII, (1980);

- 'The Allied coercion of Venezuela 1901-3, a Reassessment', IAEA, XV, (1961);

- 'Economic Imperialism and the Businessman, Britain and Latin America before 1914', in Owen and Sutcliffe (eds.), Studies in the Theory of Imperialism;

- 'The Anatomy of Autonomy', LARR, XV, (1980);

- Finance Trade and Politics, British Foreign Policy 1815-1914, (Oxford, 1968);

- Latin America and British Trade 1806-1914, (Edinburgh, 1972);

- Business Imperialism 1840-1930: An Enquiry based on British Experience in Latin America, (Oxford, 1977);

- Britain's Investment overseas on the eve of the First World War, (London, 1986).

M. Pohl, Deutscher Kapitalexport im 19. Jahrhundert, (Frankfurt, 1977).

M. and H. Pohl, Deutsche Bankengeschichte, Vol. II, (Frankfurt, 1982).

S. Pollard, Peaceful Conquest, the Industrialisation of Europe 1760-1970, (Oxford, 1981).

- The Development of the British Economy 1914-67, (London, 1969).

- 'Capital Exports 1870-1914: Harmful or Beneficial?', EHR, XXXVIII, (1985).

R. Pope and B. Hoyle, British Economic Performance 1880-1980, (London, 1985).

P. Prebisch, 'The Economic Development of Latin America and its principal problems', Economic Bulletin for Latin America, U.N., VII, (1962).

J. Pruser, Die Handelsverträge der Hansestadte Lübeck Bremen und Hamburg mit Überseeischen Staaten im 19. Jahrhundert, (Bremen, 1962).

B. Radcliffe, (ed.), Great Britain and her World 1870-1914, (Manchester, 1975).

Graf E. zu Rebenstow, Deutschlands auswärtige Politik 1888-1904, (Berlin, 1915).

G. Rees, Britain's Commodity Markets, (London, 1972).

Reichsmarineamt, Entwicklung der deutschen Seeinteressen, (Berlin, 1905).

E. Riding, 'Business, Nationality and Dependency in late 19th Century Brazil', JLAS, XIV, (1982);
- 'Interest Groups and Development, the Case of Brazil in the 19th Century', JLAS, IX, (1977);
- 'Foreign Predominance among Overseas Traders in 19th Century Latin America', LARR, XX, (1985).

J. Riesser, Die deutschen Grossbanken und ihre Konzentration, (Jena, 1910);
- Abridged English Version, The Great German Banks, US National Monetary Commission, Senate Documents, Vol. XXXXIII, (1911).

J. Rippy, German Investments in Latin America, Journal of Business of the University of Chicago, XXI, (1948);
- 'A Century and a quarter of British Investment s in Brazil', IAEA, V, (1952);
- British Investments in Latin America 1822-1949, a Case Study in the Operations of Private Enterprise in Retarded Regions, (Minneapolis, 1955).

R. Robson, The Cotton Industry in Britain, (London, 1957).

C. Rockwood, Management, Industry and Trade in Cotton Textiles, (New Haven, 1965).

T. Roehl, 'A Transaction Cost Approach to International Trading Structures, the Case of the Japanese General Trading Companies', Hitotsubushi Journal of Economics, XXIV, (1983).

N. Rosenberg, Inside the Black Box, Technology and Economics, (Cambridge, 1982).

Royal Institute of International Affairs, The Problem of International Investment, (Oxford, 1937).

C. Sabel and J. Zeitlin, 'Historical Alternatives to Mass Production: Politics, Markets and Technology in 19th Century Industrialisation'. Past and Present, No. 108, (1985).

Salings Börsenjahrbuch, 1929, (Berlin, 1930).

The Stock Exchange Official Intelligence 1914, (London, 1914);
The Stock Exchange Official Intelligence 1929, (London, 1929).

L. Sandberg, 'American Rings and English Mules, the Role of Economic Rationality', QJE, LXXXIII, (1969).

M. de Guia Santos, Aussenhandel und industrielle Entwicklung Brasiliens unter besonderer Berucksichigung der Beziehungen zu Deutschland 1889-1914, (München, 1984).

S. Saul, Studies in British Overseas Trade, (Liverpool, 1960);
- Industrialization und Deindustrialization The Interaction of the German and British Economies before the First World War, (London, 1979).

S. Saul and A. Milward, The Economic Development of Continental Europe, (London, 1977).

G. Saxonhouse and G. Wright, 'New Evidence on the Stubborn English Mule and the Cotton Industry 1878-1920', EHR, XXXVII, (1984).

S. Schilder, Die auswärtigen Kapitalanlagen, (Berlin, 1918).

W. Schlote, British Overseas Trade from 1700 to the 1930s, (Oxford, 1952).

P. Schramm, Kaufleute zu haus und Ubersee, (Hamburg 1949);
- Deutschland und Übersee, (Braunschweig, 1950).

W. Schuck, Organization und Betrieb des brasilianischen Importhandels, (Stuttgart, 1926).

H. Schuler, Brasilien ein Land der Zukunft, (Stuttgart, 1912).

S. Silva, Expansão Cafeteira e Origins da Industria no Brasil, (São Paulo, 1976).

B. Simonsen, A Evolucao Industrial do Brasil e Outros Estudos, (São Paulo, 1973).

J. Smith, 'Britain and the Brazilian Naval Revolt 1893-4', JLAS, II, (1970).

P. Sokoli, Die Handelsbeziehungen Brasiliens mit den europaischen Landern seit den 1870 Jahren, (Phd Köln, 1926).

S. and B. Stein, The Colonial Heritage of Latin America: Essays on Economic Dependence in perspective, (New York, 1972).

G. Stolper, Deutsche Wirtschaft seit 1870, (Tübingen, 1964).

I. Stone, 'British long term investment in Latin America 1865-1913', BHR, XLVII, (1968);
- 'British direct and Portfolio Investment in Latin America before 1914, JEH, XXXVII, (1977).

