STATE ECONOMIC PLANNING AROUND TRANSNATIONAL CORPORATIONS IN A PERIOD OF GLOBALIZATION: THE CASE OF BRAZIL

by

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Dr. Henry Veltmeyer
Advisor

Dr. Anthony O'Malley
Second Reader

Dr. James Petras
External Reader

0-612-40357-2

ABSTRACT

This study depicts the economic and other legislative changes carried out by the state apparatus around transnational corporations in the context of globalization. It uses the case study of Brazil where there has been drastic changes in the involvement of the state in the development process. Brazil is representative of position that many countries in the developing world find themselves in. There is a need for economic and other policy reforms in order to attract global capital. In some respects this has meant a reduction of the state in the economy, as the state has to deal with an increasing complexity of interests set at the international level. Moreover, with the power and wealth that transnationals command, they have been placed in a position to further dictate the direction of future state macroeconomic planning. The issue raised and addressed in this thesis looks beyond the question of whether the role of the state has been curtailed in favor of global capital accumulation. It examines the question of whether the role of the state has been reduced or just transformed in a period of globalization.

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INTRODUCTION

Posing the Problem

In Brazil development has been strategically defined and pursued in terms of economic growth and production techniques with investment in technology geared towards increased output. This growth path has industrialized and diversified Brazil allowing it to compete in the global economy. In the context of this development, the state in its planning function and its economic policies has only been concerned with achieving economic growth. This narrow approach towards development has caused a number of problems, including the entrenchment of a high level of social inequalities in the distribution of wealth, productive resources and income.

The capitalist development of the economy in Brazil has resulted in a serious debt crisis and a sharp polarization of the people, many of them in opposition to the state. In 1995 it was estimated that Brazil's richest 20 percent earned 26 times the income of the poorest 20 percent, while the wealthiest 0.9 percent of landowners owned 44 percent of the land and 53 percent held just 2.7 percent.[1] Even though the government of President Cardoso in 1995 promised to take "the country into a period of economic growth tied to social justice,"[2] there has been a tendency to concentrate on economic growth and surplus

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[1] "Brazil: The Persisitence of Inequality," *NACLA Report On The Americas*. (Volume xxvii, Number 6, May/June 1995) p. 16.

accumulation which has increased the gaps between the rich and the poor. More importantly, this view of development has a direct effect on the role of the state in planning economic activity and regulating foreign investment.

As with any development initiative governments recognize the need for capital, technology, and the presence of the state. However, the concern here is not just how much of input the state should have, but the kind of planning that should take place. In the Brazilian case economic growth has been at the forefront in the numerous plans and policies like the first and second National Development Plans. At the same time, the Brazilian State has approached development too narrowly, benefiting some, a small majority, at the expense of the many. From the days of the military dictatorships in authoritarian Brazil to the present day democratic form of government, development in Brazil has been defined solely in terms of economic growth. However, many scholars and practitioners have identified serious shortcomings of a growth approach to development. Thus, they have revamped the way that development should be thought about and practiced. No longer is development viewed as an isolated phenomenon that takes place in a vacuum, nor is it restricted to economic and financial growth measured in terms of Gross Domestic Product (GDP).[3]

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[2] **Ibid., 16.**
[3] **See (UNDP, 1990).**

In the Brazilian context, growth-with-equity has been neglected. Instead the trend in Brazil has been one where state planning has attempted to bring about development defined solely in terms of economic growth. This is evident from the various economic plans introduced over the years. Moreover, Brazilian State planning over the years has revealed a tendency to make increasing accommodations to foreign capital.

On another level, state planning has changed somewhat over the years to deal with specific economic problems that have arisen and at the same time to achieve predetermined economic goals. In the 1980s and the 1990s the state has been concerned with structural adjustment and coming up with ways to control the runaway inflation that the country was experiencing. During this time there were stringent economic policies concerned with addressing debt adjustment. This focus began to change in the late 1980s and the early 1990s when it was realized that foreign direct investments, and the presence of foreign companies, were important to further the economic prosperity of the country. But even though it was argued that the major goal of state policy was to continue and accelerate the development process, the way the state defines and measures development has not changed.

In present day Brazil development is still seen and planned for in purely economic growth terms. Also the economy has been opened up to the world market and has become more deregulated and liberalized allowing transnational corporations (TNCs) to establish a stronghold in Brazil. Within this context, the sovereignty of the Brazilian state in implementing definitive state policies has been somewhat diminished. What we find is that policies of the state are being arranged and adjusted to meet the requirements of TNCs. The present government is fully aware of the grave disparities that exist in Brazilian society. However, it seems that the narrow way in which past governments approached development is not viewed as a factor or an obstacle. As a result, what we have is a situation where the state is not undertaking human development but development as it has been conceived by the current occupants of the state apparatus and the dominant class that endorses the process of capital accumulation and economic growth. The central idea introduced here is that the concept of development that is reflected in the Brazilian government Development Plans is problematic. In Brazil the dominant definition of development is in terms of structural changes needed to bring about an increase in output. As a result, state policies within the present context of globalization are constructed to favor and appease transnationals at the expense of the Brazilian people.

Historically, in Brazil the state has intervened in the economy at times to control and channel foreign investment as well as to regulate the operation of transnational corporations (TNCs) which facilitate the spread of global capital. During the 1960s and 1970s economic plans in Brazil outlined definitive spheres of state involvement in areas such as transportation, energy and telecommunications.[4] With the advent of globalization the Brazilian economy has become deregulated and liberalized. As a result the state has exerted less control in economic planning and the regulation of foreign investment. TNCs have been allowed to determine their own course of investment priorities in the economy. State intervention has become a phenomenon of the past. Policies and economic plans that are implemented in contemporary Brazil do not outline a role for state involvement in re-directing foreign investment or in regulating TNCs.

This leads us to question the way that the Brazilian government continues to define and approach development. Brazil's emphasis on economic growth and modernization has only resulted in a relatively low level of development as defined by the UNDP. In effect it continues to benefit production, if not only those sectors of the process of capital accumulation both at home and abroad. Moreover, it has meant a lack of state intervention in an economy that is increasingly faced with the pressures imposed by transnationals as well as the spread of globalization.

There is a lot of literature dealing with the issue of the nexus between state and corporate power, especially in the current context of globalization, which has seen not only the internationalization of capital but also the growth of

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[4] These were some of the areas outlined for the state in the Second National Development Plan 1975-1979.

a global production system and an international division of labor. Within the current period what we have is a drastic reduction in the ability of the state to institute not only development planning, but economic policy overall. The primary reason for this is that the state has to take into consideration the needs of foreign corporations operating within its boundaries.

This has given rise to serious obstacles to state intervention in the economy and development planning, even more so with the wave of liberalization policies that has swept over many developing countries of the world over the past two decades. Even though the decisions are still made by the state in terms of the policies to be implemented, we should bear in mind and study the effects of globalization and corporate power on the type of state planning that is undertaken. The debate within the literature on this issue is essentially concerned with the amount of state intervention that should occur as well as the role of the state in the development process. Also, there is the question of corporate power, with reference to the position and the role of transnationals as an opponent of the state and state policies. At issue here is the impact that transnationals have on the development process, taking into consideration the economic, political and social conditions that prevail within the countries that they are established in.

Thesis Statement

The issue raised and addressed in this thesis goes beyond the question as to whether the role of the state has been curtailed in favor of global capital accumulation. This thesis will examine the question of whether the role of the state has been reduced or just transformed in this age of globalization. On this point I will argue that the role of the state has been restructured so as to increase its capacity to facilitate the global process of capital accumulation.

Within the context of globalization the state has been not so much reduced as it has changed in favor of and to the benefit of global capital. In certain respects the state has been downsized. It has certainly reduced its role based on ownership and control of the strategic sectors of the economy. A major program of privatizing state owned enterprises has brought an end to the state sector of the economy. The state's role in the implementation of social programs has also been curtailed, as has its regulatory apparatus. In these and other respects, the state has been restructured in favor of global capital organized in the form of transnationals. No doubt the occupants of the state apparatus, and the current regime, see the public interest and the development process as hinging on the partnership of government and the involvement of global capital --- the TNCs and the International Financial Institutions (IFIs).

A market led and friendly form of development is viewed by the current regime as essential to Brazil's development process. However, and this is the issue argued in this study, the changes made by the state and its development planning apparatus, reflects and is directly tied to the interests of transnationals. In effect the state has fallen hostage to the TNC, with its present capacity to pursue any policy independent of these interests, drastically reduced.

Theoretical Approach

The subject of the state and its relationship with transnationals has many diverse interpretations. From the perspective of Evans, what he calls "dependent development," there has been a tendency for the state to ally with foreign capital for the achievement of its growth objectives.[5] More mainstream approaches look at the state differently. The state is seen as needing to be restructured in response to transnationals and global capital. This is seen as necessary as to ensure that the necessary conditions for attracting foreign direct investment (FDI) are generated. In this context, FDI and the continued operation of transnationals are seen as important components in the growth model used to inform policy and direct strategic planning initiatives. In terms of the issues on this debate, this thesis is advanced and argued on the basis of several ideas derived from what could be loosely termed a 'dependency perspective.' The main ideas of this perspective, which can be formulated in terms of working ideas, are that:

1. The TNCs have managed to exert a disproportionate influence or pressure, on the Brazilian State, and as a result, over the development process.

[5] see (Peter Evans, 1979).

2. The state has been transformed so as to enhance its capacity to facilitate the global capital accumulation process.

3. The state in effect is a major mechanism of internal adjustment of the Brazilian economy to changes in the world economy.

4. The TNC has been the major agent for this adjustment process, as well as its greatest beneficiary.

5. The state has adopted policies, implemented legislation and institutional reforms in favor of interests that are embodied in the TNC.

6. The TNC has been a prime beneficiary of changes made in the operation of the state and its approach towards economic development.

Methodology

The thesis of this study will be argued on the basis of a case study of Brazil. It will examine changes in state planning and policies towards FDI and TNCs. To provide a context or this analysis chapter two will give a historical overview of state planning and other economic policies from the military regime in the mid 1940s to the current period of globalization in the late 1990s.

Data will be collected on the various state planning strategies as well as relevant legislation and specific economic policies to examine the role that was outlined for state intervention in the development process. In addition, data will be collected on state planning and other policies in the context of globalization where capital has become internationalized with a corresponding change in the role of the state in the development process and in the economy. This would provide information on the extent to which changes have occurred from the 1960s to the present. Moreover, government documents on strategic economic plans and their policies in relation to transnational corporations will be examined and the power of the Brazilian State to implement policy within the context of globalization will be undertaken.

Looking at the two development plans of the Brazilian government in the 1970s will do this examination of the state in relation to foreign capital. Also, the major economic plans that have been implemented since the 1980s, namely the Cruzado, Collor and Real plans will be briefly examined. In addition economic policies that have been implemented by the Brazilian State will also be examined. In order to ascertain whether the role of the state has been reduced or transformed in the context of globalization I will look at several indicators in order to analyze this change. Data on these indicators relate the role of the state with regards to the (1) privatization process, (2) the internationalization of trade and financial flows i.e. markets for foreign direct investment; (3) deregulation of economies and markets; and (4) the increased weight of FDI in the economy. Data on these indicators are derived from government documents, reports of the World Bank and other international organizations; and academic studies of the process. A secondary analysis of these data will be made.

The range of data to be looked at will come from government publications of the First National Development Plan (1972/74) and the Second National

Development Plan (1975-1979) by the Brazilian government. Also data on economic policies will be examined. In terms of indicators sources include investment reports which map changes in the Brazilian economy. Specific indicators to be looked at will be privatization, and financial reform. Secondary sources like the World Bank's economic evaluations, World Investment Report, reports from the Business Monitor International on Brazil and other academic works which review State plans and policies will be examined for relevant data. Specifically the economic policies in these plans and relevant performance criteria and indicators as they relate to the role of the state in relation to foreign investment and transnationals will be examined, as well as the role of the state.

Various scholarly work in academic Journals will also be examined. In the present period of globalization, newspaper articles will be looked at in order to ascertain the extent to which the state's role in economic development has been reduced. This will be seen in reports that highlight the plight of Brazilians and others in the international community on the spread of global capital with little or no restrictions by the state in Brazil.

Structure of the Argument

Chapter one

Chapter one will present briefly the debate between growth and development and the role of the state in this. This will give an indication of the problems inherent in Brazil's definition of development in terms of structural change to bring about growth and an increase in output. In addition, this chapter will outline the literature on the debate which exists on the role of the state in economic development planning. Literature from scholars who criticize the present state transnational relationship from a political economy perspective will be reviewed. The purpose of this review is to present the different positions on the debate. In this context it is argued that the role of the state has been restructured and transformed to meet the needs of global capital in a period of globalization.

Chapter two

This chapter will look at Brazilian State planning in a historical context from the 1940s to the early 1990s. Also it will examine shifts in state planning and policies towards a gradual reduction in state intervention in the economy in favor of deregulation and market liberalization where transnational corporations have been allowed increasing leeway in determining their own investment priorities.

Chapter three

Chapter three explores globalization as a new context for state planning in Brazil. It looks at the government of Henrique Fernando Cardoso from the mid to late 1990s and its economic policies during a period that has seen not only the continued deregulation and liberalization of the Brazilian economy, but also transnationals as the new agents for development. It represents an era where state intervention in the development process has almost disappeared.

Chapter four

This chapter will summarize the role of state economic planning in the development of Brazil. Some general conclusions on the role of the state and state economic planning in the current period of globalization will be made, as well as some recommendations.

Chapter One

LITERATURE REVIEW

1.1 The Growth- Development Debate

There has been recognition that there is not a necessary correlation between growth and development. A number of scholars have argued that development should be approached in terms of what the United Nations Development Program terms "human development." This entails an enhanced capacity on a greater part of the population to expand their horizons and to make choices in their lives. It also entails a reduction in the level of poverty and increased access to economic resources and social services such as education.[1] Others, like David Korten have argued that development should place people at the center.[2] In many respects the issue for some time has been the need for growth-with-equity, or in a more recent formulation, 'productive transformation with equity.'[3]

Contemporary development strategies have been formulated and pursued on the basis of, or with reference to, the realization that orthodox approaches have generally failed. There is continued unemployment, increased income inequality, and an increase in the number of the poor. The common criticism is that development strategies of the past have failed to "trickle down" to the poor

[1] see (UNDP 1990; 1996).
[2] See (Korten, 1995)

as it was intended to. The growth oriented theory of economic development "stresses that inequality of income is necessary to provide for incentives of development."[4] The argument here is that if individuals are allowed to seek profits, total income will be maximized in the process. The benefits of growth at the level of income, it is theorized, will eventually trickle down to the less fortunate in the society. The other alternative is that the "state would redistribute the benefits when society is rich enough so that incentives will not be drastically impaired."[5]

Adherents of growth-with-equity have argued that the trickle down approach has several inherent problems that make it ineffective.[6] They argue first of all, that there has been a problem in that a "country could not grow now and redistribute income later because of structures which develop with unequal growth."[7] Also they have argued that this assumption of the "trickle down effect" fails to take into consideration the increased urban migration that would come about as well as the retardation of key sectors of the economy like agriculture.[8]

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[3] see (CEPAL, 1990).
[4] Charles Wilber and Kenneth Jameson, "Paradigms of Economic Development and Beyond," in *Political Economy of Development and Underdevelopment*, 4th edition. Charles Wilber, (ed). (New York: McGraw Hill, 1988) 25.
[5]Ibid, 25.
[6] This argument centres around a 1970s debate; with more recent formulations its not just growth-with-equity, but the need for the state to redistrubute market generates incomes from a human development perspective. (see UNDP, 1996; Griffen and Brohman.)
[7] Wilber and Jameson, op. cit., 25.
[8] Ibid, 25

The end of the 1960s did not necessarily correlate economic growth with development objectives like employment creation, the reduction of poverty and inequalities, and the provision of basic needs.[9] In fact two important areas that proponents of growth with equity strive to address are the concepts of basic needs and the call for what is known as the New International Economic Order (NIEO).[10] Those who called for the NIEO (1974) argued for internal structural changes, which they saw as necessary. At the same time they believe that success would not be possible without a major reconstruction of international institutions like the international monetary system, the world system of trade and

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[9] Diana Hunt, *Economic Theories of Development: An Analysis of Competing Paradigms.* (London: Harvester, Wheatsheaf, 1989), 264. There have been several definitions of what constitutes basic needs. The Dag Hammerskjold Foundation produced a report in 1975 in which it placed priority on development programmes and policies that meet the basic needs of all, while at the same time seeking the elimination of absolute poverty. As such, the Foundation defined basic needs as "the minimum requirements of a family for personal consumption-food, shelter, clothing; access to essential services, such as safe drinking water, sanitation, transportation, health and education; availability of an adequate remunerated job for each person able and willing to work; and the satisfaction of needs of a more qualitative nature: a healthy, humane and satisfying environment, and popular participation in the making of decisions that affect the lives and livelihood of the people and individual freedoms.

