TRANSNATIONAL CORPORATIONS, DEPENDENT DEVELOPMENT, AND STATE POLICY IN THE SEMIPERIPHERY: A Comparison of Brazil and Mexico*

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INTRODUCTION

Brazil and Mexico occupy distinctive positions in the structure of the capitalist world economy. They bear little resemblance to the classic model of a "peripheral" country: they are too industrialized, having many of the modern industries typically found only at the center of the world economy; they supply themselves with too large a share of the finished goods consumed domestically; their exports are too diversified and include too many manufactured items; and they have developed unusually strong states with sophisticated administrative apparatuses capable of promoting and protecting local interests. But neither do Brazil and Mexico possess the characteristics commonly associated with "developed" or "core" nations. Their gross domestic product per capita is far below that of the United States, Japan, or almost any of the countries of Western Europe; their distributions of income are highly skewed compared to those of the developed countries;[1] they are recipient rather than source countries of foreign investment; they are debtor rather than creditor nations; and they are on the receiving rather than the originating end of product innovation and new production techniques.

From the perspective of the world system approach to the study of development, the position of Brazil and Mexico between the core and periphery countries on a series of dimensions makes them members of the "semiperiphery" (see Wallerstein 1974a, b, 1976; Chirot 1977). Membership in the semiperiphery implies both a definite *structural position* in the international division of labor and an historical *process of development* leading from the periphery to the semiperiphery.[2] This process of development in the contemporary period has been labeled "dependent development": "development" because it is characterized by capital accumulation and an increasingly complex differentiation of the internal

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productive structure, "dependent" because it is indelibly marked by the effects of continued dependence on capital housed in the current core countries (Evans 1979a).[3] As dependent development proceeds, direct foreign investment (DFI) plays an increasingly prominent role.[4]

The objective of this paper is to analyze the role that direct foreign investment has played in the process of dependent development in Brazil and Mexico. We hope to demonstrate that membership in the semiperiphery entails, at least for these two countries, not only fundamental similarities in the sectoral distribution of DFI and in the behavior of transnational corporations (TNCs),[5] but also increasing convergence in the responses of the Brazilian and Mexican states to the contradictions raised by the predominant role of TNCs in their economies.

We feel that the existence of these commonalities argues strongly for the important effects on national development of structural position within the capitalist world economy, given the undeniable differences between the two countries. Not only is Brazil much larger than Mexico in both area and population, but the two have very different political histories as indicated most recently by the contrast between Mexico's unbroken civilian rule and Brazil's fifteen years of military control (see Eckstein and Evans 1978). Mexico's political and economic affairs have been deeply marked by its proximity to the hegemonic core power, the United States. Its long border with the U.S. has resulted in a particularly heavy flow of U.S. capital into Mexico, the creation of a large assembly (*maquiladora*) industry just south of the Texas border, and increased agricultural exports. The two semiperipheral countries also have very different resource endowments, with Brazil's iron ore, bauxite, and other minerals opening a set of possibilities quite distinct from those presented by Mexico's oil wealth.

The first aim of our project can be summarized in the form of a question: Does the evidence with regard to DFI in Brazil and Mexico support the idea that both countries have converged around a single model of dependent development and that both have consolidated a "semiperipheral" position within the capitalist world economy? The second aim of our project is to consider the available data on DFI in the two countries with respect to a number of questions relating to the impact of dependency on domestic actors in the semiperiphery. To what extent has the level of external control over the local economy been exacerbated by displacement of the national bourgeoisie? To what extent have these effects been counterbalanced by joint national-foreign ownership of TNC subsidiaries and effective state regulation of their behavior? What has been the role of TNCs in narrowing the range of required external inputs and in increasing the diversity and flexibility of Brazil's and Mexico's export offerings?

Our explanation of changes in the character and role of DFI in

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Brazil and Mexico assumes that endogenous political and economic forces are at least as important as external ones. The process of dependent development is the result of the interaction of TNC strategies with the political and economic strategies of local social classes and host country states. TNC strategies are conditioned by the world economic environment especially as it impinges on their home states and by the forces of oligopolistic competition in global industries. The strategies of local groups vis-à-vis DFI are primarily expressed through the policies and actions of the state apparatus. These are conditioned not only by the international context but also by an historically given configuration of class structure, ideology, and local productive base. The local class structure and productive base, in turn, are the outcome of previous interaction between foreign capital and local classes.

Our discussion of the evidence will begin with an historico-structural summary of four phases of DFI in Brazil and Mexico. In this section we hope to provide some sense of the political and economic chronology that accompanied changes in the role and character of DFI itself, as well as highlight the degree of convergence that had occurred by the mid-1950s. We will then try to use the more detailed data that are available for the 1960s and 1970s to elaborate on the themes that we feel are especially important in the last two phases.

AN HISTORICO-STRUCTURAL ANALYSIS OF FOREIGN INVESTMENT IN BRAZIL AND MEXICO

Both Brazil and Mexico began the century as classic peripheral countries, exporters of primary products. In both countries the primary product export phase was superseded by an emphasis on "horizontal" import-substituting industrialization (ISI) during the Great Depression, a phase which focused on local production of consumer nondurables and the local assembly of consumer durables. By the mid-1950s, horizontal ISI was superseded by a phase of "vertical ISI" in which the emphasis was on internalizing all phases in the manufacture of consumer goods and integrating backwards in the direction of intermediate products and capital goods. Finally, since the 1970s, the current phase is one with a threefold emphasis: the expanded local production of capital goods, diversified export promotion, and the increased importance of finance capital (loans) relative to DFI.

There is a rough correspondence between movement from one phase to another, changes in structural position within the world economy, and the emergence and consolidation of the process of dependent development. The transition from periphery to semiperiphery began with the horizontal ISI phase and was accomplished during the vertical ISI phase. Dependent development also began with the move-

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ment from horizontal to vertical ISI. The current capital goods/diversified exports/finance capital phase represents an attempt to consolidate semiperipheral status and lay the foundations for moving beyond it to "nondependent" development or even to core status.

The Primary Product Export Economy (1880–1930)

The primary product export phase had a different character in Brazil than it did in Mexico. In Mexico, mineral exports (silver, gold, copper, lead, zinc) were the most important sources of export earnings and, until the Mexican Revolution, mining was thoroughly controlled by foreign capital. United States capital was dominant, accounting for at least 60 percent of the total investment in Mexican mining (Wright 1971, pp. 54–55).[6] Minerals were not particularly important in Brazil. Coffee was king and the coffee plantations were run by Brazilians. Brazil was nonetheless extremely dependent during the primary export phase (Evans 1976)—its internal division of labor was narrow (Graham 1968, Dean 1969), forcing it to rely on British imports to provide almost all its manufactured goods, and its fortunes were determined to a frightening degree by fluctuations in the New York coffee market—however, there was not the same degree of direct foreign control over internal production in the export sector in Brazil that there was in Mexico.

Patterns of DFI in the two countries during the first phase were also different. Although British investors were preeminent in both Brazil and Mexico, in the latter there was an almost equally large amount of American investment. From the 1870s to 1912, Mexico attracted more U.S. direct investment than any other country in the world (Wilkins 1970, p. 113), while in Brazil, non-British investments came from a variety of countries, with the U.S. playing only a minor role (ECLA 1965, p. 17).

The sectoral distribution of DFI also diverged in this early period; although the majority of foreign capital in both Brazil and Mexico was invested in railways and government bonds (see Singer 1975, Rippy 1959, Vernon 1963, Lewis 1938, Wright 1971), the remainder was distributed differently in each country. Foreign capital was concentrated in mineral extraction for export in Mexico and gravitated to public utilities in Brazil. This is particularly clear in the case of U.S. DFI: 40 percent of U.S. investment in Mexico in 1929 was in extractive industries, while extraction was a negligible category in Brazil; and public utilities accounted for half of U.S. DFI in Brazil and less than a quarter in Mexico (see table 1).[7]

Another important contrast between the two countries in this initial phase lay in the differential importance of DFI relative to indirect foreign investment (i.e., public loans). The amounts of DFI in the two

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countries were about equal, but Brazil had almost three times as many foreign loans outstanding as Mexico at the time of the First World War (Baklanoff 1969, p. 26; Wright 1971, p. 54). Between World War I and the Great Depression, Brazil's loans doubled to equal DFI, while in Mexico debt remained a small fraction of DFI (Baklanoff 1969, p. 26).[8]

Finally, DFI also played a different role in the transition from the primary product export phase to the horizontal ISI phase in each country. From the Mexican Revolution to the beginning of the depression there was almost a complete halt in the growth of DFI in Mexico, except in the petroleum sector.[9] Investment in manufacturing, useful in making the transition to horizontal ISI, was growing in Brazil but not in Mexico. For example, by 1929, almost one-fourth of U.S. DFI in Brazil was in manufacturing (see table 1), while this represented only 1 percent of U.S. DFI in Mexico. Available data indicate the same was true for non-U.S. investment as well; even as late as 1940, only 7 percent of overall DFI in Mexico was in manufacturing (Cinta 1972, p. 177).