J. Stopford, 'The Origins of British based Multinational Manufacturing Enterprise, BHR, XLVIII, (1978).

Statistisches Reichsamt, Vierteljahreshefte zur Statistik des deutschen Reiches, Vol. II, (1914), Vol. III, (1935); Der Auswartige Handel, (Berlin, 1929).

W. Steinmetz, Die deutschen Grossbanken im Dienste des Kapitalexportes, (Luxembourg, 1913).

J. Strachey, The End of the Empire, (London, 1959).

O. Sunkel, 'Big Business and Dependencia', Foreign Affairs, LIII, (1971).

W. Suzigan, Investment in the Manufacturing Industries in Brazil 1869-1939, LSE Brazil Workshop, 9 Dec. 1983;

\- Investment in the Manufacturing Industry in Brazil 1869-1939, (Phd London, 1984).

W. Suzigan and A. Villela, Government Policy and the Economic Growth of Brazil 1889-1945, (Rio de Janeiro, 1925).

P. Svedberg, 'The Portfolio - Direct Composition of Private Foreign Investment revisited', EJ, LXXXVIII, (1978).

P. Temin, 'The German Business Cycle in the 1920s, A Comment and Reply', EHR, XXX, (1977).

R. Thorpe, (ed.), Latin America in the 1930s, the Role of the Periphery in World Crisis, (Oxford, 1984).

R. Tilly, 'German Banking 1850-1914, Development Assistance for the Strong', JEEH, XV, (1986)

\- 'Capital Formation in Germany in the 19th Century', in Mathias and Poston, (eds.), The Cambridge Economic History.

S. Topic, 'The Evolution of the Economic Role of the Brazilian State 1889-1930', JLAS, II, (1979);

\- 'The State's Contribution to the Development of Brazil's Internal Economy 1850-1930', HAHR, LXV, (1985).

US Bureau of Foreign and Domestic Commerce, Banking Opportunities in Latin America, Special Agent Series, No. 106, (Washington, 1915);

\- Banking and Credit in Argentina, Brazil, Chile and Peru, Special Agent Series, No. 90, (Washington, 1914);

\- Foreign Credits, Special Agent Series, No. 62, (Washington, 1913);

\- Investments in Latin America, Special Agent Series, No. 169, (Washington, 1918);

\- German Foreign Trade Organisations, Miscellaneous Series, No. 57, (Washington, 1917);

\- Selling in Foreign Markets, Miscellaneous Series, No. 81, (Washington, 1919).

UN Department of Economic and Social Affairs, International Capital Movements during the Inter-War Period, (New York, 1949).

UN Economic Commission for Latin America, Foreign Capital in Latin America, (New York, 1955).

F. Versiani, Industrial Investment in an Export Economy, the Brazilian Experience before 1914, (London, 1979);
- 'Before the Depression, Brazilian Industry in the 1920s, in R. Thorpe, (ed.), Latin America in the 1930s.

J. Viner, 'Political Aspects of International Finance', Journal of Business, I, (1928).

R. Wagenfuhr, 'Die Bedeutung des Aussenmarktes', Sonderhefte des Instituts fur Konfunkturforschung, No. 41, (Berlin, 1936).

P. Walne, A Guide to Manuscript Sources for the History of Latin America, (London, 1973).

B. Warren, Imperialism, Pioneer of Capitalism, (London, 1980).

H. Wehler, (ed.), Imperialism, (Koln, 1970)
- 'Industrial Growth and early German Imperialism', in Owen and Sutcliffe, (eds.), Studies in the Theory of Imperialism;
- 'German Imperialism: Robinson and Gallagher and Bismark's Colonial Policy', in Louis, (ed.), Imperialism.

J. Wendler, Deutsche Elektroindustrie in Lateinamerika, Siemens und AEG 1890-1914, (Stuttgart, 1982).

B. Weinstein, The Amazon Rubber Boom 1850-1920, (Stanford, 1983).

M. Prinzessin zu Wied, Das Auslandskapital in Sudamerika, (Phd Berlin, 1937).

E. Williamson, Made in Germany, (London, 1896).

E. Wiskeman, Hamburg und die Welthandelspolitik, (Hamburg, 1920).

W. Woodruff, Impact of Western Man, A Study of Europe's Role in the World Economy 1750-1960, (New York, 1961).

F. Wurm, Wirtschaft und Gesellschaft in Deutschland 1848-1948, (Opladen, 1969).

O. Wurmser, Die Frankfurter Borse, (Tübingen, 1919).

K. Wyneken, Die Entwicklung der Handelsbeziehungen zwischen Deutschland und Brasilien, (Köln, 1958).

A. Youngson, The British Economy 1920-57, (Harvard, 1960).

A. Zimmerman, Wiederaufbau und Förderung des deutschen Aussenhandels, (Berlin, 1920).

S. Zimmerman, Theodor Wille 1844-1969, (Hamburg, 1969).

APPENDIX I

German/British Foreign Trade at current prices

	Germany		(£'m)	Britain	
	Imports	Exports		Imports	Domestic Exports
1900	283	226		523	291
1913	527	495		769	525
1925	609	455		1,321	773
1928	683	590		1,196	724

Source: B.R. Mitchell, European Historical Statistics 1750-1975, (London,1980), pp. 514 and 517.