[10] John Brohman, "Refocusing on Needs," in *Popular Development: Rethinking The Theory and Practice.* (Cambridge, Mass.: Blackwell, 1996) 205. The International Labour Organization (ILO) adopted the concept of basic needs in the 1970s and formally placed it on its agenda a 1976 ILO World Conference. At this conference a 'Declaration of Principles and a Program of Action for a basic need strategy of Development' was adopted by the participants. Although it focused on the basic needs of the poor it was not opposed to rapid growth in the modern sector; rather it sought to strike a balance approach to development, where there would be no trade offs. It may be argued that the 'basic needs' concept of the ILO placed equal emphasis on issues of redistribution and growth. In terms of a definition, the ILO defined basic needs to include "minimum requirements of private consumption (e.g., food, shelter, clothing); essential services of collective consumption (e.g., electricity, water, sanitation, health care, education); participation of people in the decisions that affect their daily lives; ... within a broader framework of human rights; and employment as both a means and an end." In order to achieve this it was recognized that there would be a need for structural changes in the way countries carried out development.

tariffs, and transnational corporations that at present are biased in their operations against poor countries.

1.2 The Position of the State.

The state has been defined and often refers to "a set of institutions that posses the means to legitimate coercion, exercised over a defined territory and its population, referred to as society. The state monopolizes rulemaking within its territory through the medium of an organized government."[11] The state took a very prominent role in the postwar period with the adoption of Keynesian policies. With the aftermath of the war there was a need to address problems like unemployment as well as to see to the needs of reconstructing many of the cities that were devastated by the war. With the recession that followed the war, Keynes advocated a precise role for the state in terms of government spending and fiscal policy. State led intervention emphasized market failures, this gave the state a central role in correcting these imbalances.[12]

Unlike Keynes, classical political economists like David Ricardo, Thomas Malthus and Adam Smith advocated a role for the free market. Adam Smith in *Wealth of Nations*, argued that "if all individuals pursued their narrow self interests, all of society would benefit inadvertently," moreover, "state

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[11] **The World Bank. World Development Report 1997: The State In A Changing World. (New York: Oxford University Press, 1997) 20.**

[12] **John Rapley, Understanding Development: Theory and Practice in the Third World. (Boulder, Colorado: Lynne Rienner Publishers, 1996) 7.**

interventions to relieve poverty would inhibit initiative, and would stifle investment because they would rely on increased taxes."[13] As such Smith identified three minimal functions for the state: the provision of public or collective goods, the protection of the rights of the citizen, and the defense of the nation's sovereignty.[14]

As in the 1940s, today's renewed focus on the state's role has been inspired by changes in the global economy, which has affected the operation of the state apparatus. The world has seen the global integration of economies coupled with the spread of democracy, all of which has influenced taxes, economic policies and investment rules in what has become a global economy. In many respects this has created a new role for the state apparatus in many developing countries. The state has to respond not only to changes in the domestic and global markets, but at the same time it needs to address the needs of its citizens who often express themselves through grassroots movements and other non governmental organizations.[15] In these respects the "state is central to economic and social development, not as a direct provider but as a partner, catalyst, and facilitator."[16]

[13] Ibid, 7.
[14] Ibid, 7.
[15] The World Bank, op. cit., 3.
[16] Ibid, 1.

Global capital accumulation has placed a tremendous burden on nation-states to ensure that they are not left out of the race. During the 1980s there has been a greater tendency for developing countries to attract foreign direct investment especially as they move towards export-promotion strategies away from state led development strategies based on import substitution development.[17] Walter Wriston points out that there have been two diametrically opposed approaches in dealing with global capital. On one side there are those states that favor public ownership of companies. In this scenario the state favors central planning along with government allocation of resources. Moreover, there is the tendency to adopt policies of income redistribution and the regulation of consumption.[18] Countries along the lines of this model include North Korea, Vietnam and the socialist countries of Africa. On the other side of the coin there are those countries which approach global capital accumulation from a different angle. These countries exercise controls over labor unions along with private ownership of enterprise and rely on market mechanisms to allocate resources.[19]

Countries that wish to attract foreign direct investment (FDI) and transnational corporations need to improve what has been referred to as the 'locational advantages of their economies.'[20] One of the most obvious factors is the condition of a country's economy. This includes factors like "market size and

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[17] Alvin G. Wint, "Promoting Transnational Investment: Organizing To Service Approved Investors." ***Transnational Corporations.*** **Vol.2, No1. February 1993 p. 71.**
[18] Walter B. Wriston, "Agents of Changes Are Rarely Welcome," ***Transnational Corporations.*** **Vol.2, No1. February 1993 161.**
[19] Ibid, 161.

growth rate, the productivity of its labor, the quality of its infrastructure, the stability and efficiency of its political and economic institutions and its general business climate and culture."[21]

The state in many instances has many objectives that it may wish to fulfill. It has been noted that the state "want to be efficient and competitive and to preserve social peace and the cohesion of the state within society. It wants autonomy and the freedom to choose its own path to economic development and access to advanced technology and overseas markets."[22] One of the ways that a country could ensure its place in the race for global capital is by affecting change through policy. In this way, there is a role for the state in implementing policies. Policies like macroeconomic reform, liberalization, privatization and regional integration makes a country more attractive to FDI. [23] As such financial policy must consider all of the links in the chain of capital formation. Liberalization of domestic markets ensure that there is a sustainability in investment flows, while privatization may encourage "additional investment flows by sending positive signals to foreign investors regarding attitudes towards the private sector and TNCs."[24]

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[20] Wint, op. cit, 72.
[21] Wint, op. cit, 72.
[22] John Stopford and Susan Strange, *Rival States, Rival Firms*. (Cambridge: Cambridge University Press, 1991) 135.
[23] UNCTAD, "Global Trends," *World Investment Report 1994: Transnational Corporations, Employment And The Workplace*. (New York/Geneva: United Nations Publications, 1994) 30.

1.3 The Positions On The Debate

The debate in the literature is essentially concerned with the role of the state in relation to transnational corporations in an era of increased global capital accumulation. There are several works that outline the debate on the power of corporations in relation to the state, as well as the role of the state in development. Three positions on state versus corporate power can be identified. During the 60s and the 70s the United Nations advocated the need for more regulation of transnationals, not only at the national level, but also at the international level so as to ensure that corporations did not become too powerful. Another position present in the literature focuses on the need of the state to take a more active role in the development process. The argument here is that development should not be left entirely up to transnationals.

During the 1970s and 1980s scholars like Evans, Raymond Vernon, and Peter Sheahan argued that there was a role for the state in the development process. They were aware of the importance of transnationals in the development process. In terms of providing jobs and new technologies (though their impact may be debatable) in the countries they set up operations. They envisioned a more interventionist role for the state in terms of directing the areas that transnationals operated in, and at the same time using the resources of these foreign companies to target strategic areas for development. Simultaneously there has always been an argument by neoliberalists against

[24] Ibid, 30.

state intervention in the economy. This school of thought was presented by multilateral institutions like the World Bank and the International Monetary fund in the 1980s calling for further deregulation and market liberalization policies. They called for reforms "mainly in regulating state intervention aimed at correcting market distortions," with the goal of "establishing a world financial system compatible with the progressive transnationalization of trade and capitalist production."[25] With increasing tendencies in favor of global capital accumulation and neoliberal thinking, it appears that the state has taken a back seat in favor of transnationals. Scholars like Robert Stauffer, John Stopford and John Dunning can be placed under the neoliberal school. They have argued that deregulation and reduced state intervention is a necessary feature of national economies if development is to take place.

This has given rise to a number of scholars who are critical of the current position of the state in relation to transnational corporations. Scholars like Barnet and Cavanagh, Saskia Sassan, Leo Panitch and David Korten approach this issue from a political economy perspective. They are critical of the role that transnationals now hold in relation to the state in the economy. David Korten makes no excuses for the position that transnationals have today in the global economy. He views the position of corporate power today as a "conscious and intentional transformation in search of a New World economic order in which

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[25] The Third World Institute, "The Power of Transnational Corporations," ***The Third World Guide 90/91*****. (Montevideo: Garamond Press, 1990) 101.**

business has no nationality and knows no borders."[26] His idea reflects the position that many countries in the developing world are in today, since in contemporary world politics and more so in the era of globalization the role of the state in constructing national economic policy has been strongly influenced by large transnational corporations. It can be said that global capital is embodied in transnational corporations. Scholars have pointed out that transnationals operate by logic based on capital expansion around the globe, the maximization of profits and economic growth.[27] Moreover, "the logic of world capital lies in the free market doctrine applied to global space."[28]

1.3 A Role For The State In The Process

During the 60s and the 70s the United Nations expressed concern about transnational corporations and the pressures they exerted on the ability of the state to carry out its own development initiatives. They cited transnationals as having the ability:

> to tap financial , physical and human resources around the world and to combine them in economically feasible and commercially profitable activities, together with their capacity to develop and apply new technology and skills and to translate resources into output and to integrate product and financial markets through out the world, has proved to be outstanding. Their activities, however, are not per se geared to the goals of development.[29]

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[26] David Korten, *When Corporations Rule The World.* (Connecticut: Kumarian Press, Inc., 1995) 121.
[27] The Third World Institute, op. cit., 101.
[28] Ibid, 101.
[29] *The Impact of Multinational Corportions on Development and on International Relations.* (New York: United Nations Publication, 1974) 28.

As such, the state needed to have an active role in the development process so as to ensure that foreign corporations did not dominate the development process. The United Nations (UN) has always been aware of the dangers that corporate power could have on the sovereignty of the nation state if it was left unattended. The bottom line here was that unless "governments of developing countries actively and effectively concern themselves with a better distribution of income and the needs of the poorer sectors of their population, even the most determined international effort will have little impact."[30]

The mere operation of TNCs within a state lays the foundation for conflict. This conflict often reveals itself through the different objectives that the transnational and the state are striving for. Groups within developing countries who are against the local operation of transnationals view them as elements of imperialism that only extend the dependency relationship between the developed and the developing world.[31] In many ways this dependency relationship explains the ability of transnationals to circumvent the capacity of the state to construct effective national policies. Even in cases where the state may have been successful in prescribing policy the transnational had various options at its disposal to avoid regulation and thus assert itself over the state.

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[30] **Ibid, 29.**

[31] ***United Nations Department of Economic and Social Affairs: Multinational Corporations In World Development.*** **(New York: Praeger Publishers, 1974) 50.**

In the long run the impact that transnational corporations have on development is pre determined by the policies the state implements. In the 70s and early 80s there existed a strong belief that the nation state had the power to influence the direction the development process took. Raymond Vernon (1972) argues that the state does have some leeway. He pointed out that the terms of entry should be provided up front leaving very little room for interpretation on the part of the transnationals.[32] He argued that the state should embark on policies that would make the entry of transnationals easy in the beginning and then change the requirements to suit the needs of the nation.[33] Vernon also highlighted the success some governments had through joint ventures with transnationals and local interests. This ensured that some amount of the industry remained in local hands.[34]

It was Vernon's view that the state had an essential role in creating an environment that not only allowed for the input of foreign investment, but at the same time ensured that development took place. Vernon advocates a role for the state in its planning strategies. State plans should be formulated in such a way so as to serve as instruments for directing foreign investment. This is relevant in areas where the state policy prohibits transnationals and other foreign interests from entering certain areas of activity[35].Sheahan is aware that transnationals are

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[32] Raymond Vernon, *The Economic and Political Consequences of Multinational Enterprise: An Anthology*. (Boston: Harvard University Press, 1972) 33
[33] Ibid, 33.
[34] Ibid, 34.
[35] Vernon, op. cit., 36.

attempting to impose themselves on the sovereignty of the nation state. It is up to the state to ensure that its independence and sovereignty is not placed in jeopardy. Sheahan divides the role of the state into two areas of concern.

Firstly, some states have an external orientation in terms of promoting industrial products for exports. In this context there is a role for the state in the shaping of government policy. This is seen where some governments in their policies are export oriented, as such they "favor some multinationals, those that are or become exporters, and hurts those producing only for the protected domestic market."[36] Secondly, concern has been expressed about the influence that transnationals exert on the domestic economic policy of the state. Sheahan points out that we may be a little pre judgmental in this aspect. He sees it not so much as that "multinationals dictate the domestic policies, as that governments lean over backward to attract the firms by trying to ensure a favorable business climate."[37] From Sheahan's perspective it may be said that the economic policies and developmental objectives the nation-state sets for itself will in fact determine the relationship it has with transnationals and the amount of influence these corporate powers exert over the state in its planning initiatives.

This suggests that the nation-state has a choice in its economic and development planning. Even though the state should seek first and foremost the

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[36] John Sheahan, *Patterns of Development in Latin America*. (Princeton: Princeton University Press, 1987) 160.

maintenance of its sovereignty and the well being of its citizens, it operates neither in an economic nor political void. There are other actors and interests existing simultaneously both domestically and internationally. Gereffi and Evans note that "there is no external villain, but instead a network of influences uniting domestic business and government with the preferences of foreign firms and governments, toward shared goals of modernization and economic growth."[38] By extension it may be said that a developing country has no choice but to acquiesce to foreign demands and do all it can to accommodate the needs of foreign companies.