Horizontal Import-Substituting Industrialization (1930–1955)

Horizontal ISI had its beginnings in both countries during the phase of primary product exports. In Brazil local textile manufacturers had begun to replace British imports as early as the turn of the century. In Mexico as well, manufacturing ventures sprang up during the mineral export phase of development. It was not, however, until the Great Depression made export-oriented growth untenable that horizontal ISI, which is to say the development of local manufacturing of light consumer goods, became the dominant aspect of development in the two countries.

The shock was particularly great for Brazil. Coffee prices collapsed and the massive public debt, which the country had built up in the process of trying to improve its urban infrastructure, became an overwhelming burden as public debt service soared to 43 percent of export earnings in 1932–33 (Baklanoff 1971, p. 195). Sharp devaluations made local production more profitable, but British capital did not respond aggressively to the shift in the situation. Local capital in Brazil, especially from the coffee sector, played a strong role in the manufacture of the consumer goods that were the focus of horizontal ISI.[10] During the depression there was even some "renationalization" of local manufacturing operations as, for example, when the Votorantim rayon mill was bought from the British by the Ermírio de Moraes group.

State policy reinforced the impact of external events. Getúlio Vargas gradually abandoned his faith in Brazil's agricultural vocation and began to pursue policies that supported horizontal ISI. State entrepreneurship in basic industries like steel helped ensure manufacturers a supply of locally available inputs while at the same time limiting foreign

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TABLE 1 *U.S. Direct Investment in Brazil, Mexico, and Latin America: 1929–1976*

A. Absolute Amounts (in millions of U.S. dollars)

		1929	1940	1946	1950
Extractive*	Brazil	—[1]	—[1]	—[1]	7
	Mexico	289	178	115	124
	L.A.	1,524	866	913	1,148
Petroleum	Brazil	23	31	45	112
	Mexico	206	42	7	13
	L.A.	589	516	697	1,233
Manufacturing	Brazil	46	70	126	284
	Mexico	6	10	66	133
	L.A.	231	210	399	780
Public Utilities**	Brazil	97	112	125	138
	Mexico	164	116	112	107
	L.A.	886	960	880	927
Other***	Brazil	28	27	27	110
	Mexico	18	12	16	38
	L.A.	233	154	116	357
Total	**Brazil**	194	240	323	644
	Mexico	683	358	316	415
	L.A.	3,462	2,705	3,005	4,445

B. Relative Proportions

	1929	1940	1946	1950
Brazilian investment as a proportion of total Latin American investment	.06	.09	.11	.14
Mexican investment as a proportion of total Latin American investment	.20	.13	.11	.09
Brazilian investment as a proportion of Mexican investment	.28	.67	1.02	1.55
Manufacturing investment as a proportion of total investment in Latin America	.07	.08	.13	.18
Manufacturing investment as a proportion of total investment in:				
Brazil	.24	.29	.39	.44
Mexico	.01	.03	.21	.32

Source: U.S. Department of Commerce, *Survey of Current Business*, various years.

*Mining and agriculture.
**Includes transportation.
***Includes trade, finance and insurance, and other.
[1]Included in "Other."
[2]Estimated; data suppressed for reasons of disclosure.
N.B. Latin America refers to "Latin American Republics," and does not include the Caribbean.

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1957	1963	1967	1973	1978
10	30	68	81	268
149	116	100	85	97
1,673	1,093	1,277	1,194	1,664
130	60	79	198	424
31	66	44	10	41
2,702	3,094	2,903	2,162	3,661
378	663	893	2,033	4,684
335	503	890	1,798	2,752
1,270	2,103	3,305	5,992	10,855
182	190	32	16	26
134	25	27	31	22[2]
1,001	710	621	377	308
128	185	256	544	1,770
90	197	281	454	800[2]
1,208	1,657	2,159	3,802	6,989
835	1,128	1,327	2,885	7,170
739	907	1,343	2,379	3,712
7,434	8,657	10,265	13,527	21,336

1957	1963	1967	1973	1978
.11	.13	.13	.21	.34
.10	.10	.13	.18	.17
1.13	1.24	.99	1.21	1.93
.17	.24	.32	.44	.51
.45	.59	.67	.70	.65
.45	.55	.66	.76	.74

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control in these strategic sectors. Vargas also helped ensure that there would be local demand for manufactured goods by artificially supporting coffee prices. In addition, he pressured foreign subsidiaries to increase local content and raised tariff barriers against imported manufactured goods.

State policy in Mexico was also important in moving the country out of the primary export phase, but with very different consequences as far as DFI was concerned. Cárdenas' nationalization of the petroleum industry in 1938 knocked the keystone out of the foreign-dominated export model, but it also reinforced investors' fears that Mexico might be serious about the socialist rhetoric inherited from the revolution. While the U.S. investors expanded their position in Brazil, replacing the retreating British as the principal source of DFI, U.S. investments in Mexico dropped by 50 percent between 1929 and 1946. Most of this drop was accounted for by the elimination of petroleum holdings, but the level of investments in other extractive industries also declined rapidly and DFI in public utilities fell as well (see table 1). Not until the more pro-business regime of Miguel Alemán (1946–52) did foreign investors begin to see Mexico with the same favor that prevailed during the reign of Porfirio Díaz.

Despite differences in domestic politics and investor reactions in the early part of this phase, the post-World War II segment of the horizontal ISI period saw the emergence of several trends that brought the pattern of ISI in the two countries closer together. First, the unchallenged world hegemony of the U.S. resulted in a North American dominance of Brazilian DFI that was similar to the Mexican pattern. North American (including Canadian) overseas investments reached a peak of over 70 percent of Brazil's total DFI in 1950 while European investments dropped to 25 percent (Baklanoff 1966, p. 109). The importance of DFI relative to loan capital also peaked in a similar fashion in both countries during this period (ECLA 1965, p. 122). Perhaps the most important and durable of the convergent trends was the strong assertion of the tendency toward a common sectoral distribution of DFI. As foreigners were pushed out of the primary export sector in Mexico, manufacturing investment continued to grow, making the Mexican sectoral distribution more like Brazil's and increasingly compatible with horizontal ISI.

Overall, the period of horizontal ISI appeared to be one of diminished dependency. Not only was the industrial strength of the local bourgeoisies increasing, but foreign investors seemed to be playing a more positive role. The effects of World War II and later the Korean War gave further reason for an optimistic perspective. With the demand for raw materials accelerated and the industrial capacity of core countries diverted to wartime production, Mexico and Brazil found new markets

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for primary exports and diminished competition from imports in their domestic markets.

Vertical Import-Substituting Industrialization (1955–1970)

The year 1955 marked a turning point, both in these optimistic perceptions and in the development process of the two countries. The Korean War boom was over and demand for "traditional" Brazilian and Mexican exports had fallen. Mexico experienced a severe recession after the Korean War and by 1954 balance-of-payment pressures forced a 50 percent devaluation of the peso. Brazil confronted a fall in coffee prices in 1955 that left them 30 percent below their Korean War peaks while imports of machinery and equipment were up 60 percent over the late 1940s (Leff 1968, p. 60; Bergsman 1970, p. 30). Furthermore, by the standards of the early 1950s, inflation in both countires had assumed critical proportions. The clear message from both the external and the internal sectors was that a shift in development strategy was necessary.

Policymaking elites in Brazil and Mexico made the decision at this juncture to replace horizontal ISI by vertical ISI. The objectives of vertical ISI were to broaden the range of local production to include consumer durables, especially the automobile, and to build up local manufacture of the capital and intermediate goods that were causing the big drain on the balance of payments. The investments required were more technologically sophisticated and capital intensive than those required by horizontal ISI, thus making TNCs rather than local capital the most likely instrument. The TNCs were ready to respond; the growth of investment in the core countries, especially in the United States, no longer demanded all the resources at their command.