APPENDIX II

Exports at 1913 prices and destinations

(US$'m)

Britain

	Industrialised Countries		Share	Semi-Indust. countries		Share of total	Total	
	Manuf.	Total	%	Manuf.	Total	%	Manuf.	Total
1899	479	643	40	477	528	32	1,327	1.622
1913	624	970	38	810	728	36	1,960	2.558
1929	537	751	33	713	785	34	1,821	2.277

Germany

1899	437	691	62	75	84	7	782	1.121
1913	925	1.285	53	227	238	10	1,726	2.405
1929	981	1.302	55	240	259	11	1,847	2.374

Source: A. Maizels, Growth and Trade, (Cambridge, 1970), pp. 272 and 276.

APPENDIX III

Real Growth of Exports

(%)

1899/1913	Industrialised Countries	Semi-Industrialised Countries	Total
Britain	51	75	58
Germany	88	183	114
1913/1929			
Britain	-22	-15	-11
Germany	1.3	8.8	-1.3

Source: A. Maizels, Growth and Trade, (Cambridge, 1970), pp. 272 and 276.

APPENDIX IV - BRAZILIAN IMPORTS AND MARKET SHARE (STG 000's)

YEAR	TOTAL	USA	%	BRITAIN	%	GERMANY	%
1901	21.38	2.66	12.4	6.71	31.4	2.01	9.4
1902	23.28	2.85	12.2	6.55	28.1	2.66	11.4
1903	24.21	2.73	11.3	6.86	28.3	2.98	12.3
1904	25.92	2.88	11.1	7.19	27.7	3.29	12.7
1905	29.83	3.08	10.3	7.93	26.6	3.98	13.3
1906	33.20	3.81	11.5	9.29	28.0	4.87	14.7
1907	40.53	5.17	12.8	12.16	30.0	6.22	15.3
1908	35.49	4.30	12.1	10.22	28.8	5.27	14.9
1909	37.14	4.60	12.4	9.96	26.8	5.78	15.6
1910	47.87	6.13	12.8	13.68	28.6	7.61	15.9
1911	52.82	7.04	13.3	15.34	29.1	8.87	16.8
1912	63.43	9.99	15.6	15.97	25.2	10.91	17.2
1913	67.17	10.55	15.7	16.44	24.5	11.74	17.5
1914	35.47	6.22	17.5	8.44	23.8	5.72	16.1
1915	30.09	9.65	32.1	6.60	21.9	.46	1.5
1916	40.37	15.84	39.2	8.23	20.4	.17	.0
1917	44.51	21.06	47.3	7.98	17.9	.48	.0
1918	52.82	18.98	35.9	10.78	20.4	.00	.0
1919	78.18	37.41	47.8	12.74	16.3	.20	.3
1920	125.00	51.94	41.6	27.20	21.8	5.87	4.7
1921	60.47	19.15	31.7	12.34	20.4	4.86	8.0
1922	48.64	11.10	22.8	12.54	25.8	4.31	8.9
1923	50.54	11.24	22.2	13.43	26.6	5.27	10.4
1924	68.34	16.54	24.2	16.35	23.9	8.32	12.2
1925	84.44	20.77	24.6	18.77	22.2	11.77	13.9
1926	79.88	23.31	29.2	15.21	19.0	10.13	12.7
1927	79.63	22.84	28.7	16.90	21.2	8.47	10.6
1928	90.67	24.09	26.6	19.52	21.5	11.30	12.5
1929	86.65	26.11	30.1	16.64	19.2	10.99	12.7

SOURCE;INSTITUTO BRASILEIRO DE GEOGRAFIA E ESTATISTICA;
ANUARIO ESTATISTICA DO BRASIL;[RIO DE JANEIRO;1939]
PP1361 1366 1368 1369

APPENDIX IVa BRAZILIAN EXPORTS AND MARKET SHARE (STG 000's)

YEAR	TOTAL	USA	%	BRITAIN	%	GERMANY	%
1901	40.62	17.46	43.0	5.26	13.0	6.01	14.8
1902	36.44	13.48	37.0	6.32	17.4	5.76	15.8
1903	36.88	15.20	41.2	7.13	19.3	5.47	14.8
1904	39.43	19.87	50.4	6.37	16.2	5.49	13.9
1905	44.64	18.36	41.1	8.21	18.4	6.75	15.1
1906	53.06	18.63	35.1	8.54	16.1	9.43	17.6
1907	54.18	17.43	32.2	8.66	16.0	9.27	17.1
1908	44.15	17.71	40.1	6.52	14.8	6.96	15.8
1909	63.72	25.59	40.1	10.29	16.2	9.94	15.6
1910	63.09	22.86	36.2	14.58	23.1	7.47	11.8
1911	66.84	23.81	35.6	10.04	15.0	9.70	14.5
1912	74.65	29.20	39.1	8.86	11.9	10.68	14.3
1913	65.45	21.10	32.2	8.62	13.2	9.16	14.0
1914	46.80	19.00	40.6	6.74	13.8	4.64	9.9
1915	53.95	22.15	41.0	6.47	12.0	.00	.0
1916	56.46	25.83	45.7	6.49	11.5	.00	.0
1917	63.03	28.00	44.4	7.81	12.4	.00	.0
1918	61.17	21.29	34.8	6.17	10.0	.00	.0
1919	130.08	54.08	41.6	9.48	7.3	.70	.5
1920	107.52	44.98	41.8	8.76	8.1	6.18	5.7
1921	58.58	21.66	37.0	4.07	6.9	5.57	9.5
1922	68.57	26.46	40.3	6.81	10.4	4.20	6.4
19[illegible]	73.18	30.29	41.4	5.12	7.0	4.14	5.6
1924	95.10	40.81	42.9	3.26	3.4	6.30	6.6
1925	102.87	46.47	45.2	5.18	5.0	6.87	6.7
1926	99.25	45.10	45.4	3.22	3.2	7.90	7.9
1927	88.69	40.98	46.2	3.02	3.4	9.21	10.4
1928	97.42	44.30	45.5	3.35	3.4	10.91	11.2
1929	94.83	40.03	42.2	6.17	6.3	8.31	8.8