The impact that transnationals have on any one developing country depends on a large part on the policies that prevail at the time. Sheahan argues that state intervention is needed in determining the development path, he cites the position of the state in Asian countries as the alternative to what was going on in the 1980s. According to Sheahan the Japanese government in the 1930s changed their policies to exclude foreign companies in its industrialization process. Moreover, the Japanese government "did not simply block foreign firms, but it created an extraordinary active program of study and purchase of technology, and of government support for guided investment programs by domestic firms."[39]

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[37] **Ibid,160.**
[38] **Sheahan, op. cit., 160.**

One alternative that has been suggested in the literature by Sheahan is that the state should concentrate on strengthening state owned firms. This needs to be done in areas that foreign investors seem to prefer. The state may express its dissatisfaction with transnationals by using national companies and public firms as instruments of development. This could be done by "locating production in backward regions, developing low cost products for basic needs, promoting worker participation in management, or building up national research and development capacities."[40] This approach has been used at different times in the history of Brazilian economic development. During the 1970s in Brazil there is evidence to suggest that the military government was successful in this respect by reducing the position of transnationals through the expansion of public companies into areas preferred by transnationals.[41]

On another level, Evans suggests a need for the state to be forceful in its dealings with transnationals. The state must be willing to oppose the transnational and to a certain extent "coerce and cajole the multinationals into undertaking roles that they would otherwise abdicate."[42] Evans argues that the case is not so much one of dependence or imperialism where the transnational has the ability to influence the government. Instead he sees it as 'dependent development' with the central premise being a tripartite structure where there is

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[39] Ibid, 166.
[40] Sheahan, op. cit., 169.
[41] Ibid, 172.
[42] Peter Evans, *Dependent Development: The Alliance of Multinational, State, And Local Capital In Brazil.* (Princeton, New Jersey: Princeon University Press, 1979) 44.

an alliance with the local elites, the state and the multinational.[43] Within this structure the state has a central role as the formulator of plans and policies, as well as the facilitator in its implementation

1.4 A Case For Transnationals

Even as arguments were being presented on the role of state intervention in the development process in the 1970s, the other extreme was also true. There were scholars like Robert Stauffer who made a case for transnational corporations and other corporate giants as agencies for development in the late 1970s. Robert Stauffer reviewed some of the arguments put forward by various authorities on the essential role that transnationals play in the development process. He cites Drucker's position that "the multinational corporation is by far the most effective economic instrument today, and probably the one organ of economic development that actually develops."[44] Stauffer further argues that multinationals in comparison to governments wield more power in terms of the amount of capital that they are able to generate, which is usually way in excess of what the government may have at its disposal. [45] Most if not all foreign corporations operate in an arena that is outside the sphere of the state. They are able to influence the working of the state. Even in the 1970s scholars like Robert Stauffer was aware that globalization was severely retarding the ability of the

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[43] Ibid, 52.
[44] Robert Stauffer, *Nation-Building in A Global Economy: The Role of The Multinational Corporation*. (London: Sage Publications, 1973) 17.
[45] Ibid, 18.

state to embark on effective policies to regulate the operation of foreign companies. It is Stauffer's belief that "the process of economic integration of the industrial economies or as some state it, their internationalization is proceeding at a rate much more rapid than the ability of governments to cope with the process."[46]

As such, the position of the state to effectively monitor all the elements of this process is proving to be futile. This has drastically reduced their ability to act in a manner that serve to benefit the nation-state. This neoliberal ideology that the state should take a back seat in development as well as economic planning was present in the work of Robert Stauffer since the 1970s. Stauffer's perspective is that the state could not compete effectively with global corporations. If any development was to take place in the future transnationals were the ones to carry it out since they have the power and the wealth to undertake large-scale development initiatives.[47]

In Stauffer's argument, there is an underlying sense that transnationals will eventually encroach in all areas where the state was dominant. Not only do these large corporations command exceptional wealth, but they also have the political support of their home nations. Unlike Vernon, Stauffer does not advocate a role for the state in the development process, he attributes this role

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[46] **Ibid, 24.**
[47] **Ibid, 24.**

to transnationals. As he puts it "the nation-state is just about through as an economic unit."[48]

At the same time scholars like John Stopford have further perpetuated the neoliberal position on the role of the state. Stopford has argued that the globalization of markets is not necessarily correlated to loss of economic control by the state.[49] In this sense the role of the state in the economy is not reduced, but just transformed to ensure that the conditions necessary for transnationals are implemented. Stopford sees a relationship between the state and the transnational. He argues that "no state today can be wholly self sufficient in commanding all the resources it needs. Transnational corporations provide complimentary, but not substitutive resources that can accelerate progress."[50] He advocates that the state uses development planning and economic policy in order to create the conditions in the economy that will attract transnationals. It may be those scholars of the left and the right has mistaken the apparent role of the state. It could be that Stopford is right, the state's role in the economy may have only been revised to meet the needs for global capital.

Stopford's view on the relationship between the state and the transnational has been reinforced in a study conducted by John Dunning.

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[48] Ibid, 25.
[49] John M. Stopford, "The growing Interdependence Between Transnational Corporations and Governements." ***Transnational Corporations.*** **(Vol. 3, No.1 February 1994) 68.**
[50] Ibid, 68.

Dunning in his study on the global economy and domestic governance concluded that "the competitiveness of a country rests both on the ability of its firms to organize and utilize their own assets efficiently and also on the ability of government to ensure that the markets in which firms compete are the least distorted. In order to achieve these objectives, governments need to restructure their own internal system of management so as to gain the maximum benefits from an integrated system of governance."[51]

1.5 The Critical Political Economy Perspective

In the late 1980s and the early 1990s the role of the state in development planning began to change. There was greater adoption of neoliberal policies, which has resulted in less state intervention in the development process, in favor of a greater role for transnational corporations and other foreign interests. Richard Barnet and John Cavanagh highlight the role that corporate power now plays in relation to that of the state given the overall framework of globalization in which state plans and policies are being formulated. They argue that the global order that is presently emerging is being conducted by only a few large corporate powers who have implanted themselves in strategic parts of the globe. No longer are these corporate powers held back by the limitations of language, national boundaries or ideologies.[52] Their ability to introduce new technologies

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[51] John H. Dunning, "The Global Economy, Domestic Governance, Strategies And Transnational Corporations: Interactions And Impiications," *Transnational Corporations.* (Vol. 1, No. 3. Dec.1992), 44
[52] Richard Barnet and John Cavanagh, *Global Dreams.* (New York: Simon and Schuster, 1994) 18.

enable them not only to produce commodities more efficiently but they have made themselves very mobile in that they can set up their operations almost anywhere in the world.

This provides an indication of the shift in the balance of power that has taken place in terms of foreign corporate powers and the role of the state in the era of globalization. Bamet and Cavanagh attribute certain advantages to transnationals. They argue that corporate entities unlike governments are not territorially bound. They are able to maneuver the globe influencing governments and exerting influence over large numbers of people.[53] Barnet and Cavanagh have highlighted that globalization has brought on a situation where the nation state has been placed at a disadvantage in relation to the transnational corporation.

They argue that "the most disturbing aspect of this system is that the formidable power and mobility of global corporations are undermining the effectiveness of national governments to carry out essential policies on behalf of their people."[54] In light of this there has been a tremendous loss of power and effective decision making on the part of those who govern nation states where these corporations now exist. Government officials are afraid to transform state policies because large corporations would object. One reason Barnet and

[53] Ibid,19.
[54] Ibid,19

Cavanagh attribute to this is that transnationals are viewed as a necessity that allows a developing country to compete effectively in the global market. As such governments are careful not to implement policies which hurt these corporations.[55]

This is why Barnet and Cavanagh believe that we have begun to see a disappearance of many government controls that were present in past development policies. In addition there has also been a reduction in policies that sought to secure objectives like full employment, tax laws, labor laws and environmental protection. These are becoming obsolete in economic plans constructed by governments in the present day. At the same time Barnet and Cavanagh argue that the state in many countries are the ones who determine the structure of the companies. The regulations and the policies that prevail in a country are going to shape the outlook of the work place in terms of its location and jobs that are offered. Barnet and Cavanagh believe that governments now want to create incentives that will attract more transnationals, and at the same time ensure that those already in the country stay.[56] In this respect the position of national governments in maintaining wage levels or even guaranteeing job security is greatly diminished. This entire process where governments are willing to bend to the whims of large foreign corporations has led to the ineffective operation of governments. This has meant that transnationals and other large

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[55] Ibid, 19.
[56] Ibid, 126.

corporations have been able to exert influence over government in most if not all areas of state policy.

According to Barnet and Cavanagh, globalization has thinned out the line that existed between the state and the corporate business sector. We are not sure which areas of responsibility the state has in the economy since development plans no longer clearly define their role. The authors have noted that there has been an ideological shift in the role of the state. Now more than ever transnationals are operating in areas like transportation, telecommunications and energy. These were once designated areas reserved for the state apparatus. For Barnet and Cavanagh the "legitimate role for government spending to promote the common good is much reduced."[57] Governments are no longer able to keep the promises that they made in their election campaigns nor are they able to carry out the majority of the plans that they may have outlined in their party mandates to the people before coming to power.

Moreover, the past practices of Keynesian policies are no longer enforceable in many of the nation states today, not only because they are not feasible in this era of globalization but also because they go against transnational domination. The result of this has been one of dependence on powerful transnational corporations by the political elite. As mentioned before the mobility of these new large powerful corporations, gives them the ability to pull out of a country if policies that are not in their best interest are implemented. More or less, this has not only redefined the role of governments, but seems to suggest that the need for the state in planning have almost been eradicated.

Other scholars looking at the present international system and the emerging global economy may be inclined to accept the position of Barnet and Cavanagh on the role of the state in the present period of globalization. Some authors like Saskia Sassan believe that the declining role of the state as a regulator of international corporations is not new. In fact her position reflects those presented by Robert Stauffer in the 1970s. Sassan sees the present era as a reconstruction of past pressures, like those that were brought on by the Bretton Woods Institutions. The attack on the position of the state can be pinpointed with the construction of the Bretton Woods institutions since national governments had to adjust their national plans and policies to meet those of international standards.[58] Sassan sees the present role for the state as a facilitator for the spread of globalization. She argues that "one key property of the current era is that as nation states implement deregulation to raise their competitiveness... the more they contribute to strengthen transnational networks and actors."[59]

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[57] **Ibid, 348.**
[58] **Saskia Sassan, "The Spatial Organization of Information Industries: Implications For The Role of The State."** ***Globalization: Critical Perspectives.*** **James H. Mittelman. (eds.) (Boulder. Colorado: Lynne Rienner Publishers, 1996) 45.**
[59] **Ibid, 42.**

In many nation-states of the world today, the position of the state is over-shadowed by large corporations. Sassan's view on the position of the state reinforces those arguments presented by Barnet and Cavanagh. This puts into perspective the position that the state now has. No longer is development planning strategies constructed with notions of equity and social justice in mind. Instead state economic plans in most developing countries are driven by the need to be a part of the global economy. In every case one may argue the state really does not have a choice in the relationship it has with foreign corporate powers.

Globalization has only intensified the decline in the state's independence. As Leo Panitch notes, "globalization also takes place in, through and under the aegis of states, it is encoded by them and in important respects even authored by them."[60] Nation states have to follow global trends, any notions of delinking from the international economy will be economic suicide. Instead they have subjected themselves to an economic damnation with no chance for retribution in the near future. They must put the needs of the new global moguls before anything else. As part of this dilemma, multinationals are the primary

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[60] Leo Pantich, "Rethinking The Role of The State," *Globalization: Critical Perspectives.* James H. Mittelman. (eds.) (Boulder. Colorado: Lynne Rienner Publishers, 1996) 86.

instruments in the spread of globalization. Moreover, they have imposed themselves, ahead of the state, as agents for development in the future.[61]

As such it appears that the traditional agents for development, that is the state, no longer has a place in development planning. The transnational corporations have taken over this role, thus making them the new agents for development. There is however a severe danger in the current relationship between the state and the corporate power. The ideological nature of global corporations circulates around profit maximization. This in itself spells disaster and in the long run may lead to dismantling of whatever little social cohesion is left in many developing countries. With the increasing trends of globalization, the implications in terms of state economic planning and policy implementation is in jeopardy.

In the literature from the 70s Vernon advocated a role for the state in the development process through state intervention and other tools like joint ventures. However, the vast amount of literature available today as well as all that has taken place with the advent of globalization, leads us to believe that there are now loopholes in this thinking. Some governments in developing nations have attempted in the past to direct the areas into which transnationals were permitted to operate. However state control in this area has disappeared,

[61] **Robert W. Cox, "A Perspective On Globalization,"** ***Globalization: Critical Perspectives.*** **James H. Mittelman. (eds.) (Boulder. Colorado: Lynne Rienner Publishers, 1996) 23.**

especially in Brazil where there has been considerable liberalization and privatization programs which has allowed multinationals to enter areas that may have been restricted at one time. Many view this as the disappearance of the last vestiges of influence and control that the state may have had over transnational corporations.

In the Brazilian experience much of what is being debated in relation to the changing role of the state vis a vis corporate power is evident. This historical process of development has been labeled 'dependent development' by Evans in which there is a well-defined role for direct foreign investment.[62] In the Brazilian context this was a result of the interaction of transnationals, local elites and the planning strategies of the state.[63]

The development process in Brazil has also undergone its own debates in positions arising came from the dependence perspective. They advocated a greater role for the state in the economy. Here it has been highlighted that development policies like import substitution industrialization (ISI), did not reduce the need for foreign investment. Osvaldo Sunkel has pointed out that during ISI

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[62] Gary Gereffi and Peter Evans, "Transnational Corporations, Dependent Development, abd State Policy in the Semi-Periphery: A Comparision of Brazil and Mexico." in James L. Dietz and James H. Street (eds.). *Latin America's Economic Development: Institutional and Structuralist Perspectives.* (Boulder and London: Lynne Rienner Publishers, 1987)160. This process of developement in the contemporary period has been labelled dependent development. Development because it is characterized by capital accumulation and an increasingly complex differentiation of the internal productive structures, and dependent because it is marked by the efforts of continued dependence on capital from the countries of the North.

in Brazil "a good deal of the expansion, modernization, and growth of industry had been co-opted, so to speak by an increasingly transnationalized sector."[64]

The neoliberal critique rejects further intervention by the state in the development process. Intervention by the state apparatus was strangling the climate for private and foreign investors. The neoliberal critique asserted that "Brazil's growth has been constrained by the intractability of high inflation, the overwhelming intervention of government in the economy and the excessive protection given to the domestic industry over the many decades."[65] The neoliberal school sought to replace the interventionist development strategy of the state by more opened, liberalized and deregulatory practices. This has resulted in a linkage to the international economy and domination of the local economy by transnationals. Scholars like Graham and Wilson have pointed out that "Brazil has become so involved in the world economy that it is further constrained by the very nature of these linkages to the extent that there are real limits to the capacity of those in government."[66]

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[63] see Peter Evans.
[64] Osvaldo Sunkel, "Reflections on Latin American development," in James L. Dietz and Dilmus D. James (eds.). *Progress Toward Development in Latin America: From Prebisch to Technological Autonomy.* (Boulder, Colorado: Lynne Rienner Publishers, 1990) 138.
[65] Maria D'Alva kinzo and Victor Bulmer-Thomas, (eds.) *Growth and Development In Brazil.* (London Institute of Latin American Studies, 1995) 9.

1.6 Summary

The debate in the literature is essentially concerned with the role of the state in relation to transnational corporations in an era of increased global capital accumulation. There are the neoliberal ideas that argue for further market deregulation and even more liberalization policies; not to mention the need for less state intervention. In the 1970s arguments were put forward for a state role in the whole economic process. Moreover, in the Brazilian context Evans identified the relationship between the state and the transnational as dependent development. At the same time there is the position of those who approach the present relationship between transnationals and the state from a critical political economy perspective. They highlight the drawbacks resulting from state withdrawal in the economy in favor of transnational domination. One other argument that appears in the debate is that the role of the state has not necessarily been reduced, but just restructured and transformed to meet the needs of the economy in this period of globalization. This leaves one wondering the exact nature of the state and for that matter transnational corporations in terms of determining the economic development of a country. It is hoped that the evidence and the analysis provided in this thesis will provide an answer to this question.

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[66] Lawerence S. Graham and Robert H Wilson, *The Political economy of Brazil.* (Austin: University of Texas press, 1990) 5.