Political shifts within Brazil and Mexico helped open the way for new kinds of participation by TNCs. The shift was most dramatic in Brazil, where the nationalist thrust of Vargas' second administration (1951–54) was brought to an abrupt end by his suicide. Kubitschek, who became Brazil's president in 1956, established a policy of rapid industrialization based on full participation by foreign private investors. In Mexico, President Ruiz Cortines (1952–58), worried about Mexico's persistent balance-of-payment difficulties, inflation, and scarce public sector revenues, shifted gears in mid-administration and moved to attract foreign capital rather than keep it at arm's length as before. In both countries, imports of machinery and equipment were subsidized in order to encourage manufacturing investment. These incentives were combined with high tariff walls and quantitative controls on imports of manufactured goods that essentially "closed the border" once local manufacture had been undertaken.

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Local elites interested in development thus found common ground with many of the TNCs interested in global expansion. Local manufacture rose, imports as a percentage of total consumption fell, DFI burgeoned,[11] and local manufacturing became increasingly foreign-owned.[12] It is this initial period of the vertical ISI phase that has been characterized as "the internalization of imperialism" (Evans 1976) or the "internationalization of the internal market" (Cardoso and Faletto 1979). Vertical ISI created the foundations for the "triple alliance" of state, TNC, and local capital. The vertical ISI stage marks the full blossoming of the process of "dependent development" and the final stages of transition from the periphery to the semiperiphery.

The tendency toward sectoral convergence that had begun in the horizontal ISI phase culminated in the vertical ISI stage. For example, by 1967, two-thirds of total U.S. DFI in both countries was concentrated in manufacturing, with most of the rest in service industries and finance. This concentration not only gave U.S. DFI in the countries a parallel configuration, it also sharply distinguished them from the overall Latin American pattern in which manufacturing investment accounted for less than one-third of total U.S. DFI (see table 1).

Similarities in the distribution of DFI went beyond a concentration on manufacturing. The locus of TNC investments in the largest firms in the most dynamic industries in both countries produced a similar pattern of distribution *within* the manufacturing sector (see table 2). Brazilian DFI was still more diverse in terms of its origins. But the dominant foreign presence in key sectors of the local industry that emerged as a result of vertical ISI forced both countries to confront dependency in the form of external control over the local productive apparatus. As table 2 indicates, by the beginning of the 1970s, TNCs held about half the assets of the largest manufacturing firms in each of the two countries.

In both Brazil and Mexico there were nationalist reactions to the denationalization that accompanied vertical ISI, but their character and impact on DFI were quite different. In Mexico, nationalist periods alternated with periods of conciliatory policies toward private capital in general and foreign capital in particular. López Mateos, like Ruiz Cortines, moved first in a more nationalist direction and then in a more conciliatory one. When López Mateos spoke of governing "on the extreme left within the Constitution" at the start of his term in December 1958, roughly $250 million from the Mexican private sector fled the country in a matter of days (Hansen 1971, p. 169). In 1960 and 1961, spurred by López Mateos' various efforts to cut back the role of DFI in Mexico, capital flight continued, and was estimated to have reached a magnitude of well over $200 million (Wionczek 1967, pp. 240–41; Vernon 1963, p. 122). With the Mexican peso near crisis and economic growth sluggish, López

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TABLE 2 Percentage of Assets of Largest 300 Manufacturing Firms in Brazil and Mexico, Held by U.S. and Other Foreign TNCs: Selected Industries, 1972

	U.S. TNC Share		*Other Foreign Share*		*Total Foreign Share*	
Industry	*Brazil*	*Mexico*	*Brazil*	*Mexico*	*Brazil*	*Mexico*
Food	2%	20%	30%	6%	32%	26%
Textiles	6%	0	38%	5%	44%	5%
Metal Fabrication*	4%	48%	21%	8%	25%	56%
Nonmetallic Ores	11%	____	11%	____	22%	____
Chemicals	34%	54%	35%	14%	69%	68%
Rubber	100%	100%	0	0	100%	100%
Nonelectrical Machinery	34%	36%	40%	58%	74%	95%
Electrical Machinery	22%	35%	56%	25%	78%	60%
Transportation Equip.	37%	70%	47%	9%	84%	79%
Total Manufacturing	16%	36%	34%	16%	50%	52%

Source: Newfarmer and Mueller 1975, pp. 55 and 108.

*"Metal Fabrication" does not include "Primary Metals" in Mexico. Percentages for "Primary Metals" in Mexico are as follows: U.S. TNCs—31%; Other Foreign TNCs—10%; Total Foreign—41%.

Mateos and top members of his administration assured the business sector of their esteem for and support of private enterprise.

Vertical ISI developed in Brazil under political conditions quite different from those that prevailed in Mexico. When Brazilian nationalism reached full flower during the brief regime of João Goulart (1962–64), it was less under control and therefore much more threatening to capital both local and foreign. From an average of $115 million for the five previous years, DFI in Brazil practically dried up entirely in 1962, with a total inflow of only $9 million (Evans and Gereffi 1981, table A-1). In April of 1964, on the verge of defaulting on its international debt payments, with negative per capita growth, inflation of over 100 percent, and mounting internal opposition, the Goulart government fell to a military coup headed by General Humberto Castello Branco (1964–67). The military regime in Brazil was closer to Mexico's Porfiriato in political tone than anything that had appeared in the interim in either country, and its attractiveness to foreign investors was similar. By 1970, the annual flow of DFI into Brazil was again well over $100 million, bolstered by a substantial quantity of foreign public funds.

The political contrasts resulted in differences in the rate, distribution, and to a lesser extent, ownership of DFI, but the common outcome was in the end more important than the differences. Both countries ended up with an expanded and diversified manufacturing capacity, the leading sectors of which were largely controlled by foreign capital. In

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short, by the end of the vertical ISI phase, dependent development had become thoroughly established as the dominant mode of economic growth in both countries.

Diversified Export Promotion (1970–Present)

Diversified export promotion (1970–present)[13] emerged as the most recent phase in the evolution of dependent development for many of the same reasons that vertical ISI succeeded horizontal ISI. By the late 1960s, in both Brazil and Mexico, vertical ISI alone proved incapable of resolving the problem of imbalanced economic relations with the external world. Chronic balance-of-payment deficits were growing larger and inflation was becoming worse in both countries. Something new was needed. At the same time, reduced levels of profits in the core and increased confidence in the profitability of manufacturing in the semiperiphery[14] made it possible to gain the cooperation of the TNCs in the promotion of manufactured exports.

The export promotion that characterizes this phase is fundamentally different from the export-oriented growth of the primary export phase. Increasing diversification rather than the quantitative expansion of a single commodity or a small number of commodities is its key feature and manufactured exports have been particularly prominent in this process. Between 1965 and 1972 the proportion of exports accounted for by manufactured goods doubled in Mexico[15] and more than doubled in Brazil (Kaufman 1979, p. 236; Serra 1979, p. 135). Primary product exports, even though they represented a smaller share, were expanded and diversified. In Mexico this meant maintaining its previous extraordinary export variety (no single product, with the exception of cotton for a few years, and oil very recently, has accounted for more than 10 percent of Mexico's exports in the postwar period); for Brazil this meant a decline in the share of coffee from 42 percent of exports in the mid-1960s to 13 percent in 1974.

While it does not entail the same dramatic implantation of new industries that accompanied vertical ISI, the export promotion phase does entail a significant transformation of the place of the semiperiphery in global TNC strategy. Brazil and Mexico are no longer seen simply as profitable domestic markets; rather they are treated as part of an overall strategy of "worldwide sourcing." TNC subsidiaries in the semiperiphery play a role more like that of facilities in the core, and yet at the same time their fate is more thoroughly determined by the plans of the parent, since most TNC manufactured exports from countries like Brazil and Mexico are "intrafirm" sales between affiliated corporate units (see table 6 below). The markets in which these subsidiaries sell are now less

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under the potential political control of Brazil and Mexico and more under the administrative control of individual TNCs.

It is important, of course, to keep in mind that even more than in the case of horizontal and vertical ISI, the diversified export promotion phase is characterized by a complex set of features, not all of which are a direct part of export promotion. To begin with, vertical ISI efforts continue in this phase, especially in the capital goods sector. Changes in the structure of the capitalist world economy also affect the character of DFI at this juncture. The trend toward increasing U.S. domination of DFI which was evident in the immediate post-World War II period has now reversed itself. The new dispersion in sources of DFI reappeared first in Brazil, but, by the end of the 1970s, Mexico, too, was moving in the direction of greater diversification among non-U.S. foreign investors (see Evans and Gereffi 1980, p. 36). The relative importance of DFI and loan capital also shifted in this period, partly out of Brazil's and Mexico's attempts to solve balance-of-payment problems, but also because of the post-1973 explosion of Eurodollar funds.