SOURCE; INSTITUTO BRASILEIRO DE GEOGRAFIA ESTATISTICA;
ANUARIO ESTATISTICA DO BRASIL;[RIO DE JANEIRO 1939];PP.1361 1366
1368 1369

APPENDIX V. IMPORTS OF RAW MATERIALS/MANUF. GOODS [STG-000]

	RAW MATERIALS				MANUF GOODS			
	GERMANY	USA	BRITAIN	TOTAL	GERMANY	USA	BRITAIN	TOTAL
1902	465	469	2,489	4,407	2,067	1,441	3,874	10,031
1906	864	557	3,578	6,411	3,884	2,623	5,564	16,509
1913	2,184	1,977	6,378	14,021	9,363	7,328	9,538	37,575

SOURCE, MINISTERIO DA FAZENDA, SERVICIO DE ESTATISTICA, COMERCIO EXTERIOR DO BRASIL 1902-1914

A.7

DEFINITION OF CATEGORIES USED IN APPENDICES VI, VII, VIII

	CLASSIFICATION NUMBERS
CHEMICALS/DRUGS	340-357
COTTON MANUF.	124-136
WOOLEN MANUF.	208-214
MACHINERY, CONSISTING OF	
LOCOMOTIVES	251
MOTORS/TRACTORS/FIXED ENGINES	252
SEWING MACHINES	263
INDUSTRIAL "	269
AGRICULTURAL "	270
TEXTILE "	265
UNENUMERATED	283
ELECTRICALS	257/259/260/261
IRON/STEEL MANUF.	173-195
PAPER PRODUCTS	308-319
GLASS/EARTHWARE	229-239
COAL	103

SOURCE/MINISTERIO DA FAZENDA/SERVICIO DE ESTATISTICA/COMERCIO EXTERIOR DO BRASIL 1901-1914
MINISTERIO DO TRABALHO/INDUSTRIA E COMERCIO/COMERCIO EXTERIOR DO BRASIL 1921-1929

APPENDIX VI COMPOSITION OF BRAZILIAN IMPORTS [STG-000's]

	1902 STG	1902 %	1906 STG	1906 %	1910 STG	1910 %	1913 STG	1913 %	1925 STG	1925 %	1929 STG	1929 %
CHEMICALS DRUGS	515	2.2	750	2.3	1,100	2.3	1,402	2.1	1,736	2.1	2,288	2.5
COTTON MANUF.	2,781	11.9	3,603	10.9	4,435	9.3	3,903	5.8	5,242	6.2	5,684	6.3
WOOLEN MANUF.	470	2.0	616	1.9	702	1.5	732	1.1	1,201	1.4	1,149	1.3
MACHINERY	876	3.8	1,439	4.3	2,867	6.0	4,243	6.3	6,842	8.1	5,303	5.9
ELECTRICALS	111	.5	290	.9	654	1.4	969	1.4	1,682	2.0	1,392	2.1
IRON STEEL MANUF.	1,401	6.0	2,967	8.9	4,927	10.3	8,022	11.9	6,347	7.5	7,222	8.0
PAPER PRODUCTS	544	2.4	713	2.1	1,037	2.2	1,504	2.2	2,006	2.4	1,871	2.1
GLASS/EARTHWARE	298	1.3	565	1.7	736	1.5	1,060	1.6	1,032	1.2	1,126	1.2
COAL	1,378	5.9	1,704	5.1	2,382	5.0	4,007	6.0	3,109	3.7	2,722	3.0

APPENDIX VII COMPOSITION OF GERMAN EXPORTS TO BRAZIL [STG-000,%]

	1902		1906		1910		1913		1925		1928	
	STG	%	STG	%	STG	%	STG	%	STG	%	STG	%
CHEMICALS/DRUGS	135	5.1	174	3.6	255	3.4	380	3.2	455	3.9	548	4.9
COTTON MANUF.	419	15.7	573	11.5	702	9.2	744	6.3	152	1.3	301	2.7
WOOLEN MANUF.	113	4.3	163	3.3	179	2.4	195	1.7	85	.7	129	1.1
MACHINERY	145	5.4	290	6.0	647	8.5	1,195	10.2	2,453	21.0	1,651	4.6
ELECTRICALS	22	.8	78	1.6	161	2.1	261	2.2	342	2.9	261	2.3
IRON/STEEL MANUF.	355	13.3	852	17.5	1,208	15.9	2,339	20.0	2,087	17.7	1,629	14.4
PAPER PRODUCTS	184	6.9	283	5.8	411	5.4	520	4.4	554	4.7	467	4.1
GLASS/EARTHWARE	106	4.0	217	4.5	294	3.9	381	3.3	284	2.4	422	3.7
COAL					N/A				--			

A.10

APPENDIX VIII COMPOSITION OF BRITISH EXPORTS TO BRAZIL [STG-000,%]

	1902		1906		1910		1913		1925		1928	
	STG	%	STG	%	STG	%	STG	%	STG	%	STG	%
CHEMICALS/DRUGS	140	2.1	192	2.1	270	2.0	327	2.0	471	2.5	581	3.0
COTTON MANUF.	1,727	26.4	2,155	23.3	2,805	20.5	2,127	13.3	3,927	20.9	3,693	18.9
WOOLEN MANUF.	218	3.3	295	3.2	336	2.4	389	2.4	744	4.0	684	3.5
MACHINERY	455	7.0	570	6.1	961	7.0	1,007	6.3	1,616	8.6	1,063	5.4
ELECTRICALS	11	.2	31	.3	120	.9	172	1.1	300	1.6	243	1.2
IRON/STEEL	651	9.9	1,032	6.1	1,538	11.3	2,009	12.6	1,406	7.5	1,736	9.2
PAPER PRODUCTS	35	.5	28	.3	43	.3	90	.6	148	.8	165	.9
GLASS EARTHWARE	69	1.1	142	1.5	180	1.3	284	1.3	313	1.7	257	1.3
COAL MANUF.	1,355	20.4	1,697	18.3	2,296	16.8	3,424	21.4	1,685	9.9	2,439	12.5

MANUF.