Chapter Two

HISTORICAL OVERVIEW OF ECONOMIC PLANNING

2.1 The Context for the Transnational-State Relationship.

Transnationals corporations have been very active in developing countries in the past decade. They have become for many developing countries a source of much needed foreign investment. In fact they have both positive and negative impacts in the countries where they establish themselves. Many developing countries have welcomed transnationals within their boundaries. Critics of transnationals argue that the profits made in host countries are reverted to the more developed countries and not reinvested into the economy of the host country. At one point in time it may have been argued that Brazil was on the brink of becoming an economic power in the developing world with high levels of foreign direct investment in the country. It has an extremely advanced, complex, and diversified economy for a developing country. However, there are still arguments about the role of foreign investment, specifically the role that transnational corporations (TNCs) have played in development. Historically in Brazil one can trace a historical map intertwined with stringent economic policy aimed at restructuring and stabilizing the economy. Over time, Brazil has shifted its policy towards the operation of transnationals, which appear now to be more favorable. There are many benefits that transnationals bring to a host country, especially in its early stages of operation. There is the obvious influx of foreign expertise and foreign investment. Once the transnational is established there is the opportunity for investment financing and the transfer of advanced technology.

The question of TNCs is not just an economic question that should be left to investors alone. It also has political concerns for the country in question. The government in developing countries often use the influx of transnationals not only to secure the economic well being of their country, but also to maintain political control. Brazil, like other developing countries, has experimented with a range of policies over time in an attempt to achieve its development objectives. Overtime economic policies like those of the development plans have been replaced by more liberalized policies and I have highlighted this latter on. Many governments have come to view transnationals as a source of revenue. Through taxes and other charges to transnationals, governments in developing countries are able to collect revenue for use in other sectors of the economy.

Over the years the increased presence of transnationals in developing countries have become more of a political concern, especially with the increasing trends of globalization and the unimpeded flow of capital internationally. With the world looking more like a global market, the strength of the state in making economic policy is drastically weakened by the ever increasing position of transnationals. With the increased need to maintain effective production in a highly competitive global market, there is a tendency for transnationals to set their own operating policies and practices. This affects the sovereignty of the countries concerned, in that both their domestic and international economic policies are determined around the needs of the transnational instead of the welfare of its citizens. It has been argued that "economic policies have never led to the realization of specific employment goals."[1] This was especially evident during the 1970s and the development plans that stated that employment generation was not a concern of the government.[2] This ideology came about as a result of the need to attract foreign companies to the country.

Unlike the 1960s and 1970s where the government through Development Plans regulated the operation of foreign companies, transnationals no longer face discrimination in Brazil. They get the same leeway as Brazilian national firms, except they are barred from government credit lines and subsidies that are granted to national firms through the Brazilian National Bank (BNDES). Attempts have been made to stimulate further industrial growth and also to secure larger market shares for Brazilian companies. This is seen in a credit system that serves to exclude foreign firms and give national enterprises a chance to compete. Also, many joint ventures between transnationals and national firms have been formed because of the requirement that "firms be over fifty percent owned by domestic capital to have access to government credit."[3] The

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[1] Mario Luiz Possas. ***Employment Effects of Multinational Enterprose In Brazil.*** **(Geneva: International Labor Office, 1979), 4.**
[2] Stephen Hellinger and Douglas Hellinger. ***Unemployment and the Multinational: A Strategy for Technological Change in Latin America.*** **(London: Kenikat Press Corporation, 1976), 112.**
[3] Werner Baer, ***The Brazilian Economy: Growth and Development.*** **4th Edition. (London: Praeger, 1995), 236.**

Brazilian government in the past has used protection policies by reserving markets for Brazilian companies. This has been the key factor in industrial development. One notable authority has pointed out that the Brazilian state has used on occasions a policy called 'reseverda do mercado,' which represents "an attempt to check the relative growth of transnationals and to give an incentive to local firms to enter new technologically advanced fields."[4] One such example in the Brazilian context would be the use of this policy in restricting the market for minicomputers to those enterprises that are primarily domestic in nature. This implies that for a firm to compete in this market it will need to be more than fifty-percent control in local hands.

Brazil has over the years undertaken economic policies that were intended to secure its future development. There was extensive intervention by the state after the nineteenth century to stimulate industrial development. In the 1930's Brazilian economic policy concentrated on the industrialization of the economy, and as such led to the creation of a manufacturing sector with the highest productivity in the world.

During the 1930s under Getulio Vargas and his Estado Novo, successful strategies were implemented to industrialize Brazil. Vargas announced a five-year Plan that promoted hydroelectric power, railroad networks, and basic industry. Restrictions were also placed on foreign companies from extracting

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[4] Ibid, 237.

Brazil's natural resources.[5] It has been argued that "growth was not attributable to a socialist ideology, but to the elitist ambition of an increasingly centralized state and a powerful technocratic bureaucracy."[6] This approach put the state as the most important instrument in the modernization and industrialization of Brazil. However, this is not to say that they were antagonistic toward foreign investment.

Under Estado Novo, which lasted until 1945, TNCs were allowed to operate in all sectors of the economy with few restrictions. In the early sixties under the military government foreign enterprises were prevented from entering into those sectors of the economy where national enterprises were dominant. These included areas like construction and some other basic industries.[7] The Brazilian State was also able to control the inflow of foreign investment and foreign companies into selected areas of the economy like the automobile industry.

Also, there was a devaluation to give Brazilian importers an edge against other global competitors. Moreover, with the resumption of import competition, many national industries did not survive. The government viewed this in the context of "freeing resources for those sectors in which Brazil was internationally

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[5] E. Bradford Burns, *A History of Brazil.* Third Edition. (New York: Columbis University Press, 1993), 399.
[6] Angus Madison and Associates, *The Political economy of Poverty, Equity and Growth: Brazil and Mexico.* (New York: oxford University Press, 1992), 71.

more competitive."[8] Estado Novo was also the foundation for import substitution industrialization (ISI) in Brazil. This was characterized by the importation of capital goods, and the discouragement of the importing of items that were manufactured locally.

With ISI, policy ranged from restrictions on the import of certain products, to the negotiation of special exchange rates for some industries. Other measures implemented to promote foreign investment at this time included the reinstitution of a nineteenth century law, the "Law of Similars." The purpose of this law was to prohibit the import of products when the same goods were produced locally.[9] This eventually led to the entry of many foreign firms that instead of importing undertook manufacturing and assembly operations.

Most of the difficulties experienced in Brazilian development can be attributed not only to economic mismanagement, but also to the exhaustion of the ISI model. Under ISI the focus was on the protection of domestic industry with little attention being paid to export orientation. At this point development policy in Brazil focused on a greater role for state enterprises coupled with the state's objective of increasing political and economic centralization.[10]

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[7] **Georg Sorensen, *Transnational Corporations In Peripheral Societies.* (Denmark: Aalborg University, 1985), 43.**
[8] **Lawerence S. Graham, *The Political Economy of Brazil.* (Austin: University of Texas Press, 1990), 63.**
[9] **Maddison, op. cit., 76.**
[10] **Peter Evans, Dependent Development: *The Alliance of Multinational, State and Local Capital In Brazil.* (New jersey: Princeton university Press, 1979), 218.**

During the course of the 1980s and the 1990s, Brazil's economy has become dominated by transnationals. Transnationals have collaborated with the Brazilian government on many fronts, especially in terms of export diversification. Werner Baer has noted that with the 1981-83 recession in Brazil, there was an increase in exports to compensate for local market declines by many transnationals.[11] For example there was a huge growth in the export market for automobiles from 1981-85 between US$1.5 million and US$2.1 billion a year.[12] Over the years it has been increasingly easy for the Brazilian government to deal with transnationals. This may be attributed to the greater diversification in the origin of TNCs, which gives the govemment a better bargaining position.

Moreover, in 1994 Brazil's economy had a positive impact by the Real Plan. There was an upsurge in the production of capital goods and consumer durables, with increases of eighteen and fifteen percent respectively. In the early 1990s Brazil was engaged in a series of economic changes which encompassed tax reforms, trade liberalization, deregulation and the implementation of a structural framework that was geared toward attracting and increasing foreign investment. As a result of these trade reforms, the Brazilian economy has become one of the most opened in the world with little government regulation and restrictions on imports. Foreign direct investment (FDI) in the

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[11] **Baer, op. cit., 237.**
[12] **Ibid, 237.**

country reached US$ 3,2 billion in 1992, the highest since the 1980s.[13] Furthermore, there has been deregulation and liberalization of financial policies. This is evident by the abolition of programs that had previously reserved the domestic market for Brazilian electronics and software.

The drive towards planning and industrialization really took full swing during the second Vargas administration that saw the establishment of some key institutions to guide the development process. One of the key institutions came out of a joint United States-Brazil Economic Commission which resulted in the formation of the Banco Nacional de Desenvolvimento Economico (BNDES) to finance growth in 1951.[14] Most importantly this period of the 1950s pinpoints what has been called the "implantation of the macropolitics of desenvolvimentismo (developmentalism) as a national ideology."[15]

This ideology of developmentalism has dominated state planning in past years. In the initial stages there were three essential elements which went into the concept of developmentalism. These included:

1. Incentive vertical import substitution industrialization focused on steel, vehicles, machinery, capital goods, energy and chemicals;

2. Policies to expand industrial development from foreign, private and public sources; and

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[13] **InterAmerican Dvelopment Bank, *Economic and Social Progress In Latin America*. (New York: Inter-American Development Bank, 1995), 55.**

[14] **Wilber Albert Chaffee, *Desenvolvimento: Politics and Economy In Brazil*. (Boulder, Colorado: Lynne Rienner Publishers, 1998) 116.**

[15] **Ibid, 116.**

3. Expanded state involvement directing development, usually by planning and channeling private investment into priority areas.[16]

The call for vertical import substitution in relation to its predecessor that was horizontal import substitution has some relevance in terms of a role for transnationals. Vertical import substitution sought to broaden local production to include consumer durables. The level of investment and technology that was required for this was much greater than horizontal import substitution. In this respect transnationals were more viable as agents for this type of investment when compared to local capital.[17]

Even in the 1950s the debate was raging on the role of state intervention in the development process. There were those who believed that the state should not have such an interventionist role in the development process. This group advocated a reduction in the role of the state and was hoping to secure the conditions that would facilitate the influx of foreign investment into the Brazilian economy. They launched an anti-interventionist campaign against the Vargas government claiming that "government planning was inappropriate, because its principal function was political and it (the state) was motivated by the need to maintain the support of the polity."[18] For these anti state interventionist

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[16] Ibid, 117.
[17] Gary Gereffi and Peter Evans, "Transnational Corporations, Dependent Development, and State Policy in The Semi Periphery." in James L. Dietz and James Street (eds.). *Latin America's Economic Development: Institutions and Structuralist Perspectives.* (Boulder, Colorado: Lynne Rienner Publishers, 1987) 166.
[18] Chaffee, op. cit., 119.

campaigners the alternative was free reign for market forces, which in the long-run would determine the path to economic development without any state involvement.

In the early 1950's and up to 1957 there were several policies in place that sought to diversify the industrial sector and attract foreign investment. These policies included quantitative restrictions up to 1957, followed by a tariff system until 1967.[19] At this time the Brazilian economy favored importers of industrial machinery. Furthermore, those involved in the automobile and ship industry enjoyed exemptions from custom duties and was privileged to financing from the BNDES. This is different from conditions at one point in time where TNCs were exempted from any local financing except under arrangements previously mentioned.

In 1964 the government of Vargas was overthrown by a military coup. During this time there was a noticeable increase in the interventionist tendencies of the state. The new role for the state mirrored capitalism, however it was a special feature, that of state capitalism.[20] The state also got involved in the launching of new industries and sought to increase its domination over the private sector of the economy. The view of building a viable export sector as an avenue for the future development of Brazil was whole heartedly embraced by

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[19] **Maddison, op. cit., 74.**
[20] **Evans, op. cit., 93.**

the military government. It was argued that policies from the previous era had not serve Brazil well, in that they were inefficient and did not give the economy the edge that it needed given the increasing trends of international competition. In the late sixties there was a dismantling of many of the protective measures. It was hoped that this would give more industries in the manufacturing sector an opportunity to become efficient in their operations.

TNCs looking at Brazil in the late sixties and the early seventies found a system existing where the state was the principal decision maker in the alliances.[21] TNCs wishing to move into Brazil needed to form an alliance with local capital and the state. For example, in the early seventies when Fiat decided to build a plant in Brazil it entered as a partner of the state of Minas Gerais.[22] This placed tremendous power in the hands of the state, and TNCs had to co-operate fully in order to ensure not only profit margins, but also guide against nationalization tendencies.

It has been argued that when transnationals were concerned about the future of their profit making ability, they were more inclined to acquiesce to demands for local control. Also, changes over the years have suggested that once laws were amended and the transnational felt secure enough, the number

[21] Gereffi and Evans, op. cit., 176. During the 1960s Brazil developed a reputation for effectively shaping the behaviour of transnationals. The auto industry is often cited as an example. Brazil started a program of local integration in 1956, by 1962 Brazil acquired ninety nine percent local content by weight for passenger cars produced locally.
[22] Evans, op. cit., 266.

of those involved in joint ventures dropped. Moreover, there was a tendency for TNCs to make previous joint ventures into wholly owned subsidiaries.

There is really one key issue at play here, which is what role does the state have in economic planning around transnational corporations. There are certain key questions that we will need to ask ourselves about this process. Besides what has already been highlighted, that is Brazil's concept of development concentrates on growth; there is also mounting evidence to suggest that the reign the state had on planning the development path has over the years been gradually eroded by the increasing number of transnationals and the effects of globalization. Nation states operate in an era where corporate power dictates what the development path should be. There are real problems associated with this present scenario. In order to understand the trends in Brazilian State planning and to identify changes in regards to transnationals one only has to look at the adoption of more liberalizing and deregulatory policies in Brazilian development plans over the years.

State planning in Brazil has gone through several stages of evolution. These theories of development may be identified in a specific sequence. Firstly there was import substitution industrialization, then came export promotion, and now the present case is one where there is a dominance by neo liberal economic policies. Historically in Brazil there has always been national plans and policies aimed at the future development of the country. The more important plans in recent history have been the two development plans in the 1970s, the Collor and Cruzado Plans in the 1980s and the Real Plan in the 1990s. The later would be examined in the proceeding chapter within the context of globalization.

2.2 The First National Development Plan (1972-1974)

In November 1971 the Brazilian government brought out its First National Development Plan (NDP). This plan covered almost every aspect of Brazilian life from education and health to the economy. One of the national objectives that was highlighted in this plan was to "create a modern, competitive and dynamic economy, and on the other, bring about economic, social, racial and political democracy, in accordance with the Brazilian natural character." [23] As history has taught us the objective of the modern, dynamic and competitive industry was placed ahead of the social aspects. It is evident from the NDP that the state's aim was to achieve development. However, the concept of development that it had in mind, along with the development objectives and the development model all focused on what we would call growth. The NDP established on the outset that "to transform Brazil into a developed nation, constitutes the Brazilian development model."[24] In addition the plan had three development objectives it wished to secure. These were:

1. To place Brazil in a period of one generation, in the category of developed nations.

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[23] **Federative Republic of Brazil *First National Development Plan: 1972/74.* Nov., 1971, 5.**
[24] **Ibid,5.**

2. To double, until 1980, the per capita income in Brazil... which will require an annual Gross National Product growth equivalent to that of the last three years.

3. To raise the economy in 1974 to the dimensions which will result from an annual Gross National Product increase of between 8 and 10 percent...[25]

Moreover, there was a definite role for the state in this plan. During the 1970s development initiatives were geared toward industrial sectors with high technological capacities. In the 1970s it was further required that "foreign enterprises should orient their investments mainly toward areas of more sophisticated technology with the transfer of modern technology and modern management methods."[26] This was done with the intention of equipping Brazil with the necessary economic and technological base to compete effectively with other countries on the world market.