Brazil entered the current phase with certain advantages in its relation to TNCs. Having apparently exorcised left-leaning nationalism, Brazilian military regimes had created the best possible investment climate for foreign private enterprise. In Mexico, President Luis Echeverría, while hardly a radical, was continuing to push the interests of the local bourgeoisie (as well as the state sector) by expanding the scope of Mexicanization and taking a generally nationalist stance in relation to DFI. The contrast in the attractiveness of the two countries for business was manifest. For example, in 1967, after the Goulart scare and the disruption of the coup, Brazil had slightly less U.S. DFI than Mexico. In 1976 at the end of Echeverría's regime, it had 80 percent more than Mexico—i.e., $5.4 billion vs. $3.0 billion (U.S. Department of Commerce, *Survey of Current Business*). The reaction of non-U.S. investors was similar.

As the 1970s drew to a close, however, the tendency toward convergence reasserted itself. By the time López Portillo entered the Mexican presidency in 1976, the costs of trying to pursue a more nationalist course were evident and movement toward a more conciliatory stance began. In Brazil, local capital was putting more pressure on the military and the technocrats to attend to their needs by taking a more nationalist line toward the TNCs.

Reviewing the four phases, there is a common process of transformation in the nature of dependency: in each transition, balance-of-payment difficulties, caused in part by shifts in the international economy, along with domestic inflation and a lack of capital or needed technology, created pressures for change. The direction of change was

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determined by the interaction of TNC strategies and local state policies. Frequently there was a strong correspondence between what the state wanted from the TNCs and the latter's own global strategies. Although the changes in the *nature* of dependency are apparent, it is much harder to say whether there has been a change in the overall *level* of dependency. For Mexico, with its much higher degree of dependency in the Porfiriato and its greater nationalist thrust in subsequent periods, the movement may be in the direction of less dependency. For Brazil, the direction of change is less clear, and depends more on the relative importance assigned to dependency as generated by vulnerability to the external market and dependency as generated by external control over the internal productive apparatus.

TNCS IN THE CONTEMPORARY SEMIPERIPHERY: CONTRASTS AND CONVERGENCES BETWEEN BRAZIL AND MEXICO

By the 1960s, the salient issues between the TNCs and Brazil and Mexico were no longer those that are the focus of conflict in the real periphery. While the smaller countries of Latin America, with little DFI in manufacturing, might still have an interest in fighting the battles of horizontal ISI, Brazil and Mexico had to worry about the consequences of having won those battles. Having sketched the historical processes that brought Brazil and Mexico to this point, it is time to delve in more detail into the implications of dependent development for the shape of DFI, the behavior of TNCs, and the policy responses of semiperipheral countries.

Three dilemmas stand out for the semiperiphery and we will try to deal with each of these in turn. First, there is the question of whether an excessive price has been paid for dependent development in terms of increasing TNC control in the local economy—i.e., the issue of denationalization. Second, there is the question of the continuing imbalance in Brazil's and Mexico's economic relations with the international capitalist economy. Finally, there remains the question of whether a primary concern with these two dilemmas has led both countries down a development path that impedes the resolution of the even more intransigent questions of welfare and equity.

Comparisons between Brazil and Mexico on these issues often focus on policy responses, contrasting Mexico's relatively greater emphasis on preserving local ownership with Brazil's more effective manipulation of TNC behavior. While there is some truth to this contrast, we will argue that it is overdrawn. Careful examination of the data suggests that Mexico has not protected the local bourgeoisie to the extent that it might appear on the surface and that Brazil has not been as effective at manipulating TNC behavior as some have claimed. We argue further that by the end of the 1970s it was more useful to see state policy

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in the two countries as having converged around a similar blend of ownership and behavioral controls.

TNCs and the Local Bourgeoisie: The Denationalization Issue

As table 2 and discussion of the vertical ISI phase have shown, TNC dominance of leading industries is common to both countries. Available data indicate that the relative share of foreign firms was on the increase during the 1960s (Newfarmer and Mueller 1975, p. 57; Malan and Bonelli 1977, pp. 34–35; U.S. Tariff Commission 1973, p. 411). Findings of increasing denationalization are, of course, subject to at least two different interpretations. If TNC growth can be attributed to pioneering entrepreneurship in new industrial sectors that local capital was incapable of entering, then denationalization can be seen as a price for broadening the internal division of labor and diminishing dependency in this sense. If, on the other hand, TNCs were concentrated in industries in which local firms previously had been operating, then the effects of denationalization are more negative.

To address this issue, we turn to data on the mode of entry of TNCs into Brazil and Mexico. Other things being equal, entry by acquisition is an indication of direct displacement of local capital, whereas a newly formed subsidiary is more likely to represent an expansion of the internal division of labor. Looking at table 3, it appears that displacement of the local bourgeoisie became an increasingly important feature of U.S. TNC expansion after World War II.[16] During the vertical ISI period, acquisition gradually emerged as the predominant method of entry into both Brazil and Mexico and by the beginning of the diversified export promotion phase it was clearly the preferred strategy for a U.S. TNC trying to break into these markets.

What is peculiar about table 3 is that it gives no indication whatsoever of the supposedly greater Mexican concern with the preservation of the local bourgeoisie. To be sure, the data precede in time Echeverría's famous "Mexicanization" law of 1973 and presumably evidence from the 1970s would look different,[17] but even in the 1950s and 1960s, Mexico appeared to be taking a tough stance on the question of local ownership In the late 1950s, for example, Mexico restricted foreign ownership in basic and secondary petrochemicals, anticipating by more than a decade similar though less thoroughgoing moves on the part of Brazil. In 1961 legislation was passed requiring Mexicanization of the mining industry, and in 1967, while the Brazilian military was opening up mining to foreign firms, Mexico's last foreign-dominated mining activity—its large and profitable sulphur industry—came under majority Mexican ownership. If Mexicanization, or local equity participation and preferably majority control by nationals, was a consistent informal policy of Mexican

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TABLE 3 *Acquisition as a Mode of Entry into Mexico and Brazil: Percent of New U.S. Manufacturing Affiliates Established by Acquisition (Rather than Formation or Reorganization)*

	Mexico		*Brazil*	
Date of Formation	*Total Number of Newly Established Affiliates*	*% of New Affiliates Established by Acquisition*	*Total Number of Newly Established Affiliates*	*% of New Affiliates Established by Acquisition*
Prior to 1945	35	9%	28	0%
1946–1950	18	6%	11	9%
1951–1955	18	11%	22	22%
1956–1960	54	39%	36	33%
1961–1965	60	43%	16	38%
1966–1970	77	64%	46	52%
1971–1973*	32	75%	18	61%
Total all periods	294	43%	177	33%

Source: Newfarmer and Mueller 1975, pp. 69, 122.

*The terminal date for Mexico is 1972.

regimes as a condition of foreign entry in the late 1950s and the 1960s, then why don't we see far fewer acquisitions in Mexico than in Brazil?

Part of the answer lies simply in the fact that U.S. TNCs account for about 50 percent of all acquisitions in Mexico, but only about 15 percent in Brazil (Vaupel and Curhan 1973, pp. 331, 334); thus, consideration of non-U.S. TNCs would increase the value of foreign acquisitions in Brazil relative to those in Mexico. If the data were adjusted to get an estimate of *all* acquisitions in the two countries, the total number and value of acquisitions in Brazil would be greater than in Mexico. Another insight into the differences between the countries is provided by reanalyzing the U.S. data: when large and small firms are separated, as in table 4, it is clear that small firms accounted for a substantially higher proportion of U.S. acquisitions in Mexico than they did in Brazil; and, while the number of large firms acquired was about the same in both countries, the assets of the large firms acquired in Brazil amounted to $80 million more than the assets of the large firms acquired in Mexico.[18] In other words, large firms were much more likely to remain locally owned in Mexico. Mexicanization policies may not provide protection for the bourgeoisie in general, but they seem to provide greater protection for the large enterprises.