APPENDIX IX - Major Exports to Brazil & Origins (£'000)

		1910	1911	1912	1913	1914	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
Cotton Piece goods	G	29.34280	29.11460	15.33333	13.82611	7.267176	0	13.17452	10.52414	3.714655	7.928154	14.96747	19.19513	39.74889	38.81178	85.92887	54.93112
	UK	859.9853	827.2401	598.5333	454.4669	172.5802	854.5989	2319.793	855.2155	1045.033	1222.573	2036.565	2624.806	2189.968	2117.239	2645.461	1298.403
	USA	20.70074	11.96490	11.26667	7.178942	2.259542	41.01211	116.5253	14.25072	119.2326	101.9462	290.2204	217.7733	55.57704	118.0667	166.3998	55.66256
	Total	968.9824	968.2265	684.1333	515.8203	191.1450	910.0012	2609.096	1085.745	1379.205	1627.086	2743.079	3190.250	2587.754	2643.876	3566.478	1810.655
Wire	G	276.6798	364.3313	289.1333	228.6626	80.79389	75.78846	181.4354	132.0865	143.2190	166.6256	245.4912	269.3157	157.9245	156.9272	189.1613	181.2975
	UK	57.61372	68.59878	46.93333	22.40096	13.43511	17.56805	94.32714	41.82050	44.40593	71.24141	76.24750	52.20262	35.83111	50.57219	67.18980	86.57808
	USA	107.8582	181.4012	169.6667	29.71284	14.47328	647.4997	737.0421	200.3036	131.3432	179.2793	96.83086	50.50146	23.27594	19.36852	24.83862	33.40241
	Total	486.6350	697.7533	593.4667	317.1364	126.0458	716.3329	1153.823	403.7128	342.7863	465.2303	511.3431	452.2280	303.3589	385.7265	463.9570	518.3957
Iron Superstructure	G	155.4901	144.4430	252.0667	419.1704	79.38931	0	6.376707	53.72485	24.63324	20.40268	22.04300	53.04050	53.76216	77.35573	50.92899	27.35585
	UK	124.6734	90.13560	133.6	132.2122	55.75573	3.957309	58.35288	25.49947	29.25532	37.44597	39.90500	24.52710	35.61334	14.97443	14.38284	16.40363
	USA	40.53058	43.33954	40.53333	126.6286	12.21374	250.0300	253.6245	159.2768	72.34640	9.630243	32.80473	28.36105	53.07786	50.10957	57.53136	178.0812
	Total	530.9841	436.5860	638.4	934.9907	230.9008	257.4050	474.4029	393.7085	130.2235	107.6124	139.5562	166.4593	227.4553	279.0358	229.8307	451.5909
Rails. Railway acc.	G	142.3595	166.6445	276.8667	414.7168	45.98473	0	46.56179	126.6347	177.5938	53.50334	68.30608	263.5521	133.4980	34.18554	24.86317	26.57564
	UK	122.6636	199.7474	154.8	147.5671	34.25954	26.50198	146.9650	73.84148	36.45709	29.00271	58.73133	76.42503	148.0463	220.1607	294.5046	307.7891
	USA	182.6221	250.0665	385	402.0872	190.8397	391.1140	1439.331	649.1494	96.17272	35.77635	193.9586	136.1432	288.1795	373.6791	275.2164	302.4016
	Total	1334.026	1309.692	1933.333	2306.900	437.9847	436.3833	1773.807	2303.130	748.3564	523.4092	920.7838	1048.343	1337.776	1135.500	1172.741	943.7035
Tubes. Pipes Joinings	G	109.0641	153.8155	202.9333	309.6916	124.7023	.1798777	40.06497	84.60716	73.36242	74.44402	219.6630	237.0441	180.4171	91.01534	143.5093	170.5400
	UK	226.9140	212.7759	409.5333	331.6272	120.7939	135.0282	258.8582	142.2656	112.3297	119.9301	212.2412	129.0593	141.9173	122.3764	182.6151	191.8566
	USA	48.30174	64.87636	86.4	74.98006	36.82443	613.3829	530.2292	259.0318	245.0992	161.9673	173.9560	112.5302	161.7625	132.3585	186.1669	190.6620
	Total	459.3689	464.4376	818.4667	922.7599	506.4427	771.1356	900.1985	594.2169	523.2787	466.3053	862.5467	879.8731	811.9961	747.6017	1006.676	1002.607
Manuf. of Iron unen.	G	209.0172	271.6698	285.8	321.1247	96	3.597554	171.5094	56.55429	64.63662	104.4993	167.4625	210.4101	195.5015	204.4071	314.9937	269.2430
	UK	279.6275	352.4329	364.0667	371.3108	158.1069	281.8683	672.8027	290.2246	149.6235	314.5058	229.1136	134.1564	182.9758	183.0777	252.8253	180.0317
	USA	49.37362	71.98883	79.73333	84.21962	34.13740	492.3252	471.6357	207.2737	73.63137	107.8139	135.4989	208.1503	217.6966	321.3164	359.6937	379.0808
	Total	630.4683	808.5616	854.2667	924.0893	389.8626	856.0979	1443.602	619.5438	352.5879	611.1173	632.3446	708.8435	711.0470	852.9340	1037.507	1013.532
Wool Piece goods	G	116.2323	118.7849	111.4667	101.3028	53.22137	.1798777	13.41515	14.00918	9.562515	20.85060	26.05082	48.36867	66.53534	50.54785	75.77954	73.37541
	UK	310.1762	384.9375	408.6667	357.6177	135.3893	465.7033	1058.233	528.8637	319.7765	381.8504	465.2532	690.4405	551.0398	530.3498	620.7447	549.4038
	USA	.1339854	.0664717	.2	.3988301	.0610687	130.1715	105.0753	8.660847	5.836923	12.02661	7.718760	7.617113	4.790098	3.433163	.4172496	.7070584
	Total	570.0409	653.8819	642.3333	560.0239	208.7328	659.2517	1425.074	667.2648	407.8711	529.3493	687.9097	1042.503	884.3831	794.3263	971.9706	362.1968
Tools & Utensils	G	88.76532	128.4233	136.3333	147.7666	61.92366	6.835752	275.6145	133.0872	118.8740	198.6294	336.7804	378.6875	230.2222	164.5240	[illegible]	221.3580