Peter Evans, a noted authority on Brazilian development used the term 'dependent development' to describe the process of economic and industrial transformation that was taking place in Brazil during the 1970s. Evans emphasizes that the term has been "reserved here for cases of capital accumulation at the local level accompanied by increasing differentiation of the

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[25] **Ibid, 5.**

[26] **Hellinger and Hellinger, op. cit., 110.**

economy."[27] In Brazil this process could only be viewed as an adherence to dependent development among the state, the local industrial bourgeoisie, and the transnational. Furthermore, this led to a new form of investment strategy geared towards not so much development as previously argued, but economic growth. The result of this was an increased tendency for TNCs to affiliate themselves with local firms and the state in joint ventures.

2.3 The Second National Development Plan: 1975-1979

In the 1970s most of the policies that dealt with state planning around transnationals and the role of the state in the development process were more evident in the Second National Development Plan (II NDP). The II NDP emphasized the problems that were facing the Brazilian economy and the policies and strategies that would be used to eliminate them. The II NDP supported the market economy model outlined in the NDP and believed that in order for it to be viable in the long run there needed to be "a sharp delimitation of the functions and dimensions of the public sector in order to avoid encroachment of state ownership." Also it stressed that the more " active the government, the more important it is that there be complete clarity about how far it intends to go, so as to have stability and efficiency in the system."[28]

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[27] **Evans, op. cit., 51. Dependent development has been used to refer to economic development based on dependency of foreign aid or on a particular factor. In this respect the term is used to refer to the development process which took place in Brazil where economic and industrial development depended heavily on multinationals.**

It was realized that there could not be a total reliance on the market mechanism for implementing the country's development strategy. There would be the need for some type of state control and intervention. The policy makers envisioned this through direct controls on the investment process by the state. The II NDP plan conceptualized for Brazil an economy where the state, private, national, and foreign companies would each have a part in the development model. This process was referred to as "a modern model of market economy in which the strategy of development is actively conducted by the government."[29]

With this model of development in mind the state clearly defined the areas of activity that it would be involved in directly as well as those that it would have influence over. In fact the government provided incentives to the private sector in the form of import restrictions, export subsidies and lower taxation. Moreover, there was a program installed where subsidized credit was provided to domestically owned firms for investment in areas dictated by the state.[30] In conjunction with the private sector the state clearly outlined the areas where it would have responsibility. Through state owned enterprises influence was exerted over the areas of energy, transportation and communications, as well as social development.[31]

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[28] Federative Republic of Brazil, *II National Development Plan (1975-1979).* September 1974, 48.
[29] Jorge Chami Batista, *Debt and Adjustment In Brazil.* (San Francisco: Westview Press, 1995) 37.
[30] Ibid, 37.

In terms of transnationals, the state was fully aware of the importance that foreign investment would play in the development process. One concern expressed at this time was the danger of having a concentration of foreign investment from one country.[32] It was important to encourage investment from foreign enterprises into the Brazilian economy. Even after the II NDP was made public, one Brazilian publication in response to the plan noted that:

> Aware of the significant contribution that multinational concerns may offer to Brazil's economic development, the Government intends to lay down certain guidelines for their operation in our country. Thus, the Second National Development Plan (1975-1979) determines that the authorities must encourage the operation of multinational concerns in those sectors most lacking in financial resources and technology, thus establishing an selective criterium for foreign capital. Three areas may be defined: one where national enterprises are capable of adequately meeting the country's requirements, where foreign capital is not needed; a second one which requires new technology and foreign capital, which would be open to multinational companies; and, between both extremes, an undefined area where concrete efforts of national enterprises call for a complementation, in which case joint ventures seem to be the ideal solution. . . .[33]

The real issue was to keep foreign corporations out of those areas that were predominantly the responsibility of the State. In fact, foreign capital in Brazil could not participate in areas that the government considered significant.

The II NDP, as mentioned before noted the importance of foreign investment. Therefore, just as the plan clearly defined those areas in which the

[31] **Federative Republic of Brazil, op.cit., 48.**
[32] **Batista, op. cit., 37.**

state would have influence, it simultaneously outlined the areas in which foreign corporations and foreign investment could operate. According to the II NDP foreign corporations would be allowed to "develop new export markets mainly in non-traditional manufacture; to contribute to the development of technological research in Brazil with their own research funds and to contract engineering from enterprises established in the country; and finally to refrain from market control practices and from the absorption of competitors."[34] These guidelines were laid down for the operation of TNCs, and at the same time they were intended to ensure that the state would dictate the development path. Furthermore, the second development plan viewed the policy of joint ventures as an essential element in the development strategy. In this scenario, transnationals were involved on a minimal basis, often being the one contributing the technology.

According to Evans's account the Brazilian government pressured TNCs to participate in building Brazil's industrial base. In most instances the foreign companies did not have much of a choice. This is because their operations and investments were in jeopardy of nationalizing retaliations by the Brazilian government. This led transnationals to affiliate themselves with local partners as a form of political protection. This gave the state and local enterprises the technology they needed to be more competitive in both the domestic and the international market. Overall, this joint venture model was on the one hand to

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[33] **James Schlagheck, *The Political, Economic, and Labor Climate in Brazil*. (Pennsylvania, The University of Pennsylvannia, 1977) 17.**

"facilitate the development of industries through the private sector," and on the hand, "to secure an important role for national private enterprises in the... industrial sector."[35]

The alliances that were formed to promote the military government's model of development were also of great importance in maintaining state control. On one front it provided the government with an opportunity to expand its domination into other sectors of the economy which it could not do on its own. Evans points out that by bringing multinationals into ventures "the state can retain control... while forcing multinationals to share in underwriting their production."[36]

The II NDP seems to have advocated a strong interventionist role for the state in the development process. The allocation of both local and foreign investment followed very closely the guidelines that were laid down in the Development Plan. Furthermore, it appeared to be consistent with the government's objective of raising output and the production capacity of the economy allowing it to be internationally competitive. The state intervened in the economy through the use of selective credit, subsidies, trade restrictions, and investment projects undertaken by state owned enterprises. Moreover, they were able to direct foreign investment into selected areas of activity.

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[34] Batista, op. cit., 37.
[35] Sorenson, op. cit., 62.

2.4 A new era for development: The Cruzado and the Collor Plans

In Brazil by the end of the 1970s, it was clear that there were changes in the role that foreign investment, and by extension transnational corporations played in the development process, along with the limitations imposed by state policies. By regulating and redirecting the investment of transnationals Brazil was able to build an internationally competitive industrial economy. In the 1980s Brazil's attention became more focused on the country's inflation problem. Also there were political changes that occurred in the 1980s. This was the country's transition to democratic rule in 1984 after years of military dictatorship.[37]

The late 80s and early 90s gave rise to two essential concerns for the Brazilian State. These were questions of fiscal adjustment and the need for structural reforms in terms of privatization and trade liberalization. There was a growing need to implement policies aimed at stabilizing and restructuring the Brazilian economy. Furthermore, international economic events like the worldwide recession in the early 1980s, the disintegration of voluntary

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[36] Evans, op. cit., 227.
[37] see Luiz Carlos Bresser Periera, *Economic Crisis and State Reform in Brazil*. (london: Lynne Rienner Publishers, 1996) 17. The modernizing- authoritarian interpretation was a feature of Brazil's techno bureaucratic capitalist regime from 1964to 1984. It too corresponded to an excluding political pact involving the local bourgoisie, the bureaucratic middle class, and the transnationals. It rose as a critique of the national developmentalist approach, yet it favoured import substituition strategy. The national-developmentalist interpretation was essentially nationalistic and moderately in favor of state intervention because it saw the protection of national industry as essential to growth.

commercial bank lending and the huge increase in international interest rates all had a drastic impact on the Brazilian economy.

During the late 70s and early 80s in Brazil, the turmoil in the global economy led to "a fall in real incomes, higher rates of inflation, a humbling of the country before its international creditors, and enormous uncertainty regarding the future direction of economic policies."[38] The increase in oil prices in the 1980s and the further increase in interest rates put the economy of Brazil in further difficulty. In an attempt to address the situation the government announced a thirty- percent devaluation. Also with the help of the International Monetary Fund (IMF) a stabilization program was adopted in late 1982 and early 1983 aimed at the reduction of account deficits, however this was later abandoned.[39] One of the issues at play in the making of state policy at this time was the country's internal struggles and its transition to a democratic system of government. The Brazilians experimented with a range of heterodox packages in order to manage their transitions from authoritarian to a constitutional form of government. The expansionist pressures of the plans that were prescribed in the Brazilian context were in conflict with the IMF. These programs were portrayed "politically as alternatives to the kind of orthodox IMF programs being followed in countries like Mexico"[40]

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[38] **William Tyler, "Stabilization, External Adjustment and Recession In Brazil," *Studies In Comparative International Development.* (Vol. 21 No: 2 Summer 1986) 5.**
[39] **Ibid, 14.**
[40] **Robert R. Kaufman, "The Politics of Adjustment Policy in Argentina, Brazil and Mexico," Policy Sciences. (Vol. 22, No: 3-4 November, 1989) 400.**

One of the first major plans implemented in Brazil in this new era aimed at stabilizing the economy was the Cruzado Plan. The Cruzado Plan sought to combat inflation without creating a new recession. At this time the rate of inflation in the Brazilian economy was rising. The inflation rate went from "100 percent in 1981 and 1982, it climbed to 150 percent in 1983 and over 200 percent in 1983 and 1984; by February 1986 it reached a yearly rate of almost 300 percent."[41] The Cruzado Plan was a heterodox inflation stabilization program that was engineered by the government of Jose Sarney.

Two principal figures recruited by the Sarney government and the drafters of the plan were Andre Lara-Resende and Persio Arida. They argued that for societies like Brazil with such high inflation "orthodox shock prescriptions were unnecessary and ineffective, because they over emphasized excess demand explanations of inflation and ignored inertial sequences of wage price adjustments that could be halted by demand management techniques alone."[42]

They proposed a stabilization plan aimed at addressing the chronic inflation experienced by the Brazilian economy. The Cruzado Plan of 1986 included among its goals and objectives "a general price freeze on final goods; a wage freeze; a wage escalation system which guaranteed an automatic wage

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[41] **Baer, op. cit., 150.**
[42] **Kaufman, op. cit., 398.**

increase each time that the consumer price index rose twenty percent; the creation of a new currency, the Cruzado which replaced the old Cruziero."[43] The implementation of the Cruzado Plan took three phases. The first phase occurred during the months of March to June with the price freeze. The second phase occurred over the period July to November, with measures that were intended to increase investment and regulate foreign investment.[44]

The freezing of prices were favorable for some sectors of both the local businesses and TNCs who had raised prices just prior to the price freeze. These sectors were in a favorable position, while others were not so fortunate. They had not made adjustments in their pricing and straggled behind. This event was even more widespread in the pricing mechanism of public utilities, which were left behind in the price freeze. The business community eventually began lobbying government for the elimination of the price freezes so that price could be regulated by market forces. However, another component of the Cruzado plan was initiated where the focus was on the maintenance of export competitiveness; to change the wage indexation; to encourage long term savings through the establishment of new tax advantaged instruments."[45]

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[43] **Baer, op. cit., 152.**
[44] **Ibid, 152.**
[45] ***Brazil: A Macroeconomic Evaluation of The Cruzado Plan.*** **(Washington: The World Bank, 1989) 38.**

Unlike the two previous plans, the Cruzado was mostly concerned with the debt adjustment situation. This plan did not highlight too many guidelines for TNCs. One is led to believe that the tendency during this period was to approach the issue of transnationals under previous prevailing conditions. The major question in the minds of the policy makers centered on controlling the inflation. The Cruzado Plan adopted policies, which was aimed directly at the domestic economy, in an attempt to reconstruct and stabilize the economy.

Overtime there have been several forms of liberalism in Brazilian State planning. However, up to this point in time neoliberalism policy had not been fully adopted. The State right up until transition to democracy in 1984 had been both conservative and interventionist. With the failure of the Cruzado Plan and the accession of Fernando Collor de Mello to the presidency a new anti-inflationary program, the Collor Plan was announced. The Cruziero was introduced as a new currency to substitute the Cruzado Nuevo. Also there was an elimination of various types of fiscal incentives for imports, agricultural activities and exports, application of income tax on stock market operations, and the creation of a tax on wealth.[46]

Like its predecessor the Collor Plan also called for the freezing of prices. However, prices were frozen by the government only for forty days, " after that maximum percentage adjustments were fixed by the government each month on the officially expected inflation in the period."[47] Also in the long-run wage adjustments were to be determined by employers and employees. Examined closely the Collor Plan preached five basic elements:

1. An attack on inflation.
2. Deregulation.
3. Privatization.
4. Trade liberalization.
5. Reconciliation with the financial community.

There were spurts of growth and recession with the implementation of the Collor plan. It is estimated that "real GDP declined by 7.8 percent in the second quarter of 1990. With the unlocking of a number of assets within the following months, economic activity expanded, producing a 7.3 percent growth of the GDP in the third quarter, while in the last quarter there was again a decline of 3.4 percent."[48]

Within the Collor Plan trade liberalization had the most impact on the Brazilian development process. One of Collor's goals was Brazilian national development. The belief was that the "business community, operating freely in the market would be the main agent of this development and competition would be a fundamental factor in the allocation of resources."[49] At the same time Collor was aware that there were flaws in the market, as such he advocated that this should be compensated for by "state action not only in the social and

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[46] **Baer, op. cit., 180.**
[47] **Ibid, 185.**
[48] **Ibid, 185.**

environmental area -- the distributive realm, but also in the productive realm: technological development and industrial agricultural policies."[50]

The goals were to gradually integrate the Brazilian economy into the rest of the world. One of the ways that the State thought they could accomplish this was by gradually reducing the tariff system as shown in the proceeding table.

Table 1. Protection of the Brazilian Economy 1990-1994

	1990	1991	1992	1993	1994
High Tax	105.0	85.0	65.0	55.0	35.0
Avg. Tax	32.2	25.3	20.8	16.5	14.0

Source: Economic Crisis and State Reform in Brazil, p 1942.

During Collor's presidency the tariff reduction plan was implemented making Brazil one of the most open economies in the global system. Table 1. shows that the protection in the Brazilian economy dropped from 32.2 percent in 1990 to about 14.0 percent in 1994. This suggests that administrative and other import controls were drastically reduced.

Unlike the previous National Development Plans, the Cruzado and the Collor Plans did not make any specific recommendations or policies aimed at the operation of transnationals. Instead they attempted to affect change in the overall operation of the Brazilian economy. Even though specific policies targeted at foreign companies were not engineered in these plans, they did in

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[49] **Bresser Periera, op. cit., 136.**

fact lead to an increased role for the operations of transnationals. The Collor Plan laid the foundation for the further liberalization of the Brazilian economy. This would mean a greater participation by foreign firms in the development process, as well as a reduction in the role of the state in regulating the operation of transnationals. In general, intervention in the economy by the state has taken less of a forefront in Brazil with successive plans after the Second National Development Plan. Brazil did have some success with its policies. For example state policies aimed at attracting foreign investment and transnationals from diverse origins were successful in the 1980s.

Table 2
Origin of Foreign Capital in Brazil 1951-1991.
(Percentages)

	1951	1980	1986	1991
United States	43.9	30	30	30
Canada	30.3	4	5	6
United Kingdom	12.1	6	6	7
France	3.3	4	4	5
Uruguay	3.1	4	--	5
Panama	2.3	3	4	2
Germany	--	13	15	14
Switzerland	--	10	8	8
Sweden	--	2	2	2
Netherlands	--	2	2	2
Japan	--	10	9	10
Italy	--	3	4	3
Luxembourg	--	2	2	2
Other	5.0	10.9	9	8
Total	100.0	100.0	100.0	100.0

Source: Werner Baer. The Brazilian Economy: Growth and Development. 4th Edition. Connecticut: Praeger Publishers, 1995. P.222.