Further evidence that Mexico's relatively greater emphasis on ownership issues has in fact affected TNC behavior is provided by data

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TABLE 4 *Number and Size of Locally Owned Firms Acquired in Mexico and Brazil (Acquisitions by U.S. TNCs, 1960–1972)*

	Mexico				*Brazil*			
	Number of Firms		*Value of Assets**		*Number of Firms*		*Value of Assets**	
Size of Firm	*Amount*	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*
Large Firms**	13	10%	$170	57%	15	30%	$248	85%
Small Firms	115	90%	$128	43%	35	70%	$44	15%
Total	128	100%	$298	100%	50	100%	$292	100%

Source: Newfarmer and Mueller 1975, pp. 71, 124.

*Millions of U.S. dollars.
**Large firms are those with assets greater than $5 million.

on joint ventures (table 5). TNCs are more likely to share ownership and much more likely to accept minority positions in Mexico than in Brazil. When a distinction is made between sharing ownership with the local bourgeoisie or sharing it with other TNCs, the differences between the two countries become even more pronounced. Over half the partnerships in Mexico involve the local bourgeoisie as significant (i.e., nondispersed) owners; in Brazil, the most frequent kind of partnership involves other foreign partners more than the local bourgeoisie.

The data suggest a pattern similar to that indicated by Bennett and Sharpe's (1977) interpretation of Mexicanization. While Mexicanization has not lowered the participation of TNCs in the commanding heights of industry (table 2), or prevented the displacement of certain segments of the local bourgeoisie (table 3), it does seem to have limited the impact of TNC encroachments on the larger economic groups in Mexico (table 4) and provided a better chance for some local capitalists to gain access to partnerships with TNCs (table 5). Our data also seem consistent with the generally held interpretation that the largest local capitalists in Mexico are better connected to the state political apparatus than their Brazilian counterparts (cf. Domínguez 1979, Eckstein and Evans 1978, Kaufman 1977, and O'Donnell 1978).

Having argued for the contrast between Brazil and Mexico on the ownership issue, we should reiterate our contention that the difference is one of degree. Even during the apex of its legitimacy in the early 1970s, the Brazilian military was careful to limit foreign ownership in the most important and dynamic industrial sector of the decade, the petrochemical industry (see Evans 1979a, pp. 229–49). More recently, observers have noted that the Brazilian political *abertura* (opening) has had as one of its concomitants an increased emphasis on the protection of the local bourgeoisie (e.g., Evans 1979b, Domínguez 1979). There are a num-

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TABLE 5 TNC Joint-Ventures in Mexico and Brazil

A. Degree of Control by TNC

	Mexico	Brazil
Wholly owned (95% +)	50%	61%
Majority owned (50%–94%)	25%	27%
Minority owned (6%–49%)	25%	12%
	100%	100%
	(339)	(315)

B. Nature of Other Owner in TNC Joint-Ventures

	Mexico	Brazil
Local Private	52%	35%
Local State	1%	7%
Dispersed Stock Owners	35%	19%
Other Foreign Partner	12%	39%
	100%	100%
	(112)	(80)

Source: Vaupel and Curhan 1973: panel A, pp. 272, 269; panel B, pp. 316, 313.

Note: The direction of the differences between Mexico and Brazil is the same whether the data on U.S. and non-U.S. TNCs are analyzed separately, or combined as above.

ber of examples that support this view: the restriction of the mini-computer market to firms with majority local participation (*Business Latin America* [*BLA*], 1978, pp. 75, 218); the requirement that TNCs bidding on telecommunications contracts present "Brazilianization" plans (*BLA* 1979, p. 61); and recent legislation that would bar state contracts with foreign controlled companies in the health care field (*BLA* 1980, pp. 154–55).

If the current trend toward political openness continues, we may expect future data on acquisitions and joint ventures in Brazil and Mexico to appear more similar. Even a complete convergence toward policies of shared ownership, however, is unlikely to eliminate the problem of denationalization. Some examples from the recent "nationalist" period in Brazil will serve to illustrate the intractability of the problem. Brazilian capital goods manufacturers are welded together in a powerful industry association, Associação Brasileira pelo Desenvolvimento de Industria de Base (ABDIB), and are known as the most politically effective sector of the local industrial bourgeoisie. Yet local capital goods manu-

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facturers were among the hardest hit by recent government efforts to trim deficits by cutting the expenditures of state companies. One prominent member of ABDIB, Pedro Sanson, was forced to sell 80 percent of his company to a West German firm (*Latin America Economic Report* [*LAER*] 1979, p. 172). Even worse, Brazilian Planning Minister Delfim Neto, often considered the best political friend of the local bourgeoisie, was forced by Brazil's failure to cope with inflation to come out with an economic package in the fall of 1979 that included the abolition of Brazil's Law of Similars. This law, which prohibited imports of capital goods being produced within Brazil, had been one of the keystones of the local industry's survival (see *Latin America Weekly Report* [*LAWR*] 1979, p. 72).

The case of the mini-computer industry also illustrates the difficulties of implementing policies that will succeed in preserving local ownership of leading industries. Setting up Cobra as a Brazilian state-owned venture to produce mini-computers and excluding IBM from this market was considered to be an important nationalist initiative (cf. Evans 1979b, Domínguez 1979). Yet by 1979, Cobra was called a "resounding failure" that had "unwisely bought outdated and expensive technology" from its minority TNC partner, a U.S. company named Sycor (*LAER* 1979, p. 207). Meanwhile, IBM continues to develop a successful line of mid-range computers that are potential competitors for the mini-computers produced by newly created locally controlled joint-ventures like Cobra (*LAER* 1979, p. 68). From capital goods to mini-computers, it is clear that even with a convergence around supportive state policies regarding local ownership, the displacement of the domestic bourgeoisie will continue to be a major political issue in the semiperiphery.

Shaping TNC Behavior to Resolve External Imbalances

Just as denationalization has persisted as a problem for the semiperiphery despite the transformation in the nature of dependency, so has the question of external imbalances. Both Brazil and Mexico have waged a continuous and chronically unsuccessful struggle to balance their international accounts. TNCs, with their voracious appetites for imported inputs and their tendency to generate outflows of profits, royalties, and other service payments, are a part of the problem. On the other hand, as potential sources for fresh capital inflows, as potential producers of currently imported goods, and, most critically in the present phase of dependent development, as generators of export income, TNCs can also be part of the solution.

During the 1960s Brazil developed a reputation for effectively shaping TNC behavior comparable to Mexico's reputation as a defender of local ownership. The auto industry is often used as an example. Brazil

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started a program of local integration in 1956, six years before Mexico. By 1962 Brazil already required 99 percent local content by weight for passenger cars produced nationally. Mexico required only 60 percent local content and gave the companies more leeway by measuring the 60 percent in terms of proportion of direct cost rather than weight (Jenkins 1977, p. 53; Bennett et al. 1978, p. 275). By the end of the 1960s, Brazil could boast of an integrated auto industry which, although totally foreign owned in the terminal (finished autos) sector, was a great success as far as import substitution was concerned.

By the beginning of the 1970s Brazil had discovered that the combination of profit remittances and imported capital inputs made the auto industry a drain on foreign exchange despite its advances in the area of import substitution. In 1972 the BEFIEX (Export Fiscal Benefits) program, which allows companies tax credits and other fiscal benefits if they agree to programs that would result in positive trade balances, was introduced with the auto industry as one of its main targets. Again, Brazil was remarkably successful. By 1977 the foreign auto companies operating in Brazil were exporting at a yearly rate of almost $700 million and creating a trade surplus of $300 million, a remarkable contrast to the deficit of almost $100 million they had generated just three years earlier (Müller and Moore 1978).

Brazil's success in this regard stood in contrast to the performance of the Mexican auto industry. In 1977 exports from Mexico's auto industry were about one-tenth of Brazil's auto exports (*LAER* 1978, p. 212). The Mexican industry generated in that year a net trade deficit of $400 million, down from 1976's $600 million deficit but still discouraging in relation to the Brazilian surplus.

Brazil's greater success was not confined to the auto industry. For instance, if the export performance of U.S. TNCs in the two countries is examined for the 1960s and early 1970s, it is clear that, while both countries were able to expand the share of sales of manufactured goods going to export markets, Brazil did so more effectively. Mexico, given its proximity to the United States and the existence of the border industries program, began the period with a considerable advantage (see table 6). Its manufactured exports were more than three times the magnitude of Brazil's in absolute terms in 1960 and also three times larger as a proportion of local sales. In the next six years, U.S. TNCs based in Mexico quadrupled their exports, but those in Brazil increased theirs nearly eightfold. In the next four years manufactured exports by U.S. TNCs in Mexico increased by a factor of six, but again, subsidiaries in Brazil increased theirs by a factor of eight. Thus, while no one could deny that Mexico was engaged in the promotion of manufactured exports, Brazil was far more successful at shaping the behavior of the TNCs in this direction.