A.11

Tools & Utensils	UK	252.7634	276.3228	316.7333	379.8192	182.4122	482.3720	930.8187	488.0439	471.2527	399.3640	539.7937	520.4266	290.0836	91.74580	77.82932	80.38522
	USA	111.6766	118.8514	143.1333	189.9096	64.42748	570.8118	717.6803	157.2738	174.3067	186.0361	298.3598	283.6867	210.7643	168.6389	228.0372	212.8977
	Total	507.2017	589.0721	682.2	814.7434	354.5649	1121.957	2111.873	879.4037	810.7220	860.0479	1366.743	1279.954	806.2837	481.4707	581.6950	573.7169
Machinery for light/ Electricity	G	180.8455	245.6129	283.4	161.9915	56.24427	.2997961	66.71479	76.32587	82.29239	133.3110	254.4222	182.1760	175.5378	176.8201	250.0081	270.1207
	UK	115.7829	175.1529	117.3333	138.5270	87.02290	66.91450	152.1733	141.6443	122.7289	101.8790	170.9260	167.0433	201.5114	172.6564	171.5141	137.8036
		309.8412	337.6097	424.5333	327.7719	142.0458	662.4895	673.3256	501.2249	234.7836	290.2849	355.5083	358.6899	506.9471	531.6046	636.7229	866.8780
	Total	653.9157	829.3701	991.1333	687.5831	335.3893	787.9242	960.0553	785.9977	586.3613	644.1239	869.4935	984.4611	1005.083	1063.525	1247.748	1684.012
Electric Motors	G	0	0	0	34.49880	13.37405	0	33.56103	34.21419	58.62994	101.2071	89.35949	71.70242	54.53572	50.83652	59.20035	71.33975
	UK	0	0	0	19.40973	6.305344	5.276412	0	27.94935	35.59049	49.36060	50.93835	99.55567	41.20675	34.72121	36.91432	42.31360
	USA	0	0	0	44.07073	20.51908	124.5953	112.6151	151.2025	34.51470	47.94955	57.07429	65.05015	71.23619	92.71975	88.43237	116.4696
	Total	0	0	0	122.7067	52.58015	142.9429	194.1838	310.4448	225.6455	246.8030	273.5459	311.8446	245.8124	243.7250	251.0861	329.2678
Spinning/ Weaving Machinery	G	0	0	0	33.16937	10.74809	1.259144	33.36182	60.69494	24.93207	36.23659	37.90109	97.90529	66.02005	55.66107	56.81958	72.94892
	UK	0	0	0	254.9854	52.27481	96.83415	204.3963	330.3374	374.7903	319.4329	496.5736	819.1951	436.1965	215.8997	217.6942	149.6526
	USA	0	0	0	.3968301	.3053435	45.62897	97.67596	30.67527	15.13049	28.08448	86.04438	121.5671	27.31249	29.65668	27.48938	10.39843
	Total	0	0	0	310.7551	69.98473	151.0973	364.7758	497.3258	445.5534	456.6079	674.6246	1132.741	571.8301	338.4466	351.2505	274.5093
Industrial Machinery	G	104.4416	170.6328	367.5333	257.1125	64.06107	4.976616	166.6366	154.7911	73.54172	145.7078	139.8765	267.2649	244.1463	177.6479	237.9304	287.2603
	UK	411.2682	504.2542	572.4	192.9673	82.22061	136.9469	347.7712	357.0615	143.6075	63.19556	266.2725	226.0251	213.2933	200.9252	157.0036	266.9024
	USA	28.13693	26.38926	47.53333	55.23797	32.73282	417.3762	621.4231	323.6258	56.30732	75.45184	287.3012	150.6157	116.5095	170.2703	128.5865	204.9006
	Total	625.0419	782.8370	1186.333	744.5493	241.0382	608.6461	1292.133	1124.116	301.4547	376.4305	256.9555	860.4037	735.4140	677.4934	707.6062	1177.374
Agricult. Machinery	G	20.90172	24.12922	36.86667	24.19569	5.801527	0	30.17712	23.67396	10.16017	12.67609	13.26043	23.13063	15.88766	12.00390	16.10093	21.45557
	UK	16.01125	17.48205	17.33333	14.22494	6.839695	8.154455	23.34115	10.07557	7.679395	6.270856	3.908859	8.175701	9.609949	6.856326	2.769835	3.437767
	USA	63.71006	80.49721	94.33333	47.06195	13.19084	166.1956	217.3307	41.47545	26.26703	29.47302	34.61072	51.69431	24.01000	12.72915	25.30476	30.54930
	Total	104.0397	127.2268	144.6	96.11005	27.08260	182.0962	297.4192	92.40537	48.88336	52.31636	60.29044	90.69443	55.10101	36.35257	52.77611	62.63582
Machinery unen.	G	301.3333	434.3924	463.4	520.1409	161.8321	1.578655	283.3833	278.0737	200.1255	399.1176	771.0349	1059.236	833.5434	686.9004	929.9021	751.0911
	UK	359.1479	463.5070	490.2667	448.7503	262.7176	185.5139	498.7633	412.8222	280.3690	230.7451	351.4757	411.2987	388.3848	390.2116	384.8263	400.8290
	USA	279.4265	464.9694	732.6	449.2821	188.0913	978.7145	1193.467	873.2306	451.7621	341.6721	496.6725	692.3448	779.6555	699.3861	754.9616	1037.323
	Total	1218.463	1664.983	2074.733	1764.092	881.7099	1311.068	2378.283	1919.119	1086.650	1171.844	1925.633	2631.865	2590.580	2308.132	2703.023	2836.237
Chemicals unen.	G	199.5043	216.7642	279	276.7661	127.8779	2.758124	192.5044	137.2837	216.4716	176.3902	281.7842	300.7744	312.1597	143.7737	186.1369	148.8967
	UK	156.5619	174.4882	198.2667	196.1579	123.6031	536.0355	687.7023	176.3400	213.2142	184.0048	229.7568	193.9336	188.4800	103.4246	122.6959	106.0588
	USA	89.83721	87.60966	87.13333	87.60988	63.57252	715.4335	610.5998	115.776	141.4356	109.2393	163.3062	147.1118	165.2138	124.3113	124.5613	87.30266
	Total	773.4977	866.5913	1011.2	1004.653	625.2214	2086.281	2327.922	926.3176	921.4673	824.0801	1049.201	1046.693	1116.539	703.3629	810.5441	659.8318