[50] Ibid, 137.

Table 2 shows that the United States dominated foreign investment by the end of 1951. Even though by 1991 the United States still stood out as a source for FDI in Brazil there was increased diversification in the origin of FDI by 1991. Foreign companies would dominate the proceeding era in Brazilian development. The effect of this period on state planning is examined in the next chapter along with the Real Plan of the Cardoso government.

2.5 Summary

The historical context for the relationship between the state and transnational corporations gave a brief historical overview of the planning strategies and objectives of the various regimes that have held political power in Brazil. It is evident from this review that the state at different times made a conscious effort to ensure that its development model was achieved. In the late 1960s the objective of developmentism was embedded in the planning strategies of the state. This later transformed itself into a model of economic growth based on conditions that favored the influx of transnational corporation. There have been periods where the state has involved itself in planning strategies that sought to stabilize the Brazilian economy and control the rate of inflation. Peter Evans identified the relationship between the state and transnationals as one of dependent development. It is this relation ship that allowed the Brazilian State to establish an economy that is opened to global capital accumulation in the 1990s.

Chapter Three

THE CURRENT PERIOD OF GLOBALIZATION

In the mid to late 1990s a new era for economic planning and policy formulation has become evident under the Cardoso government. At present the Brazilian economy is submerged in policies and other economic strategies that appear to further the cause of global capital accumulation. In Brazil, the state has enhanced its capacity to acquire global capital by undertaking trade reform, tax reform and financial liberalization of the economy. There are obvious reasons why an opened economy would be and has been more attractive to FDI and transnationals. Firstly, there is the free access of imported machinery and other inputs allowing for productive sectors of the economy to adjust quickly. Secondly, there is a greater capacity for adjusting financial shocks and generating foreign exchange; and also the vulnerability of shocks from external prices are reduced since exports are more broadly based.[1] However, one major disadvantage here is that opened economies like Brazil are more exposed to changes in international capital flows.

3.1 The WTO framework and Regional Integration

In addition to the policies of the present regime Brazil also had to deal with international trade guidelines formulated within the framework of GATT/WTO. This in itself laid a foundation upon which further liberalization of the economy has taken place. Furthermore, the use of regional integration as a means of diversifying the economy has allowed for the flow of FDI and the influx of transnationals. The establishment of large sub-regional integration schemes like Mercosur has created new opportunities for FDI through the enhancement and enlargement of markets. Although it has been noted that it is difficult to pinpoint the direct effects of regional integration on FDI in Latin America from effects that have resulted from "domestic policy reforms such as macroeconomic stabilization, privatization and opening to world markets."[2] This has been evident with the outcomes of the Uruguay round of GATT/WTO in addition to regional integration with the formation of Mercosur. Initially, Brazilian exports faced heavy competition and tariffs in developed countries. There were voluntary export limitations placed on iron and steel products from Brazil. Also, export restrictions were applied to textiles and clothing which fell under arrangements of GATT and Multifibres arrangements.[3]

During the Uruguay Round of GATT/WTO in 1993, Brazil took a strongly defensive position. In particular, Brazil objected to a proposal to include trade in services in the GATT/WTO framework. It was argued that "negotiations in services would tend to diminish the importance of traditional GATT issues... which was of great importance for them like agriculture, market access,

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[1] see (Sachs and Warner, 1995)
[2] UNCTAD. ***World Investment Report 1998: Trends and Determinants.*** (New York and Geneva: United Nations Publication,1998) 251
[3] Maria D'Alva Kinzo and Victor Bulmer-Thomas, ***Growth And Development In Brazil: Cardoso's Real Challenge.*** (London: Institute for Latin American Studies, 1995), 26.

textiles..."[4] The Brazilian agenda in the Uruguay Round focused on specific areas, including tariffs, textiles and clothing, agriculture, as well as anti-dumping measures. Overall it may be argued that Brazil's interest extended to the defense of its economy.

The result of the Uruguay Round in 1993 was significant for Brazil. First agriculture was brought into the GATT framework. Furthermore, an agreement was made that eventually led to the conversion of most non-tariff barriers into tariffs.[5] Under the tariff program of GATT/WTO, the average tariff applied by Brazil dropped in January 1992 from 21.2 percent to about 14 percent in July 1993.[6] Even though Brazil adopted a Common External Tariff (CET) under Mercosur guidelines, the tariff structure if the country has not necessarily improved.

According to a WTO report, a major achievement in Brazil has been "the reduction of inflation from an annual rate of nearly 2,500 percent in 1993 to some 20 percent in 1996."[7] This was attributed to the implementation of the Plano Real that was aimed at stabilizing the economy. This report also highlighted the involvement of Brazil in consultations within the GATT/WTO framework in relation to anti-dumping regulations. According to the report, "Brazil use of trade

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[4] **Ibid, 27.**
[5] **Ibid, 29.**
[6] **"Brazil's Reforms Promote Economic Gains," [Online]. 23 Jan 1999 (http://www.wto.org/reviews/tprb45.htm).**
[7] **Ibid., http://www.wto.org/reviews/tprb45.htm.**

remedy measures increased during the 1992 to 1995 period, when 66 anti-dumping cases (mainly on chemical and mineral products) were initiated."[8] Furthermore, there are other areas within the GATT/WTO framework that Brazil has used to its advantage. Article XIX of GATT, which relates to "emergency action on imports of particular goods,"[9] have been adopted to protect the Brazilian toy industry. Also, in May 1996 safeguards were implemented to protect quotas in the textile industry.[10] These measures have also served to protect jobs in that by maintaining demand and quotas current jobs will continue to have some level of protection.

The economic reforms set out in GATT/WTO in terms of liberalization of policies have been evident in Brazil. Most notable has been the elimination of an economy based on Brazilian capital. Moreover, many sectors of the economy have been opened to private and foreign participation. This has been good news for many transnationals wishing to expand already existing operations in Brazil, as well as those seeking to establish themselves there in the future.

Privatization has removed the state from industries such as steel, fertilizers, petrochemicals and aircraft. In 1995 the privatization program was extended to the electrical supply, railways, mining and financial sectors.[11] It has

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[8] **Ibid., http://www.wto.org/reviews/tprb45.htm.**
[9] **Ibid., http://www.wto.org/reviews/tprb45.htm**
[10] **Ibid., http://www.wto.org/reviews/tprb45.htm**
[11] **Ibid., http://www.wto.org/reviews/tprb45.htm**

been reported that through privatization, employment stability fell from ten percent to twenty percent for workers in late 1997.[12] While it can be argued that the legal framework of GATT/WTO provides the main guidelines for the general trade relations of Brazil, increased regional economic integration has also affected the operation of transnationals.

Regional integration has led to the creation of Mercosur.[13] Since the inception of Mercosur in March of 1991 there has been a considerable shifting in policy in terms of trade and other opportunities for investment.[14] Mercosur also set as one of its objectives the establishment of a customs union through the implementation of a Common External Tariff (CET) which served to give its members (Brazil, Argentina, Paraguay and Uruguay) a competitive edge in the emerging global market.[15] The overall tariff reductions with Mercosur have contributed to the continued influx of transnationals into Brazil. For example in the automobile industry companies like Mercedes Benz and Chrysler have set up operations in Brazil. By the year 2000 it is estimated that "production should reach 2.5 million vehicles, totaling $17 billion in investments."[16]

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[12] **Carlos Emmanuel Da Finseca Barreto, Smaller Expectations. 12 Jan. 1998. (http://www.brail.com/ecomay96.htm).**

[13] **Mercosur is the Southern Cone Common Trading Market, it is a trade bloc liek NAFTA and includes the countries of Brazil, Argentina, Paraguay and Uruguay.**

[14] **kinzo and Thomas,op cit., 45.**

[15] **Angus Foster, *International Role Denied: Foreign Relations*. 12 Nov. 1998 (http://www.brazil.com/ecomay96.htm).**

3.2 Plano Real and Fernando Henrique Cardoso

Then finance minister Fernando Henrique Cardoso announced a new economic program to the Brazilian people in December 1993. This plan was expected to avoid some of the weaknesses that were inherent in previous economic plans. Some of the measures that were outlined by Cardoso in the Plano Real were:

1. a fiscal adjustment
2. the adoption of an inherent unit of account
3. the de-indexation of the economy and the adoption of the new currency, the Real.[17]

A restrictive monetary policy was also adopted by the government along with the new currency. It consisted of a "short-term limit on loans to finance exports, a 100 percent reserve requirement on new deposits, and a limit on the expansion of the monetary base of R$9.5 billion until the end of March 1995."[18]

As with the experience of the Collor and Cruzado Plans, inflation fell close to zero after its implementation from a monthly rate of about 47 percent in June to 1.5 percent in September of 1994.[19] This may be attributed to some features of the Plano Real, which were different from other plans aimed at restructuring and stabilizing the economy. For one thing the Plano Real did not include any price freezes as did its predecessor plans. Furthermore, the conversion of

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[16] **Marta Alva, *The Bulls Are Loose.*] 12 Nov. 1998 (http://www.brazzil.com/ecoaug97.htm).**
[17] **Kinzo and Thomas, opcit., 66.**
[18] **Baer, op. cit., 378.**
[19] **Ibid, 378.**

prices and contracts for the indexation of the economy was accomplished in a stage before the creation of a new currency.

As with the efforts of the Cruzado Plan in 1986 and the Collor Plan in 1990, Brazil appeared to have some success with the Plano Real in the early to mid 1990s. In terms of inflation, the rate for "1996 was far less than 15 percent down from 23 percent in 1995."[20] This is drastic, taking into consideration the rates that were in the thousands in the late 1980s and the early 1990s. [21] It is also important to take into consideration the changing economic structures. One has to be aware that the regional and international economy is very dynamic and as such is always changing and evolving into different forms. Brazil had to create and maintain an internal economic structure that would withstand the various trade pacts in an era of global capital accumulation. Notwithstanding this, Brazil also had to deal with "the largest foreign debt and the most unequal distribution of income in the world, turning its dilemmas into world challenges."[22]

The philosophy of the Cardoso government at the time that they took office was to establish an economy with increased foreign investment and competitiveness all geared towards its modernization. One of the ways that this was to be done was through the liberalization of the economy to the extent that

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[20] Albert Fishlow, "Is The Real Plan For Real?," in Susan Kaufman and Riordan Roett (eds.). *Brazil Under Cardoso.* (Boulder, Colorado: Lynne Riener Publishers, 1997) 43.
[21] Ibid, 43.
[22] Berta K. Becker and Claudio A.G. Egler, *Brazil: A New Regional Power in the World Economy.* (London: Cambridge University Press, 1992) 177.

there were incentives for the further influx of transnationals. It is here that the state had a role to play. Many of the debates put forward by scholars have pointed to a reduction in the role of the state. However, the role of the state in the late 1990s need not be viewed in terms of a reduction, but I will argue that the role of the state has been transformed to ensure the necessary conditions for global capital accumulation are put in place.

What I am talking about here is that Brazil has been able to sustain the flow of foreign direct investment (FDI) and by extension, the operation of transnational corporations. As such it is now the role of the state to ensure that there is a continued influx of FDI. There are several economic and policy factors which contribute to the sustainability of the present level and the continued growth of FDI flows into Brazil.

The main incentive or principal determinant for attracting FDI into any host country is economic growth. Also foreign investors and TNCs look at the size of the domestic market of the recipient country.[23] This is because transnationals "establish themselves in countries with large domestic markets in order to ensure better access to services."[24] In addition to these, FDI is also drawn to a country where there is high profitability, the availability of a cheap labor supply and infrastructure which allows TNCs "to build regionally integrated networks of

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[23] see UNCTC, 1992b.

foreign affiliates and to engage in intra-firm trade and resource flows, and create channels for the distribution of output."[25]

These economic factors, in addition to economic policy that favors TNCs, have made Brazil a viable destination for transnationals. The more important economic policies that influence the sustainability of FDI are macroeconomic reform, liberalization and privatization. These have been encouraged in Brazil since the beginning of the 1990s and even more so today under the Cardoso government and the Plano Real. To achieve the conditions mentioned above the state had to reconstruct itself to bring about a climate suitable for global capital. In terms of economic policy, when looking at market liberalization and privatization, these were carried out under active participation and guidance of the state in Brazil. In Brazil the privatization of state owned enterprises with FDI participation plus the continued implementation of existing privatization schemes have contributed to the sustainability of FDI in the country.

Table 3 below shows that over the course of the 1990s there has been a rapid and accelerating increase in the amount of FDI in Brazil. There was a slight drop in 1993, but since then it has increased steadily, almost doubling between 1995 and 1996. This influx of FDI into Brazil suggests that transnationals must have considered the 'locational advantage' of Brazil to be

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[24] United Nations, World Investment Report 1994: *Transnational Corporations, Employment and The Workplace*. (New York/Geneva: United Nations Publications, 1994) 28.
[25] Ibid, 28.

attractive, along with other conditions like trade deregulation and a favorable echange rate just to name a few. There has been a dramatic increase in the level of FDI in Brazil, with increases from $1.3 billion in 1993 to $16.3 billion in 1997.[26] In the late 1990s the conditions for global capital has been formulated under the present regime in programs and policies geared towards the deregulation and liberalization of the economy along with the privatization of state enterprises.

Table 3.
FDI Inflows into Brazil 1985-1996 (Millions of Dollars)

Year	Amount
1985-1990	1315
1991	1103
1992	2061
1993	1292
1994	3072
1995	4859
1996	9500

Source: World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy, p. 304.

3.3 The Privatization Process

Privatization of state enterprises can be viewed as a strong catalyst for drawing in FDI and in this case is one of the main initiatives used by the Brazilian State to create the economic conditions necessary for the operation of transnationals. The privatization program in Brazil got under way in the 1990s

[26] **UNCTAD 1998, op. cit. 248.**

and is one of the key for controlling inflation in the country. Along with trade liberalization and deregulation policies, "it is now part of a broad strategy of market-oriented reforms to the Brazilian economy."[27]

In the Brazilian experience privatization is seen as a fundamental instrument for building a more affluent Brazil. Within this scenario the state concerns itself, and focuses its attention and resources with creating the conditions to attract FDI. At the same time, it seeks to enhance its position in the global economy as a vestige for global capital accumulation in a period of globalization. Brazil has altered its view of the role for the modern nation-state. The state is now seen as a regulatory agent that should focus on the "alleviation of social needs, rather than direct participation in production."[28] With the creation of the Brazilian Privatization Program (PND) in 1990, the intention was to further previous attempts at privatization through the sale of state owned enterprises that had once been considered strategic under the previous import substitution model.[29] In this regard, by privatizing its various networks, the state attempted not only to enhance the government's social role, but also to reduce the public debt and to balance the budget. At the same time it sought to improve the competitive position of the country by providing a basis for FDI and transnationals.

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[27] Financial Times Management. *Banking And Finance In South America*. (London: Financial Times Management Reports, 1995), 65.
[28] World Trade Organization. *Trade Policy Review: Brazil 1996*. (Geneva: World Trade Organization, 1996) 96.
[29] Ibid, 96.

