BOOK REVIEW

United States Manufacturing Investment in Brazil. By Lincoln Gordon and Engelbert L. Grommers. Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1962 [177 pp.].

This interesting study of American manufacturing concerns operating in Brazil is the first part of a series being undertaken by the Harvard Center for International Affairs designed to study the effects of the government policy on business. To be included in the series later on are Burma, Iran, Mexico, Pakistan, and probably other countries. The interviews were conducted with upper level management of American companies comprising the large investors in manufacturing in Brazil. Appended to the book is the interview outline which should be helpful to those interested in studies of business behavior using the interview method.

Brazil provides an interesting case study of the effects of economic policy on foreign direct investment. It has traditionally been open to foreign direct investment in many types of economic activities. American direct investments in Brazil have in turn come in generously. In 1929, American investments amounted to about ₱200 million, and in 1960, almost one billion dollars. While in 1929 only about one-fourth of the American investments was in manufacturing, by 1960 this proportion was a little over one-half of total investments. The postwar period was marked by direct inducements to promote industrialization, with foreign investments playing an important role. These were essentially policies of attraction for certain specified fields. These policy inducements took effect while chronic domestic inflation was under way—an increase in the price level of about 17 per cent per annum *compounded* from 1945 to 1960!

There is much to make Brazil's experience different from an underdeveloped economy in a process of change. It is certainly different from what one might consider characteristic of the Philippine economy with the latter's high population density, nationalistic policies restrictive to foreign participation, and relatively mild inflation. Yet the impact of policy on foreign investment behavior especially in direct manufacturing is an interesting matter for industrial development.

Gordon and Grommers find that American investors were guided mainly by profitability in their decision to go into direct manufacturing. To American investors, the market for manufactures in Brazil was sufficiently attractive and the government's policy of import substitution offered no other course of profitable long-run action except to engage in manufacturing. They, therefore, sought to maintain or secure a market position. Foreign companies were directly induced from importing into assembly, or from assembly to full-fledged manufacturing.

I shall mention only a few specific policies discussed in the book to which American (and presumably all other) investors in Brazil displayed a positive response. Gordon and Grommers think that the most important of these is special tariff protection applying to goods produced within Brazil. Any company could seek protection for a commodity which received heretofore some form of tariff concessions. If approved, all tariff concessions were abolished, thus protecting the producer's initial market. Foreign investors felt the psychological impact of these incentives. At least these seemed to have been foremost in a majority of business decisions to engage in manufacturing. Fears of exclusion from a profitable market made companies move from importing into some form of manufacturing. Where tariff protection did not serve as sufficient inducement, the fear of potential competitors and the attractions provided by other policies helped significantly in the investment decision to go into manufacturing.

Special treatment of certain classes of machinery imports in 1955, and subsequently during the period of exchange controls, appeared to have provided strong incentives for some time. A system of importing equipment was devised so that firms could make foreign exchange savings by not requiring them to purchase foreign exchange in the foreign exchange market. This was done by allowing foreign investors to accept payment for machinery through the assumption of capital participation in Brazilian currency instead of deferred debt. Coupled with advantageous tax treatment for this type of machinery, investors took the initiative by using the full advantages awarded by this policy.

The program designed to promote domestic manufacturing of automobiles is probably the most interesting part of this book. Assembly of "knocked-down" imported car parts existed in Brazil even prior to the Second World War. The transformation from assembly to full scale manufacturing was achieved in less than a decade. Automotive companies were made to make firm commitments for the progressive substitution of imports by Brazilian-made components. There were, of course, specific plans for the replacement of such imports. Supported by the two policies already cited and by a more specific policy affecting automobile manufacturing, the program was able to transform the character of the manufacturing sector. The technological development in manufacturing led to a complex of new industries, such as the assembly and production of refrigerators and the establishment of some machine tooling industry *à la backward linkage.*

As a last item, it might be worth pointing out the policy of the Brazilian government in promoting joint ventures. American companies appeared not too responsive to the scheme. They thought that joint ventures brought about complications in top level management decision-making. But some of them yielded to nationalistic vent, although reluctantly.

The experience of Brazil paints a new picture of foreign investments in developing economies. In the past, much discussion has been made of how natural resource-oriented foreign investments in underdeveloped countries have been. Brazil is probably not a good picture of an underdeveloped country, but neither is it an industrialized economy in the sense of, say, Canada. Its case demonstrates that a developing country can encourage foreign investments in direct manufacturing. The increase in the supply of capital and technical skills and the external economies resulting from foreign investments are too well known even to mention here.

This study should be rewarding reading for any one interested in industrial development policy.

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