

# Small and medium-size transnational corporations in Brazil\*

Reinaldo Gonçalves\*\*

**Summary:** 1. Introduction; 2. The role and the impact of small and medium-size transnational corporations in Brazil; 3. Government policies, measures, and programmes; 4. Policy options; 5. Conclusion: policy implications.

**Key words:** transnational corporations; multinational enterprises; small and medium-size corporations; foreign direct investment.

Small and medium-size transnational corporations (SMEs) have received no specific attention in the literature on TNCs in Brazil. The objective of this paper is to bring a better understanding on the contribution of small and medium-size enterprises to the Brazilian economy, as well as analyze the main problems that affect the propensity of SMEs from advanced economies to undertake foreign direct investment in Brazil. It is also the purpose of the article to outline some ideas (especially a programme of technical assistance) the aim of which is to promote flows of foreign direct investment and technology from SMEs to Brazil and to strengthen the capacity of the government so as to maximize the benefit/cost relation associated with the presence of SMEs in the country.

As pequenas e médias empresas transnacionais (SMEs) não têm recebido muita atenção na literatura sobre empresas transnacionais e investimento externo direto no Brasil. O objetivo deste artigo é analisar o papel e a contribuição das SMEs na economia brasileira, assim como os principais problemas que estas empresas enfrentam no país. O trabalho objetiva também apresentar algumas idéias (principalmente orientadas para um programa de assistência técnica), cujo objetivo é promover os fluxos de investimento por parte de SMEs e, simultaneamente, fortalecer a capacidade de o governo brasileiro maximizar a relação benefício/custo associada à presença de SMEs no país.

## 1. Introduction

Transnational corporations (TNCs) have played a key role in the Brazilian economy. Hence, there is a significative literature aiming at the analysis of TNCs in general, and large TNCs in particular. However, small and medium-size TNCs have received no specific attention in this literature. The objective of this paper is to contribute to a better understanding of the role of small and medium-size transnational corporations in Brazil. It is also the intent of the paper to outline some ideas (especially a programme of technical assistance) the aim of which is to promote flows of foreign direct investment and technology from small and medium-size enterprises (SMEs) to Brazil and to strengthen the capacity of the government so as to maximize the benefit/cost relation associated with the presence of SMEs in the country.

\* Paper received in Mar. 1994 and approved in June 1995. This is a revised version of a paper originally prepared for the United Nations Center on Transnational Corporations (UNCTC), New York.

\*\* Professor at the Department of International Economics of the Faculty of Economics and Business Administration of Universidade Federal do Rio de Janeiro; former economist at the United Nations Conference on Trade and Development (Unctad).

Before the beginning of the analytical parts of the article, it is important to clarify the key concept used here, that is, small and medium-size transnational corporations. In general, transnational corporations can be defined as large firms which own productive assets in at least two countries.<sup>1</sup> In this regard, there would exist an apparent contradiction between the concepts of SMEs and TNCs. Looking from the perspective of the theoretical literature on the determinants of internationalization of production and foreign direct investment, one should avoid adding the expression "transnational corporations" to "small and medium-size enterprises". That is so because a main feature of a transnational corporation is to have some ownership-specific advantages that, on the whole, are embodied in its large size. Nevertheless, small and medium-size enterprises may also have some significant ownership-specific advantages not related to large plants or organizations. For that reason, the United Nations Center on Transnational Corporations started to use the concept of small and medium-size transnational corporations.

For the purpose of this study, and according to the UNCTC definition a small or medium-size transnational corporation is an enterprise that has a home base (headquarters or parent firm) in a developed country and operates at least one affiliate in other countries, and whose employment level at its parent firm (home base) is less than 500, regardless of the industry (UNCTC, 1989). If the employment level at the parent firm is more than 500, then the TNC is considered to be large. Besides, a foreign affiliate is defined as a firm, 10% or more of whose voting securities, in the case of incorporated business, or an equivalent interest in an unincorporated business is owned by one or more TNCs based in a different country. If the combined foreign ownership is more than 10%, even though one TNC may own less than 10%, then the firm is a foreign affiliate.

This study proceeds in the following manner. Section 2 examines, on the basis of the available empirical evidence, the contribution of small and medium-size enterprises to the Brazilian economy and the main problems that affect the propensity of SMEs from advanced economies to undertake foreign direct investment in Brazil. From the limited evidence available, it may be tentatively concluded that there are hundreds of small and medium-size TNCs in Brazil which give some contribution to the economy, in terms of production, employment and linkages. It is difficult to compare small and medium-size TNCs to large TNCs to the extent that there is an absolute lack of studies and information on this subject. Moreover, there is a certain "division of labour" between small and medium-size TNCs and large TNCs, especially in manufacturing, insofar as the latter have a "revealed preference" for technology-intensive industries. As regards technology transfer, it seems that the most significant contribution is related to licensing agreements. Given the magnitude of the external crisis and the trade structure, the contribution of small and medium-size TNCs to the balance-of-payments adjustment seems to be very modest.