The government has promoted the sale of enterprises in the industrial sector especially steel, petrochemical and fertilizer companies. There are several indirect benefits that have arisen from the privatization process. These include new employment opportunities, increased investment by the new private sector owners and improvements in the overall economy of the country.[30] Privatization has been part of the national agenda for many years. It has been noted that the state's continued emphasis on its privatization program has made significant contributions to the restructuring of the State in its pursuit of the following:

1. correcting the fiscal imbalance
2. focusing the government's activities on the social area
3. transferring of private management many activities considered strategic in the country's previous development model
4. stimulating the modernization and restructuring of the country's industrial sector; and
5. Strengthening the market by broadening its base.[31]

Within this context the state has improved the locational advantage of the country, allowing for, and improving the chances for transnational operations and the sustainability of FDI in the longrun.

[30] **"Privatization Enters a New Phase". Jan. 1999, http://www.brasil.emb.nw.dc.us/priv.htm**

3.4 The Successive Phases of Privatization

Over the years the privatization program in Brazil has seen a drastic reduction in the state sector of the economy. With each successive government since the beginning of the 1990s, the privatization of state owned enterprises has been a major role for the state in Brazil. In the late 1980s the first phase of the privatization program was carried out on companies that had been absorbed by the state due to their financial difficulty. Moreover, at this time the government had no intention of implementing a large-scale program of privatization.

Table 4
Stages of the Privatization Program, 1990-95

Presidential Administration	Number of companies privatized	Sale proceeds (US$ million)	Cash pymts (US$ million)
Collor (1990-92)	15	3,494	16
Itamar (1992-94)	18	5,113	1,581
Cardoso (1994-)	2	642	284
Total	35	9,249	1,881

Source: World Trade Organization. Trade Policy Review: Brazil 1996. p 97.

This changed in the 1990s when the Collor government made privatization a fundamental part of its plan for structural reform. It is during this time that the National Privatization program was initiated. The sale of state owned enterprises became a major source of income for the government. It has been estimated that the sale of one of the steel companies, Usiminas, in October

[31] **Ibid, http://www.brasil.emb.nw.dc.us/priv.htm**

of 1991 brought in more revenue than all other privatizations.[32] Table 4 above shows the number of companies that have been placed in private hands.

The third phase of the privatization program was introduced by the Itamar Franco administration. During this time the state introduced new legislation that enabled foreign companies to participate fully in the privatization process. Laws were changed to permit the "sale of the State's minority company ownership," as well as to allow "foreign purchase of 100% of a privatized company."[33] This role for the state in the privatization process has continued under the aegis of the Cardoso government. The privatization of ESCELSA, one of the country's main electricity distribution companies in the State of Espirito Santo in July of 1995 signaled a resumption of the privatization program under the Cardoso government.[34]

Unlike 1970s and 1980s, the state has created for itself a role as facilitator of global capital accumulation. This is evident from the state's current role in the privatization program that began in the early 1990s. More importantly the privatization program continues to be one of the major instruments used by the Cardoso government in this period of globalization to further secure those conditions that will continue to attract FDI and by extension TNCs. This role for the state in the privatization process has been reinforced by President Cardoso

[32] **Ibid, http://www.brasil.emb.nw.dc.us/priv.htm**
[33] **Ibid, http://www.brasil.emb.nw.dc.us/priv.htm**

with the establishment of the National Privatization Council (CND), a special body created in 1995 to give more flexibility to the decision making and implementation process in the privatization program. The CND is comprised of cabinet level officers, is chaired by the Minister of Planning and Budget and is directly accountable to the President.[35]

Under the new structure of the CND the flexibility and the scope of the PND has been enlarged. Also it has allowed for a linkage between the privatization process and the respective ministries responsible for the various sectors. The CND since its inception has taken several important steps further to deregulate the Brazilian economy. Important decisions of the CND has been:

1. The full privatization of the petrochemical sector in 1995. This facet of the program will include the privatization of Copene and fourteen minority participation;
2. privatize Escelsa, the Espirito Santo electric distribution company;
3. privatize light, the Rio de Janero electric distribution company in 1995;
4. initiate the privatization of financial institutions with the Banco Meridional;
5. privatize the cargo railway sector by having the Federal Railway System (RFFSA) grant concessions for private-sector operation;
6. allow foreign capital to participate in the privatization of the banks;

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[34] **Ibid, http://www.brasil.emb.nw.dc.us/priv.htm**
[35] **World Trade Organization, op. cit., 97.**

7. initiate the process to privatize Companhia Vale do Rio Doce.[36]

From this it seems apparent that state ownership and the state sector of the economy has been revamped, with almost complete withdrawal in favor of private and foreign ownership. Conditions like this along with the legislation to back it up has laid a foundation for the flow of global capital through FDI and transnationals. In addition, the transfer of state enterprises into private hands is seen as essential for the country's economic development. The privatization process has accomplished an almost complete withdrawal of the state from the steel, fertilizer, petrochemical, and aircraft construction industries. Table 5 shows the results of the privatization program from 1991-1996 in terms of the various key sectors that have been transferred into private hands.

It has been estimated that "overall, the number of public enterprises was reduced from some 250 in 1987/88 to 147 in early 1996 through liquidation, incorporation or privatization." [37] More importantly, these privatization schemes have provided a revenue-earning base for the state. The United Nations in a recent report estimated that "between January 1991 and April 1998, the Brazilian federal and state authorities collected $43 billion in privatization revenues excluding the transfer of enterprise debts, more than half of it in 1997 alone. Most of the revenues came from the sale of enterprises in the electronics

[36] Ibid, 97
[37] Ibid, 97.

industry (42 percent), cellular telephone networks (19 percent), steel (13 percent) and mining (8 percent)."[38] The debt transfer column represents the amount from each sale that was put towards debt repayment.

Table 5
Results of the Privatization Program 1991-1996

Sector	**Sales Proceeds**	**Debt Transferred**	**Aggregate Results**
Steel	5,561.4	2626.3	8,187.7
Petrochemicals	2,570.6	990.3	3560.9
Fertilizers	418.2	75.3	493.5
Electricity	2,670.8	587.9	3258.7
Railway	379.5	0.0	379.5
Other	349.9	268.4	618.2
Total Sales	**11,950.2**	**4,548.2**	**16,498.4**
Sales of minority holds.	**395.5**	**0**	**395.5**
Overall Sales	**12,345.7**	**4,548.2**	**16,893.9**

Source: WTO. Trade Policy Review: Brazil 1996, p. 98.

During 1997, the privatization process assumed an even greater scope. There was the passage of the telecommunications law that provided the legal framework for the privatization and restructuring of the country's largest telecommunications company, Telebras and other state telephone companies.[39]

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[38] **UNCTAD, 1998 op. cit. 248.**
[39] **Business Monitor International, *Latin America Monitor: Brazil.* (Vol. 14 No. 7 July 1997) 6.**

In addition the state was set to sell off a number of state utilities to both private and foreign interests. For example the "sell-off of Bahia's state's power utility... aroused interest from over 40 companies, 12 of them foreign."[40] In July 1998 the sale of Telebras was the largest privatization in Latin America worth $US 20 billion.

In 1997 the state began to undertake not only the opening of the domestic market to foreign banks, but at the same time it initiated the privatization of many of the country's national banks. The National Monetary Council (CMN) in November 1997 gave permission for "five foreign banks to increase their share in, or to purchase, Brazilian financial institutions."[41] This saw the privatizations of several banks including the nation's third largest bank in the wealthy state of Rio Grande do Sul, Banco Meridonal.[42] Moreover, there was an announcement in November of 1997 by the CND to further widen the scope of the privatization program to include federal highways. Other plans outlined also include the privatization of water and sewage companies. This widened scope of the privatization program in Brazil indicates "that the government means business in selling off large state -owned chunks of the economy, even in areas not traditionally viewed as likely candidates for privatization. It also included the Brazilian Reinsurance Institute (IRB) in the privatization programme." [43]

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[40] **Business Monitor International,** ***Latin America Monitor: Brazil.*** **(Vol. 14 No. 8 August 1997) 8.**
[41] **Business Monitor International,** ***Latin America Monitor: Brazil.*** **(Vol. 14 No 12 December 1997) 7.**
[42] **Ibid, 7.**

UNCTAD has noted that "most of the foreign investors participating in privatization originate in the United States, followed by Spain (16 percent of revenues), Chile (8 percent), Sweden (5 percent) and France (4 percent)."[44] Most of the FDI in Brazil has gone into the automotive industry. Of the twenty largest foreign affiliates by sales in Latin America, twelve of them may be found in Brazil along with the largest as indicated by table 6.

Table 6.
Latin America: the 20 biggest foreign affiliates, by sales, 1996.

Rank	TNC	Home Country	Industry	Host	Sales ($ millions)
1	Volkswagen	Germany	Automotive	Brazil	7000
2	Chrysler	United States	Automotive	Mexico	6455
3	GM	United States	Automotive	Mexico	6346
4	GM	United States	Automotive	Brazil	5433
5	FIAT	Italy	Automotive	Brazil	4743
6	Shell	UK/Netherlands	Petroleum	Brazil	4717
7	Carrefour	France	Commerce	Brazil	4510
8	Ford	United States	Automotive	Mexico	3879
9	Ford	United States	Automotive	Brazil	3830
10	Nestle	Switzerland	Food Prods.	Brazil	3592
11	Telefonica	Spain	Telecom.	Argentina	2751
12	Gessy Lever	UK/Netherlands	Chemicals	Brazil	2749
13	Texaco	United States	Petroleum	Brazil	2639
14	Pepsi	United States	Food Prods.	Mexico	2600
15	Exxon	United States	Petroleum	Brazil	2470
16	Mercedes	Germany	Automotive	Brazil	2131
17	IBM	United States	Mach/equip	Brazil	1950
18	Telecom	France	Telecomm.	Argentina	1930
19	Shell	UK/Netherlands	Petroleum	Argentina	1866
20	Nissan	Japan	Automotive	Mexico	1800

Source: World Investment Report 1998, p. 249.

[43] **Ibid, 8.**
[44] **UNCTAD 1998, op. cit., 248.**

Brazil has become a favorite location for many of the automobile companies of the world. Several companies have indicated their willingness to continue and even increase operations in Brazil:

1. Dalmler-Benz (Germany) moved its assembly operations Of 2,000 trucks and buses from Argentina to Brazil. The company now has two assembly plants in Brazil, together producing 40,000 units per year, and expects to invest $1 billion by the year 2000.

2. Ford (United States) plans to invest $1 billion in the year 2000 to produce two new models. This would increase Brazilian investment to $3.5 billion.

3. Fiat (Italy) announced plans to invest $1 billion by the year 2000 to produce a new model to be exported from its plant in Betim to other developing countries.

4. By the same year, Volkswagen Germany plans to build another factory in Parana to export vehicles to its affiliates in Mexico.

5. General Motors (United States) has announced its intention to invest $3.6 billion.[45]

The flow of FDI into Brazil relative to the rest of Latin America is testimony to the success of the privatization program and other macroeconomic reforms. UNCTAD's preliminary figures indicated that in the "first four months of 1998, FDI inflows have exceeded $4.2 billion, an amount equivalent to twice the total inflows in 1994."[46]

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[45] Ibid, 249.
[46] Ibid, 249.

Table 7.

FDI inflows in selected Latin American countries, by sector, 1990-1996
(Millions of dollars)

Country	1990	1991	1992	1993	1994	1995	1996
Argentina	***1836***	***2439***	***4014***	***2514***	***3116***	***4783***	***5090***
Primary	..	..	1015	234	452	454	1014
Maufacturing	..	..	438	677	1601	1779	1538
Services	..	..	2561	1603	1063	2550	2538
Brazil	***2857***	***1437***	***1395***	***7054***	***9520***	***4860***	***10409***
Primary	4	100	53	-88	252	..	96
Manufacturing	1340	427	-585	1730	1654	..	1843
Services	1377	831	1884	5421	8041	..	4749
Chile	***1320***	***982***	***999***	***1730***	***2531***	***3028***	***4801***
Primary	837	471	588	923	1849	1818	1052
Manufacturing	104	271	145	495	362	378	951
Services	379	240	266	312	320	832	2798
Colombia	***501***	***457***	***729***	***959***	***1667***	***2317***	***3322***
Primary	324	314	521	585	904	859	1172
Manufacturing	160	131	89	217	398	614	675
Services	17	12	119	157	366	844	1475
Mexico	***2400***	***6012***	***7397***	***4535***	***11503***	***8430***	***6122***
Primary	157	80	120	213	104	142	94
Manufacturing	1199	3088	4013	1281	6153	3902	3498
Services	1019	2710	3079	3092	5232	4380	2530
Venezuela	***..***	***224***	***1950***	***375***	***701***	***333***	***395***
Primary	..	19	28	14	40	40	25
Manufacturing	..	187	400	280	347	127	235
Services	..	18	1522	81	314	167	135

Source: World Investment Report, 1998. p. 256.

Brazil's attraction of FDI is also significant when taking into consideration the sectoral pattern for FDI has been also changing (table 7). During 1990-1993 only a small amount of FDI was channeled into manufacturing. However, this changed as the economy grew and stabilized. One of the more noticeable changes in the composition of FDI is the increase in the amount that now goes into the service industry. This is mainly as a consequence of the privatization process.[47] The table also suggests that in terms of the service sector FDI has been greater in Brazil than every other country listed in the table.

3.5 Legislative Reform

One important aspect of this era of privatization by the state apparatus has been the number of legislative changes that have been implemented by the state. There has been a framework of legislation formulated to allow for the current phase of privatization to go forward. The state has devised three distinct legislation that allow for the operation of foreign capital in the economy. Firstly according to Law 8031 foreign investors could acquire no more than a 40 percent share of voting capital, unless other limits were established by the parliament. Moreover, capital converted within the privatization program could not be repatriated for up to six years. In the past a minimum of between two and three years was required for foreign purchase of majority control of privatized companies. However even though the latter rules are still in effect as of 1994 foreign investors were allowed to acquire 100 percent of voting rights in a local company.[48]

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[47] Ibid, 248.

[48] Financial Times Management Reports, op. cit., 66.

The legislative changes made by the state has allowed FDI to enter the country as currency, tangible goods, or even intangible goods as long as they are committed to economic activities. It has been done through foreign company subsidiaries that have been authorized to operate in Brazil; through the acquisition of partial or majority capital in Brazilian local companies; also through the establishment of new corporations in the economy.

Brazil has signed a number of treaties to avoid double taxation. These countries included Germany, Argentina, Austria, Belgium, Holland and Sweden. Also, as sign of its commitment to attracting FDI and transnationals, Brazil has negotiated for agreements on Reciprocal Promotion and Protection of Investments with several countries. To further facilitate the spread of global capital accumulation, Brazil has signed investment agreements with the United State and is a member of the Multilateral Investment Guarantee Agency (MIGA).[49]

The state has made several other allowances for the operations of transnationals within the Brazilian economy. Export Processing Zones (EPZ) have been created by the state where both local and foreign companies are allowed to establish provided that they are exclusively involved in the production of goods for exports. Companies located in the EPZ enjoy special subsidized public services, such as electricity. In addition, companies within this area also enjoy special tax incentives. These include temporary exemption from corporate income tax for terms between three and ten years, as well as exemption from taxes on imported inputs needed in the production process of goods for imports. This does not mean that corporations existing in EPZs have absolute freedom since there are certain restrictions that apply. For example, companies cannot transfer existing industrial plants into an EPZ, also there is the need for State approval on certain products such as radio active material and arms or explosives.[50]

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All of these actions by the Brazilian State have created conditions for FDI and at the same time it has enhanced the capacity of the economy to attract global capital. I have provided evidence to show the level to which the state has used the privatization program as an instrument in the process of global capital accumulation. But a question still remains regarding the extent to which the state has been successful in using transnationals and FDI to increase productivity and annual growth rates in the Brazilian economy. The Inter-American Development Bank (IDB) has been successful in mapping the annual growth rates in Brazil due to stabilization programs and other policy reforms. Between 1991 and 1993 the economy recorded an annual growth rate of -o.3 percent with a growth rate of 2.2 percent between 1993 and1995.[51] This

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[49] Ibid, http://brasil.emb.nw.dc.us/ppubpg.htm
[50] "Export Processing Zones in Brazil," http://brasil.emb.nw.dc.us/secom/zpe.htm
[51] Inter American Development Bank, Latin America After A Decade of Reforms. (Washington: John Hopkins University Press, 1997) 54.

suggests that the reforms in Brazil coupled with the increases in FDI has yielded positive results for the country's development model based on economic growth

Table 8.
Regional FDI inflows in the South America Region.
(Millions of dollars)

Region/ Economy	1986-1991	1992	1993	1994	1995	1996	1997
S. America	4252	8885	7554	13673	180868	30432	38993
Argentina	1168	4045	2555	3116	4783	5090	6327
Bolivia	40	122	124	130	374	474	500
Brazil	1258	2061	1291	2149	5043	11112	16330
Chile	763	699	808	1772	1667	4092	5417
Columbia	455	729	959	1667	2317	3322	2447
Ecuador	134	178	469	531	470	447	577
Guyana	3	147	70	107	74	81	90
Paraguay	31	137	111	180	184	225	200
Peru	29	136	670	3084	2035	3581	2000
Suriname	-120	-54	-47	-30	-21	7	12
Uruguay	41	58	173	155	157	169	200
Venezuela	451	629	372	813	985	1833	4893

Source: World Investment Report 1998, p. 362.