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TABLE 6 Exports in Comparison to Sales for U.S. TNCs in Brazil and Mexico, Manufacturing Only: 1960, 1966, 1972 (in Millions of U.S. Dollars)

	Local Sales (1)	*Total Exports (2)*	*Exports to Affiliated Companies (3)*	*Exports as % of Local Sales (2) / (1)*	*% of Exports that are Intra-Company Sales (3) / (2)*
1960					
Brazil	453	1.6	1.1	0.4%	69%
Mexico	413	5.4	3.0	1.3%	56%
1966					
Brazil	854	12.0	7.4	1.4%	62%
Mexico	1,164	22.2	16.6	1.9%	75%
1972					
Brazil	2,850	98.9	72.6	3.5%	73%
Mexico	2,689	137.1	112.7	5.1%	82%

Source: Newfarmer and Mueller 1975, pp. 181–86.

During the late 1970s there were signs of convergence on this issue similar to those in policies relating to local ownership. In 1979 Mexico established a broad set of Brazilian-type incentives for firms that would undertake the local production of capital goods and balance their imports with exports. In what *Business Latin America* (1979, p. 64) called "an encouraging sign of flexibility," reductions in import duties were made available to foreign-owned as well as locally owned firms as long as their export sales were sufficient to cover their import needs. The auto firms, provided with their own special set of incentives in 1977, were allowed to take advantage of this general scheme as well, and the number of products eligible for export tax rebates was increased from 300 to 800 (*BLA* 1980, p. 43).

Again, as in the case of ownership policies, convergence in the area of export promotion should not be taken to indicate the end of the problems faced by semiperipheral countries. Mexico's attempt to take a stronger stand against TNCs in selected areas in the early 1970s resulted in an unexpectedly sharp investor reaction. From about 1973, when the Mexicanization law was passed, until the end of Echeverría's regime, Mexico was increasingly defined as a "bad investment climate,"[19] and the country suffered from a severe reduction of DFI, despite the fact that investors there were making high rates of return, comparable to rates in Brazil and about 50 percent higher than those of manufacturers in the United States (Connor and Mueller 1977, pp. 49–52).

What Echeverría was doing "wrong" from the viewpoint of TNCs can be inferred from the policies that López Portillo embarked on to "restore investor confidence" in 1977 and 1978. The government's 1977

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policy was "decidedly recessionist." Its success in bringing inflation down was "paid for primarily by the growing number of unemployed and by the drop in the standard of living of those lucky enough to find work" (*LAER* 1978, p. 85), but the International Monetary Fund (IMF), which conditioned new loans to Mexico upon such measures, was pleased. The correspondence between these policies and the ones Brazil embarked upon is hard to ignore. The sharp drop in the standard of living of the average Brazilian between 1964 and 1969 is well known, but it is important to keep in mind that this was not only a feature of the anti-inflationary "readjustment period." Between 1969 and 1977 productivity in Brazil increased by 70 percent while the real value of the minimum wage dropped by 20 percent (*LAER* 1978, p. 144). The positive impact on profits is obvious, but in all likelihood the general "good intentions" implied by such policies are just as important in ensuring that a country is defined as a "good investment climate."

The implications of this analysis for the countries of the semiperiphery are somewhat grim. Mexico, one of the richest and best-behaved nations in the Third World, had only to stray slightly from the path of sound business practice to end up shifting the impact of TNC capital and profit flows from a positive $179 million in the 1960–69 period to a negative $349 million in the 1970–76 period. Since Echeverría was only mildly reformist in a Third World context, it would appear that the band of acceptable policy is exceedingly narrow and that the penalties for straying outside it are strict and swift.

While the Echeverría period demonstrated the limitations within which semiperipheral countries must work, Brazil's experience in the late 1970s showed that even the most generous policies toward DFI may not resolve the problem of external imbalances. After a decade of carefully constructed export incentives Brazil still finds itself with unfavorable trade balances. Worse still, incentives have only partially changed the role of TNCs in generating current account balance-of-payment deficits.[20] Rapidly growing flows of DFI thus have been insufficient to solve Brazil's balance-of-payment problems, and the incentives used to attract them contributed to driving Brazil's inflation rate back up to the levels associated with the Goulart period by the end of the decade (nearly 80 percent in 1979). It was estimated that for 1979, government subsidies to industry and agriculture cost $10 billion or about 5 percent of Brazil's GDP (*LAWR* 1979, p. 73). Looking at the costs and benefits of its incentives to the TNCs, one had to wonder whether Brazil was shaping the behavior of the TNCs or vice versa.

The BEFIEX program in the auto industry is a good example of the dubious balance of costs and benefits. To begin with, the TNCs were able to make higher profits producing cars in Brazil and exporting them than they could have made manufacturing them in the U.S., Europe, or

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Japan, so increased production for export was hardly a sacrifice on their part. Added to the general profitability of these operations were the generous BEFIEX subsidies. Among other benefits, the companies were allowed an export credit for taxes they normally would have paid on their domestic production (state sales tax and industrial products tax). Together these two credits amounted to 30 percent of the value added portion of export sales. Put crudely, the Brazilian government was paying the companies an extra 15 to 20 cents for every dollar's worth of goods they sold abroad. For the TNCs there is no question that the "trade off" is positive; for Brazil the equation is more doubtful.

There is another aspect of Brazil's export promotion that seems even more disturbing in the long run. Most of the growth of TNC manufactured exports is represented by "intracompany sales" between a TNC's affiliated members. For instance, table 6 shows that by 1972 almost three-fourths of U.S. TNC manufactured exports from Brazil were intracompany sales and over four-fifths of those from Mexico. In many cases, there is really only one customer for the product being exported. Sales of Pinto engines, for example, depend entirely on the fortunes of a single TNC customer (the parent, Ford Motor Company) and the administrative decisions of that customer as to where these engines will be made. Thus, it is the TNC, and not Brazil or Mexico, who generally has the final word on the export "market" and local production. Export promotion, which seems like a victory for semiperipheral countries because it further transforms their position in the international division of labor, appears to increase dependency when viewed from a perspective that focuses on control.

In addition to all its other problems, and perhaps most seriously of all, export promotion must face the retaliatory responses of the TNCs' home governments. In 1979, for example, Fred Bergsten told the Brazilians that taxes on their textile exports to the United States would be increased to a level of 37 percent by 1980 (*LAER* 1979, p. 34). The effects of this policy are likely to be severe. In 1979, when the American government raised its duties to the level of 17 percent, Brazil's textile exports to the United States began to drop immediately (*Gazeta Mercantile*, São Paulo, 18 May 1979).

Export promotion must be viewed, then, not as another victory over dependency so much as another transformation in a continuing struggle with dependency, one that is likely to see new strategies in the not too distant future. It is perhaps ironic that Delfim Neto, who had begun the 1970s formulating incentive programs, ended the decade in December of 1979 by announcing that his system of subsidies for manufactured exports was being dismantled (*LAWR* 1979, p. 73).

The limits to export promotion in the less developed countries (LDCs) are more generalized than those defined by Mexico's or Brazil's

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relations with the core countries. To combat the inflationary impact of higher oil bills, most core countries are adopting restrictive fiscal and monetary policies that are geared to slow economic growth. Stagnation in the core erodes the best markets for LDC manufactured exports and depresses the prices of their primary-product exports at the same time. According to Morgan Guaranty Trust Co., a downturn in the industrial world as severe as the 1974–75 recession would produce an impact on LDC trade balances equivalent to a $25-a-barrel increase in the price of OPEC oil (*Newsweek* 1980, pp. 74–75).

PROSPECTS FOR THE FUTURE EVOLUTION OF FOREIGN INVESTMENT IN THE SEMIPERIPHERY

Brazil and Mexico show both the extent to which fundamental changes in the role of foreign investment are possible and the strictness of the limits created by dependent development. Time and again during the process of dependent development in the two countries, presidents have discovered the constraints imposed by the necessity of maintaining a "good investment climate." From Cárdenas in the 1930s to the initial years of López Mateos' regime to the Echeverría period, the flow of DFI to Mexico declined immediately whenever a president sounded too nationalistic or too concerned with the problems of labor and the poor. Brazil saw the flow of DFI decline in the nationalistic period of Vargas' second presidency (1950–54) and drop off even more dramatically during the experiment with a more left-leaning nationalism under Goulart. Each time, the tenor of the regime has been reversed and positive relations with the TNCs have been recovered, but the limits have been demarcated anew. The semiperiphery is simply not free to explore a welfare-oriented version of capitalist development.