Appendix X

Brasilianische Bank für Deutschland
(Changed to Banco Brasileiro Alemao in 1924,)

	(marks m)							(milreis m)				
	1899	1902	1905	1906	1908	1910	1912	1925	1926	1927	1928	1929
Assets:												
Cash	24.38	15.80	18.05	16.98	11.98	41.14	20.54	19.63	18.75	16.94	19.98	13.76
Bills Receivable	17.46	10.66	27.02	26.18	27.55	40.38	48.06	31.00	37.20	34.36	46.85	28.54
Advances	10.51	8.74	16.25	20.55	21.86	32.20	53.34					
Debits in current a/c	4.55	4.66	3.26	7.72	10.54	16.70	14.31	42.55	38.05	35.25	37.43	40.69
Bills for collection								77.40	80.18	74.77	91.27	86.47
Total	61.36	43.95	68.39	76.28	76.83	138.02	144.97	347.24	332.27	339.44	389.03	364.26
Liabilities:												
Capital paid	10.00	10.00	10.00	10.00	10.00	10.00	10.00	20.00	20.00	20.00	20.00	20.00
Reserve fund	1.56	1.82	2.10	2.21	2.47	2.55	-					
Current & Deposit	47.91	30.62	53.56	60.75	60.43	121.21	129.38	51.69	63.58	60.57	75.35	59.46
Bills for collection								77.40	80.18	74.77	91.27	86.47
P & L	1.75	1.02	1.41	1.49	1.64	1.46	1.59					
Total	61.36	43.95	68.39	76.28	76.83	138.02	144.97	347.24	332.27	339.44	389.03	364.26

Appendix XI

Deutsche Überseeische Bank

	(£m)							(marks m)				
	1899	1902	1904	1906	1908	1910	1912	1924	1925	1926	1927	1928
Assets:												
Cash	0.91	1.14	1.23	1.47	2.49	2.22	2.50	62.81	44.19	55.03	63.29	38.74
Bills Receivable	1.45	1.24	2.22	3.47	3.67	4.52	6.83	127.10	153.71	153.05	150.14	166.21
Debits in current a/c/loans	1.17	1.54	2.38	4.23	4.25	5.15	5.50	154.72	189.74	178.03	212.37	242.45
Total	3.88	4.31	6.16	9.67	11.18	12.88	15.59	381.47	420.24	429.55	478.12	469.73
Liabilities:												
Capital paid	0.64	0.64	0.76	0.88	1.00	1.50	1.50	30.00	30.00	30.00	30.00	30.00
Reserves	0.05	0.08	0.10	0.12	0.17	0.34	0.41	12.00	12.20	12.45	12.70	13.00
Current & Deposit	3.11	3.47	5.04	8.28	9.34	10.57	13.08	314.71	349.41	356.40	403.92	418.74
P & L	0.07	0.07	0.08	0.12	0.16	0.17	0.19	2.41	2.84	2.83	2.89	-
Total	3.88	4.31	6.16	9.67	11.18	12.88	15.59	381.47	420.24	429.55	478.12	469.73

Appendix XII

Deutsch Südamerikanische Bank
(marks m)

	1910	1912	1924	1925	1926	1927	1928
Assets:							
Cash	16.37	24.65	34.86	43.99	63.94	52.66	51.68
Debits in current a/c	38.40	53.40	79.84	91.85	83.35	98.56	131.14
Bills Receivable	25.06	40.33	42.48	39.44	36.87	49.86	69.10
Advances			9.37	11.53	11.27	20.40	49.89
Total	82.33	126.43	183.71	207.82	220.95	249.42	334.00
Liabilities:							
Capital paid	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Reserve fund	0.22	0.60	1.00	2.00	3.20	3.60	4.00
Current & deposit a/c	61.06	98.69	156.00	163.00	176.03	198.41	278.46
P & L	0.96	1.29	1.27	1.50	0.50	1.47	1.83
Total	83.33	126.43	183.71	207.82	220.95	249.42	334.00