In terms regional investment flows, according to UNCTAD Brazil is the top recipient in the South American region of FDI. Table 8 shows the inflow of FDI in South America. It suggests that between 1992 and 1994 most of the FDI in this region went to Argentina with Brazil second. However as of 1995 the rate of FDI in Brazil grew rapidly almost doubling each year after that in comparison to other South American countries.

With this scenario the state has been successful in its reconstruction of the economy to attract agents of global capital. The choice of liberal policies and the application of a neo liberal agenda in has ensured not only the continued influx of these agents, but at the same time the state's conceptualization of development and the development process has been achieved. In a study conducted by Ernst and Young out of the United States, the economic performance of the Brazilian economy is very clear.

Table 9.
Economic Performance Indicators
The following table represents indicators of Brazil's economic performance for 1994 through 1997.

	1994	1995	1996	1997
GDP (US$ millions)	699	728	749	772
Real GDP growth rate	5.9	4.2	2.9	3.03
Inflation (%)	869.8	15.2	9.19	7.74

Source: Doing Business In Brazil. p 89.

The above table suggests that there has been a continued increase in the GDP of the country from 1994 to 1997. Even though there has been a continued increase in the amount and the level of FDI coming into Brazil as indicated by table 3, the greatest growth rate was recorded in 1994. Even though the rate of growth seemed to decrease after 1994, the Brazilian economy still recorded a growth rate in its GDP. More importantly, the Brazilian economy recorded levels of growth in its GDP each year between 1994 and 1997.

These data reinforces the position that the state has been successful in its current capacity as a facilitator of global capital. Also, the data are indicative of the success that the state has had in securing its development model based on economic growth. The privatization of many public enterprises along with deregulation and trade liberalization has spurred growth through several mechanisms. An economy like Brazil with the freedom to import and export has allowed productive resources to be used with greater efficiency. Moreover, the variation in production goods and the inputs have given rise to new productive activities. Finally, allowing the free movement of international capital in the economy has operated as a "sign of transparency that reduces the premium risk of foreign credit sources and increases the supply of foreign investment...trade liberalization ought to lead not only to a higher level of income, but also a higher growth rate, at least for a significant time."[52]

It can be concluded that the Brazilian State has been successful in securing its development objectives based on economic growth. Although it is also clear that the economic model assumed by Brazil has not allowed it to address the issue of inequities that exist in Brazilian society. By pulling out of the economy and reducing many of its social services is likely to exacerbate existing inequalities even with increased growth. However, this thesis has not examined this domain of Brazil's development process.

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[52] **Inter-American Development Bank, 55.**

Chapter Four

GENERAL CONCLUSIONS

As a developing country, the role of the state in Brazil is representative of the position that other developing countries find themselves in. In the current period of globalization the priorities of development are set by the state. They are also increasingly set by an emerging complexity of interests set by international organizations, like the World Trade Organization, which have assumed policy and decision making power over a wide range of issues. Despite the shift of decision making power towards a number of strategic organizations formed at the international level, and a severe downsizing and some hollowing out of the state, it remains one of the most important elements in determining the overall path of many countries to development. The Brazilian government in this context also continues to define development in terms of economic growth as a means of bringing about increases in productivity and output. This is evident throughout the various economic plans, policies and legislative changes that have been implemented in Brazil over the years. All of the state's activities have been engineered so as to enhance the capacity of the Brazilian economy to attract and sustain FDI and transnationals in a period of global capital accumulation. The structural changes brought on by globalization have resulted in a re-demarcation of roles for the state and foreign capital. This thesis has argued with evidence that the role of the state in relation to transnationals and other global actors have been transformed and restructured. It has also tried to define and describe the nature and scope of this restructuring process in order to determine whether the state's role in macroeconomic planning has been eliminated, or simply reformed.

With the transition to democratic rule in the early 1980s, the focus of the state began to change in favor of a more opened economy and a gradual move away from a state-dominated economy. Given the current global order, the only way that Brazil could compete and survive in the global economy is for the state to restructure its role in the economy. Within the framework of the international economic order, with transnationals and global capital on one side, and states competing against each other to attract TNCs and global capital on the other, the Brazilian state has been successful in molding itself into a vestige for global capital accumulation. In this framework of states competing against other states, the development path taken by Brazil has been heavily state driven through policy reforms and other programs like privatization.

In Chapter One we saw that in the literature there were various positions on the debate of state versus transnationals. The framework first put forward by classical liberalists like Ricardo and Adam Smith positioned the market as the chief determinant for economic and other business activity. They reject a role for the state in the economy and instead marginalized the functions of the state into three key areas as previously mentioned. Scholars like Sheahan, Vernon and Evans saw an expanded role for the state in the development process. This included policy reform, and guidelines, which sought to regulate the operation of transnationals in the economy. This was evident in the economic history of Brazil within the early strategies of the military regime under Vargas in the 1940s and 1950s where foreign investment was channeled into key areas and transnationals were regulated by policy and other legislative instruments of the state. In addition distinct areas of operation were outlined in the development plans for both the state and foreign capital. At the same time the perspective of Evans, "dependent development," where the state took the lead in the development process by using both local capital and the resources of transnationals to affect the development process, had some relevance in state policy and economic planning throughout the 1970s.

This notwithstanding, the critical political economy perspective of scholars like Barnet and Cavanagh, Leo Panitch and Saskia Sassan on the role of the state also explains factors involved in the state's role in the development process. In the context of the 1990s, the state in Brazil has been dramatically reduced in terms of ownership and control of the economy. The evidence presented in this thesis is clear on this point. Under the direct guidance of the state apparatus the scope of the privatization program has been widened to include every aspect of the state sector. Moreover, the privatization program serves as a revenue generating mechanism for the state. The state enterprises that have come under foreign ownership are significant at the level of number and strategic control. The data presented in Chapter Three suggest that there has been a rapid acceleration in the privatization of state sectors of the economy under the auspices of the privatization program particularly in the 1990s with the formation of the National Privatization Council under the Cardoso regime.

The present global capitalist system is dominated by large transnational corporations who because of their shear size and revenue base are able to set the operating conditions in the international economy. Within this scenario the state remains an important component. In many ways, and the literature does show this, the state has withdrawn from the domestic economy. In many countries of the developing world we are seeing domestic economies being increasingly internationalized. The economic policies of once sovereign states are being strongly influenced by policies and guidelines set at the international level by international financial institutions like the World Bank, the World Trade Organization and the International Monetary Fund. In order to secure a place in the global economy it appears that states must bend to the whim of transnationals.

Many political economists including marxist would and have argued that transnationals, whose operations facilitate the globalization process, set the rules of the game and that nation-states simply embrace them. The neoliberal model of capitalist development is predicated on the privatization of the means of social production, internationalization of labor and capital flows, and a mininalist state; and so international financial institutions imposed this on developing countries. This came in the form of structural adjustment programs that called for the privatization of state enterprises and deregulation in order to reduce the scope of the state. In this sense, the withdrawal of the state from direct participation in the economy was deologically driven. Neoliberals have argued that private markets perform more efficiently and that "economies in which markets are given greater sway produce more, grow faster, and reward people with a higher standard of living."[1]

In many parts of the world we are indeed seeing the state retreating from the economy. However, it is my thesis that this is a strategically planned retreat on the part of the state. The state does this so as to ensure a place for itself in the international economy by reducing its capacity in terms of the state owned sectors of the economy and other social services in favor of global capital embodied in transnationals. Most states have given over control of strategic areas of their economies to transnationals and other private interests. Their policies are now formulated with the interests of global capital at the forefront. In spite of this, I would like to argue that the state still retains relative autonomy in this period of globalization.

I do not agree that the state is not motivated by what is happening in the international setting; it is. This thesis has argued that the state has been transformed and restructured, and yet it remains a viable part of the economy

[1] **The North-South Institute. *Report 1997: States, Emerging Markets, And Development.* (Report of a seminar co- hosted by The North-South institute and Simon Fraser University-**

and macroeconomic planning. What has changed is that the state has been withdrawing from the state owned sectors of the economy. In this regard the state has been reduced, as in the Brazilian case, from direct participation in production.

The present international economic order has brought the notion of competition to the forefront. Not only do transnationals compete with each other for their share of the global market, but at the same time states must compete against each other to attract global capital. In this sense the state has been forced to adopt a new role, that of marketing itself as a viable location for global capital if it wants to carve a niche for itself in the global economy. This has meant for the Brazilian state internal adjustment and restructuring in terms of adopting policies, implementing legislation and transforming in favor of interests embodied in transnationals.

In Brazil, the state has transformed its role to give the economy a competitive edge in relation to other states in the international economic order. The role of the state as outlined during the 1960s and especially the 1970s in the two development plans has not only been reduced in terms of state intervention in the economy and the channeling of foreign investment, but also the state has removed itself from the production process. As seen in Chapter Two, in the late 1960s and early 1970s a system existed in Brazil where the state was the

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principal decision maker in the alliances that it formed with both foreign and local capital. During this period transnationals were more inclined to acquiesce to demands for local control. During the mid to late seventies, and especially with the II NDP the areas of state and transnational operation were clearly defined. This need for state control and public ownership was important for the survival of the military state apparatus during this period. This process called for heavy state intervention in the economy, and at the same time transnationals were kept out of those areas of the economy that were considered strategic for the operation of the military guided state structures.

The privatization program continues to be used to stimulate the economic conditions necessary for the influx of FDI and transnationals by the Cardoso government. It has also been one of the key instruments used in achieving the country's development model based on economic growth. The evidence in Chapter Three also suggests that the Brazilian economy has been very successful in attracting FDI in terms of the region as a whole. Since 1994 there has been a rapidly accelerating increase in the amount of FDI flows into Brazil.

The state has been successful in its transformation by pursuing policies that create the conditions deemed necessary for global capital accumulation. Through the establishment of regional integration schemes like Mercosur, Brazil has enhanced and enlarged its domestic market creating new opportunities for FDI. Under the Real Plan the economy has seen further deregulation and liberalization, and these and other economic factors have made Brazil a favorable destination for transnationals. The state is no longer involved, nor does it directly participate in production. The state has effectively promoted the privatization of every dimension of the former state sector of the economy, even those that have not been traditionally considered for privatization.

The data suggest that in sectors like the automotive sector the state has been very successful in attracting automobile companies to establish branch plants in Brazil. In order to ensure that reforms and privatization schemes move ahead a considerable amount of legislative changes have also been made so as to allow for a smooth transition from state to private ownership. Legislative changes carried out under the present state apparatus has paved the way for continued influx of FDI in its various forms with little to no state regulation.

Even though there has been a reduction in the state's presence in the economy in terms of ownership, the evidence supports the point of scholars like Stopford and Dunning that the present policies in Brazil have been implemented under the aegis of the state. In this context the position of the state in this era of globalization has not been that of simple reduction and withdrawal, but has been one of reduction and transformation so as to meet the needs of global capital. As such, the neoliberal agenda of a free market, which was adopted in the early 1990s by the Franco government continues to be propounded by the present occupants of the state apparatus.

The economic reforms of the economy in this present period of globalization and within the framework of the international economic order are highlighted so as to ensure the optimal development of the Brazilian economy, specifically in terms of the economic interests of the capitalist class. The reforms of the state however, have clearly worked to the advantage of transnationals that are attracted to deregulated and liberalized economies. The state has reduced its role in the traditional state sectors of the economy like, energy, telecommunications and transportation, allowing it to compete effectively against other states in the global economy who are also seeking to attract global capital.

The data suggest that Brazil, through policy reforms, market deregulation, liberalization, privatization and other activities like devaluation and regional integration, has been able to continue its path towards economic growth. Brazil has stood out in the region as one of the main recipients of FDI, and the data show that in Latin America as a whole most FDI goes to it, with the major portion, according to UNCTAD, coming from the United States. With the wave of privatizations the number of foreign companies in Brazil have increased. Brazil's FDI inflow has been greater than any other South American country, recording rapidly accelerating growth since 1995, almost doubling every year after that.

Many states have been maneuvered into the position that Brazilian state has been forced into. Within the framework of the international economic order, if a country wants to acquire global capital this is the only course that is available to it. However, the freedom of operation allowed TNCs can be very dangerous because it puts them in a position to dictate the future course of policy. If Brazil's policies continue in this direction the government should seek to ensure that:

1. It continues to reinforce its relative autonomy so as not to give transnationals any more power than they already hold;

2. Secondly, there should be some backup plans in place to prevent ramifications from crises on the international arena, like the present backlash dealt to Brazil by the Asian crisis;

3. Ensure that the basic needs of its citizens are served if for nothing else than to maintain political stability, which is an essential part of the economic package that global capital is drawn to.

4. Cardoso claimed in the 1994 election campaign that an open economy is tied to social justice. But Brazil needs to undertake reforms that would seek to implement policies of social justice and thus enhance the quality of life for its citizens.

If my thesis is accurate, the state has become a facilitator of global capital, and as a result its actions and policies have created the conditions favored by transnationals. With the present international global capitalist order, states have acquired a flexibility that allows them to change and to adapt to their environment. If a state wants to be a part of the global economy in the present period, it needs to ensure an open economy and the unfettered flow of global capital, and this is what the Brazilian state has done. States have realized, especially in the Brazilian case that in order to be a part of the global economy it is necessary to adjust their internal structures to meet those set at the international level.

The economic growth model has experienced success in Brazil, with the country's annual GDP growth rates increasing every year since 1994. The role that the state has played in achieving this development model needs recognition. The state in the 1960s and 1970s modernized and industrialized its economy by way of what Evans termed dependent development. I would argue that the development path presently pursued by the Brazilian State is still "dependent development" but with a twist. The process as it existed in the 1970s has been slightly modified, but the overall philosophy remains the same. There is now another component of the process, since in addition to industrialization and modernization the dependent development model now also includes the enhancement of the state's capacity to acquire global capital. The role of the state may have changed from previous eras, since in order to have the competitive edge against other countries in the global economy in the race to acquire global capital, the state needed to transform itself. At the same time it places transnationals in a position to further dictate the direction of economic policies. The Brazilian state has actively pursued reforms and policies restructuring itself and transforming the Brazilian economy into one of the world's most attractive locations for global capital.

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