Under friendly regimes, however, DFI has proven to be much more flexible than early theories of the "development of underdevelopment" (Baran 1957, Frank 1967) would have predicted. Both Mexico and Brazil succeeded in building diversified, sophisticated, and internationally competitive industrial economies, in large measure on the basis of DFI. Given the strong parallels in the evolution of DFI in the two countries, the pattern may represent a general trend rooted in the nature of the capitalist world economy as well as in the social structures of the two countries under consideration here, and should not be dismissed as fortuitous or idiosyncratic.

Like the behavior of the TNCs, the behavior of the Mexican and Brazilian states has shown many parallels. The convergence of state policies has been particularly evident in the most recent period. As the 1970s progressed, the blend of measures oriented toward trying to protect local ownership and trying to induce TNC behavior that would

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improve external imbalances became remarkably similar in the two countries. In neither case, however, were the policies adopted real solutions to the basic dilemmas of denationalization and external imbalance. The semiperiphery continues to be a locus for transformation rather than a setting for stable solutions.

Important changes in the structure and role of DFI are still underway. Perhaps best publicized is the growth in loan capital relative to DFI. By the end of the 1970s, foreign debt in Brazil and Mexico had ballooned out of all proportion to DFI. In Mexico, the predominance of debt to DFI was related to the difficulty of attracting new TNC investments during the Echeverría period; debt tripled between 1970 and 1976 while DFI increased by only 50 percent (Weinert 1977, p. 123). Brazil had no problem attracting DFI, but debt mounted at an even faster rate than in Mexico (Malan and Bonelli 1977, pp. 34, 38).

The explanation for the skyrocketing of foreign debt is complex. It depended on international liquidity relating to the availability of "petrodollars" from OPEC nations and the relative stagnation of investment opportunities in the developed countries, as well as on mounting balance-of-payment problems in Brazil and Mexico. It also depended in part on the foundation of good relations with TNCs that had been built up through the growth of DFI. Not only did the TNCs themselves contract or vouch for some of the debt, but their strong presence in Brazil and Mexico made these countries seem more reliable than others less thoroughly tied to international capital. For instance, the extent of this relative attractiveness can be seen from the fact that together Brazil and Mexico accounted for one-half of all loans to LDCs made by the twenty-one largest North America banks (Baird and McCaughan 1979, p. 83).

Whether increased reliance on loan capital represents a diminution in the degree of dependency or an increase is even more difficult to sort out than the reasons for the increase. Effects on external imbalances and effects on control of the internal productive apparatus are both hard to judge. For Mexico during the Echeverría period, the willingness of bankers to lend when TNCs were reluctant to engage in DFI represented an important extra degree of freedom. However, the long-run implications of loan capital for external imbalances are more negative. DFI generates profit remittances but the original investment itself does not have to be repaid. Loans require both interest payments and amortization. For Brazil, whose debt has now surpassed $50 billion, interest payments are running over $3 billion per year and amortization of debt requires about $5 billion per year (*LAER* 1979, p. 60). According to Delfim Neto, this means that Brazil will have to borrow about $15 billion a year for the next few years. It is not surprising, therefore, that Delfim is trying to persuade TNCs to transform some of their loans to subsidiaries into equity (*LAWR* 1979, p. 44).

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As far as control over the internal productive apparatus is concerned, it is usually the case that investors expect more of a say over what their money is used for than do lenders. On the other hand, lenders may attempt a generalized kind of control over national policy that is rarely attempted by investors. In cases where they felt their loans were in jeopardy, like Peru (see Stallings 1979) and Argentina (see Frenkel and O'Donnell 1979), international lenders, under the leadership of the IMF, have succeeded in imposing a whole gamut of fiscal, monetary, and economic policies on the receiving nations. Whether countries as important to TNCs as Brazil and Mexico would be subjected to the same strenuous belt tightening as countries like Peru and Argentina remains to be seen. Nonetheless, it seems clear that the lender will play an increasingly important role in shaping the nature of dependent development in the next decades.

A second emerging feature of dependent development in the 1980s is also reminiscent of earlier periods of dependency. Having accelerated the growth of manufactured exports to the limit, both Brazil and Mexico are again looking to extractive industries to help them resolve external imbalances. In Brazil, there has been a resurgence of DFI in extractive industries; for example, between 1973 and 1978 the amount of U.S. DFI in extractive industries tripled, growing at a more rapid rate than investment in manufacturing (see table 1). At the same time, soaring bills for imported oil led Brazil to reverse the thirty-year ban on the exclusion of foreign oil companies from exploration. By 1978 U.S. investors had more capital invested in the petroleum industry in Brazil than they did in Venezuela. For Mexico, the expansion of extractive investments carried with it no equivalent expansion of DFI. In this instance, U.S. DFI in extractive industries in 1978 remained below the levels of the 1960s and about one-third of the 1929 level (see table 1). Petróleos Mexicanos' good fortune in the area of oil exploration has generated sufficient revenues for investment so that there is no need to look for assistance from foreign companies; thus, DFI in petroleum was also below the levels of the 1960s. Whether other more general forms of divergence emerge between the two countries based on Mexico's oil bonanza and Brazil's increasing dependence on foreign oil remains to be seen. The fact that Mexico's current account continues to be in deficit despite oil exports, and the experience of Venezuela, which found no panacea for its economic or social problems in oil reserves, both suggest that future differences between Mexico and Brazil may be less than expected. Nonetheless, the future evolution of the two countries will provide a significant experiment in the relative importance of oil in the process of dependent development.

The third important change in DFI, which is prefigured in the data for the 1970s, is the least dramatic but may well prove to be the

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most important. If we look at total U.S. DFI, the share of manufacturing in both countries seems to have reached a peak around 1973, although this is more apparent in Brazil. At about that time, investments in the service sector began to accelerate, reaching a proportion of total U.S. DFI by the end of the decade comparable to that held by manufacturing at the beginning of the horizontal ISI phases (see table 1). If the growth of service sector TNCs is a significant future trend in DFI in the semi-periphery, then students of dependent development will be faced with a new series of intellectual challenges. Arguments over the effects of DFI are framed in terms developed to analyze the manufacturing sector. Issues like appropriate technology, employment effects, and oligopolistic pricing require some rethinking before they can be applied to the analysis of the service sector.

Overall, the safest prediction for the shape of future phases of DFI in Brazil and Mexico is that they will have the same general character as past phases. DFI will continue to adapt to changes in state policy and changes in the structure of semiperipheral economies, flowing into new areas while perhaps being replaced by state and local capital in some of its traditional strongholds. The technology and expertise of TNCs will contribute to the construction of ever more differentiated and sophisticated economies in both countries. Still, problems of dependency will persist. The local bourgeoisie will find itself continually threatened by displacement, though the sectors in which it is displaced may shift. External imbalances will continue to be a chronic problem, though the nature of the imports, exports, and service payments that are included in the imbalances will change. The two states will continue to devise new policy instruments to deal with the new forms these problems will take, and will probably find that their policies continue to converge around the same sorts of attempted solutions. Finally, the welfare possibilities of capitalism will continue to lie outside of the policy boundaries that are compatible with either country continuing its success in attracting DFI.

NOTES

1. In 1978, the GDP per capita of Brazil and Mexico was roughly the same—$1200. This is equivalent to one-sixth the 1978 per capita income of the Organization for Economic Cooperation and Development (OECD) countries of North America, Western Europe, and Japan (Inter-American Development Bank 1980, p. 104). Per capita income in Brazil and Mexico is spread extremely unevenly among the population (see Reynolds 1978, p. 1012), and longitudinal data show that the distribution of income in both countries is growing still more skewed in favor of the rich versus the poor over time.
2. Most of the contemporary members of the semiperiphery, such as Brazil, Mexico, Argentina, Iran, Egypt, Nigeria, South Africa, India, and Indonesia, ascended from classically peripheral positions in the relatively recent past. This is only one route to

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the semipheriphery, however. Another route, less common, is decadence and decline on the part of a center country (e.g., Spain and Portugal). Our concern here is limited to the ascendant members of the semiperiphery.