Appendix XIII

London and Brazilian Bank Ltd
(£ m)

	1900	1902	1904	1906	1908	1910	1912	1918	1921	1922	1923
Assets:											
Specie & Cash	1.65	3.49	2.12	2.75	2.50	3.92	3.84	4.36	10.35	10.36	8.48
Bills Receivable	2.53	2.77	2.65	3.48	2.86	3.98	3.79	1.95	2.11	2.13)	) 15.45
Bills discounted & loans	3.89	3.17	3.91	3.95	4.56	5.49	8.03	8.12	15.40	15.06)	
Bills for collection	1.19	1.33	1.45	1.69	2.17	2.25	4.25	3.29	9.58	6.95	-
Total	9.43	10.95	10.32	12.05	12.25	15.79	20.44	19.23	37.98	35.14	34.05
Liabilities:											
Paid up Capital	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.50	1.50	1.50
Reserve fund	0.60	0.60	0.60	0.65	0.91	1.00	1.00	1.40	1.50	1.50	1.50
Bills for collection	1.19	1.33	1.45	1.69	2.17	2.25	4.25	3.29	9.58	1.50	-
Deposit & current accounts	2.78	4.15	3.86	3.77	4.29	5.71	8.57	9.37	18.03	20.03	19.68
Bills payable	3.86	3.98	3.49	4.93	3.58	5.49	4.43	2.62	5.15	2.92	3.28
Profit & Loss	0.24	0.14	0.16	0.25	0.29	0.34	0.52	0.45	0.70	0.62	0.46
Total	9.43	10.95	10.32	12.05	12.25	15.79	20.44	19.23	37.98	35.14	34.05

Source: *Banker's Almanac*, (London, 1899-1929)

Appendix XIV

London and River Plate Bank

	1899	1902	1904	1906	1908	1910	1912	1917	1921	1922	1923	1924	1925	1926	1927	1928
	(£m)											BOLSA				
Assets:																
Cash	7.37	7.66	6.29	6.72	6.29	7.97	7.49	9.49	13.87	11.09	7.99	11.69	9.27	9.90	8.95	9.03
Bills Receivable & discounted + advances	14.05	15.06	17.25	19.43	17.54	22.97	24.22	23.84	26.18	25.91	28.34	52.99	54.28	44.54	40.03	38.63
Bills for collection	1.08	1.19	1.58	1.72	1.90	3.62	4.93	3.78	5.85	-	6.03					
Total	23.34	24.68	25.99	28.58	26.69	35.57	38.19	37.51	46.85	43.14	43.48	79.11	79.09	68.95	64.63	65.14
Liabilities:																
Capital paid	0.90	0.90	0.90	0.90	1.20	1.20	1.80	1.80	2.04	2.04	2.04	3.54	3.54	3.54	3.54	3.54
Reserve fund	1.00	1.00	1.00	1.00	1.20	1.30	2.00	2.00	2.10	2.10	2.10	3.60	3.60	3.60	3.00	3.00
Bills for collection	1.08	1.19	1.58	1.58	1.90	3.62	4.93	3.78	5.85	-	6.03					
Deposit & current a/c	19.46	20.82	21.68	24.10	21.25	28.11	21.63	24.37	30.69	27.58	24.90	45.02	46.36	40.38	37.25	38.73
P & L	0.24	0.19	0.16	0.32	0.35	0.52	0.75	0.45	0.59	0.30	0.30	0.72			0.51	
Total	23.34	24.68	25.99	28.58	26.69	35.57	38.19	37.51	46.85	43.14	43.48	79.11	79.09	68.95	64.63	65.14

Appendix XV

British Bank of South America

(£ m)

	1899	1902	1904	1906	1908	1910	1912	1917	1921	1922	1923	1924	1925	1926	1927	1928
Assets:																
Cash	0.80	0.81	0.98	1.89	1.99	2.70	3.62	3.87	5.50	5.23	3.88	3.05	4.42	3.65	2.40	2.41
Bills Receivable	5.07	4.58	5.43	8.08	9.19	13.21	16.20	4.48	5.62	5.57	5.21	7.75	6.29	6.20	3.03	1.82
Bills for collection									3.83	3.15	2.55	3.92	5.20	3.83	3.62	1.95
Total	6.00	5.52	6.55	10.10	11.30	16.06	20.00	15.61	23.29	22.04	19.80	24.18	26.63	23.82	17.24	11.60
Liabilities:																
Capital paid	0.50	0.50	0.50	0.50	0.65	0.65	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Reserve fund	0.34	0.32	0.34	0.42	0.60	0.70	1.10	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Deposit & current a/c	5.12	4.67	5.65	9.08	9.92	14.58	17.58	9.17	12.30	11.49	9.60	10.39	11.47	11.28	5.93	5.35
Bills for collection									3.83	3.15	2.55	3.92	5.20	3.83	3.62	1.95
P & L									0.17	0.15	0.15	0.16	0.16	0.16	0.16	0.16
Total	6.00	5.52	6.55	10.10	11.30	16.06	20.00	15.61	23.29	22.04	19.80	24.18	26.63	23.82	17.24	11.60

Note: Figures for 1927/28 only account for the Brazilian branches i.e. the number of branches included fell from 20 to 7.
Source X - XV Bankers Almanac, (London 1899 - 1929).