3. Dependency and nondependency are relative concepts that must be interpreted in the context of a country's overall position in the capitalist world economy. Dependency implies vulnerability to the external economy and a signficant degree of external control over the local productive apparatus. Nondependency, on the other hand, means diminished external determination of the course of a country's development. It means having an internal productive structure that is capable of producing a broad range of goods and that also is locally owned and controlled to a substantial degree, especially the "leading sectors" in terms of capital accumulation and sectors where considerable market power is exercised by the major firms. (For a thorough discussion of the notions of dependency and nondependency, see Gereffi 1980, chaps. 2–4; for their application to the case of Mexico's steroid hormone industry, see Gereffi 1978.)
4. Foreign investment is of two main types: direct and indirect. Direct foreign investment refers to the acquisition or control of productive facilities outside the home country. Control is generally thought to mean at least a 25 percent participation in the share capital of the foreign enterprise, although the published U.S. Department of Commerce data are based on equity holdings as low as 10 percent. There are two kinds of indirect foreign investment: (a) international portfolio investment, which refers to the purchase of securities issued by foreign institutions without any associated control over or management participation in them; and (b) public loans to foreign countries. Portfolio investments typically take the form of bonds, whereas direct foreign investment entails holding equity. Although both direct and indirect foreign investment in Brazil and Mexico will be discussed in this paper, our primary concern is with the former.
5. Transnational corporations may be defined as any business enterprise engaging in direct foreign investment in production facilities spanning several national jurisdictions. The parent firm of the TNC and its network of affiliates are bound together by common ties of ownership, they draw on a common pool of human and financial resources, and they respond to some sort of common strategy.
6. The extent of foreign domination in Mexico during the reign of Porfirio Díaz (1876–1910) is astonishing. By the end of Díaz's rule, foreigners probably owned one-fourth of the country's total land area and accounted for two-thirds of Mexico's total investments outside agriculture and handicrafts (Wright 1971, p. 59; Vernon 1963, p. 43).
7. Our data on U.S. DFI are generally more comprehensive and span a greater period of time than our data on non-U.S. DFI; we have, therefore, used U.S. data in most of our tables. However, we have consulted a variety of sources that contain data on both U.S. and non-U.S. TNCs (ECLA 1965, Vaupel and Curhan 1973, Newfarmer and Mueller 1975, Fajnzylber and Martínez Tarragó 1976, United Nations 1978), and find them to be consistent with the U.S. data, unless otherwise noted.
8. Following the revolution, foreign loans were virtually impossible to obtain in Mexico for a decade or two, since the postrevolutionary administrations refused to acknowledge the external debts of their predecessors. Service payments on the public debt were suspended for over fifteen years until an adjustment of Mexico's general external debt was negotiated in 1942, and of its railroad debt in 1946 (Wright 1971, p. 72). With these settlements, Mexico's external credit was reestablished, and the Mexican government increasingly sought foreign loans to help finance the country's economic expansion.
9. For instance, from 1911 to 1929, U.S. investment in petroleum jumped from $20 million to $206 million, while the overall stock of U.S. DFI in Mexico rose very little—from $616 to $683 million (Wright 1971, pp. 54, 77). The foreign-owned oil companies escaped major property damage because of their location along the coastal periphery of the country and by paying for protection. Their production expanded substantially throughout the revolution. By 1921, Mexico had become the second largest oil-producing country in the world; its output of 193 million barrels amounted to a quarter of the world's total (ibid., p. 62).

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10. The existence of locally controlled capital in the primary export sector gave Brazil an advantage in the development of horizontal ISI. Liquid capital from the sale of coffee found its way into new import-competing industrial enterprises. Government subsidies to the coffee sector further added to its supply of capital, thus increasing the incentives for coffee planters to invest in industry. The result was that industrial production in Brazil fell off less than 10 percent in the early depression years and by 1933 had regained its 1929 levels (see Baer 1965, pp. 22–24).
11. Beginning in 1955, DFI began to pour into the Brazilian and Mexican economies at an almost unprecedented rate. In the six-year period marking the tenure of Brazil's President Kubitschek (1956–61), $674 million in DFI were attracted into Brazil, an annual average of over $110 million. During the six years prior to 1955, which include the nationalist reign of Getúlio Vargas, DFI in Brazil averaged less than $8 million per year. Similarly in Mexico, the average flow of DFI from 1955 through 1958 was $115 million, compared to an annual flow of less than $70 million in 1952–54, the first three years of the Ruiz Cortines sexenio. (The data are taken from Evans and Gereffi 1981, table A-1.)
12. In absolute terms, the value of foreign investment as a proportion of total investment in Brazil and Mexico appears relatively small. Net foreign capital inflows of all types into the two countries in the 1950–65 period amounted to only 8 to 12 percent of total gross investment in each economy, with this proportion being somewhat higher for the manufacturing sector alone (Leff 1968, p. 75; Wright 1971, pp. 78, 93; Vernon 1963, p. 113). The importance of DFI is considerably increased, however, when one takes a more disaggregated view of these economies, focusing on their leading sectors and the largest firms in these sectors. In Brazil, the estimated share of total growth produced by foreign firms in the 1949–62 period was 34 percent in manufacturing and 42 percent of all industrial growth deriving from import substitution (Morley and Smith 1971, pp. 128, 130). Foreign firms accounted for 35 percent of Mexico's overall industrial production in 1970, and for more than half of the industrial production in some of the more modern and strategic sectors (such as chemicals, electrical and other types of machinery, and transportation equipment). Among the 290 largest firms operating in Mexico, TNCs account for 45 percent of their industrial output and for over two-thirds of production in the modern and strategic sectors (Fajnzylber and Martínez Tarragó 1976, pp. 159, 165).
13. In Brazil this phase actually began a bit earlier, around 1968.
14. Data from a survey of 179 of the biggest U.S. manufacturers located in Brazil and Mexico, gathered by the U.S. Senate Subcommittee on Multinational Corporations, indicate that the overseas operations of these TNCs were very profitable. After-tax earnings of foreign affiliates amounted to 16.1 percent of direct investments in equity and long-term debt in 1972, and broad earnings (after-tax earnings plus royalties, payments for management services, and other intangibles) amounted to 20 percent. Consolidated net (after-tax) earnings of these TNCs for their domestic and foreign operations together were only 12.7 percent (Newfarmer and Mueller 1975, p. 41).
15. In Mexico this tendency has been further stimulated by the "border industry" program which assembles component parts from the U.S. for reexport using lower-cost Mexican labor.
16. While we have no comparable data on the evolution of acquisitions by non-U.S. TNCs, it appears from overall data (Vaupel and Curhan 1973, pp. 331, 334) that non-U.S. TNCs are, in the aggregate, as prone to entry by acquisition as are U.S. TNCs.
17. Evidence presented by Newfarmer and Mueller (1975, p. 68) suggests that there was indeed a sharp drop in the number of TNC acquisitions as a result of the 1973 law.
18. This conclusion is reinforced by a look at the relative size of non-U.S. TNCs in Brazil and Mexico. Non-U.S. TNC subsidiaries in Brazil are substantially larger—more than double the size in sales, on the average—than non-U.S. TNC subsidiaries in Mexico. This differential is far greater than for U.S. TNCs—whose subsidiaries in Brazil are only one-third larger than those in Mexico (Fajnzylber and Martínez Tarragó 1976, p. 206). If this difference in subsidiary scale is reflected in the scale of acquisitions in the two countries, we would expect non-U.S. TNC acquisitions to be concentrated even

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more heavily on large firms in Brazil than are the U.S. TNC acquisitions shown in table 4.

19. In addition to concern over ownership policies, TNCs found Echeverría insufficiently tough on labor. *Business Latin America* complained that "Labor is one area where companies are fighting a losing battle to keep costs down." Taxation policies were also considered negative. In his first year in office Echeverría hit the companies with reduced depreciation allowances, a new limit on their ability to deduct advertising expenses, higher taxes on technical fees, and an increase in the gross mercantile revenue tax (*BLA* 1970, p. 10). While taxes amounted to 46 percent of pre-tax earnings in Mexico in 1972, they amounted to only 21 percent in Brazil (Newfarmer and Mueller, 1975).
20. According to CACEX, the foreign trade department of the Bank of Brazil, adding together the deficits of only 19 TNC subsidiaries in 1977 was sufficient to produce a trade gap of $661 million, roughly four times larger than the gap calculated by the U.S. Bureau of Economic Analysis for all U.S. TNCs in 1970.

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