Section 3 presents a critical evaluation of the government policies, measures and programmes that affect the role of SMEs. The basic conclusion is that, notwithstanding the long tradition of policies, measures and programmes oriented to SMEs in general, the Brazilian government keeps on having a strategy of promoting an even greater concentration and centralization of capital. According to the evidence available, the impact of the efforts aiming at promoting SMEs does not seem to be very significant. Moreover, there have been no specific

---

<sup>1</sup> Gonçalves (1992) presents a conceptual discussion and a theoretical analysis of transnational enterprises, as well as an extensive survey of the literature.

efforts conducted by the government to facilitate the involvement by small and medium-size TNCs in Brazil.

Section 4 discusses some policy alternatives that could improve and strengthen the existing legal and institutional framework in this area. The result is not so much to present detailed mechanisms, proposals and instruments, but to suggest a set of guidelines for further research and debate. The basic argument is that the implementation of programmes and measures oriented to the expansion of SMEs (domestic and TNCs alike) in Brazil seems to be more rewarding than the present bias towards large economic groups.

The last section deals with a specific set of ideas, mostly in the context of a technical assistance programme, oriented to the promotion of foreign direct investment by SMEs in Brazil. It is the basic idea that the present structure of support for SMEs in Brazil (more specifically, the system of specialized agencies Sebrae) has many positive and valuable elements, that can be strengthened and adapted so as to encourage flows of investment and technology from small and medium-size TNCs and, at the same time, to maximize the development objectives and needs of the country.

## **2. The role and the impact of small and medium-size transnational corporations in Brazil**

### *The importance of SMEs in the economy*

Small and medium-size enterprises play a relatively important role in the Brazilian economy, notwithstanding the dominant presence of large economic groups (TNCs, local private groups and state-owned enterprises). The data in table 1 show the significative contribution of SMEs for production and as employment generators. With respect to manufacturing, the situation of SMEs is not very different from that found in Japan insofar as SMEs account for about 4/5 of employment and approximately 2/3 of total sales. This same phenomenon of similarity of production and employment structure according to the size of enterprises, between Brazil and Japan, can also be seen in the case of retail trade. In these two sectors the presence of SMEs in the United States is less important than in Brazil and Japan. As far as wholesale trade and other services are concerned, the general structure in Brazil is more similar to that found in the United States. In Japan there is a remarkable concentration of services production (excluding wholesale and retail services) in the large enterprises.

As regards Brazil, the more detailed data presented in table 2 show that there is a certain heterogeneity with respect to the relative importance of SMEs in production and employment. By and large, SMEs play a significative role in Brazil. Nevertheless, it can be said that SMEs tend to play a relatively minor role in the following sectors: mining, transport equipment, rubber, tobacco, radio, television and entertainment services, and other auxiliary services (that is, SMEs account for less than half of total sales).

The role of SMEs as innovators seems to be much more modest than their impact on job creation and production in the Brazilian economy. As a technologically-dependent economy, Brazil relies to a very large extent on foreign technology either through the presence of affiliates of large TNCs or through contractual relations. Despite the efforts to strengthen the national technological capability, the macroeconomic stabilization crisis and the acceleration

of technical progress on a world scale have increased further the technological gap between Brazil and the developed economies in the last decade.

Table 1  
The relative importance of small and medium-size enterprises in Brazil,  
Japan and the United States  
(SMEs as percentage of all enterprises)<sup>1</sup>

Variable and country	Sector			
	Manufacturing <sup>2</sup>	Wholesale trade <sup>3</sup>	Retail trade <sup>4</sup>	Services <sup>4, 5</sup>
Number of establishments				
Brazil	99.4	98.8	99.4	99.5
Japan <sup>6</sup>	99.6	99.3	99.6	99.8
United States	98.5	99.0	96.4	97.3
Employment				
Brazil	78.7	80.6	82.6	63.6
Japan	78.7	85.7	88.0	96.5
United States	62.2	84.2	67.5	57.3
Value of sales				
Brazil	68.7	84.4	75.3	56.9
Japan	61.9	58.9	79.4	95.8
United States	53.8	77.3	66.5	64.0

Sources: UNCTC, *Small and medium enterprises in foreign direct investment*, IDRC/Cedrei/UNCTC Project, 1989; and Fibge, *Censo industrial 1985*, *Censo comercial 1985*, and *Censo de serviços 1985*, Rio de Janeiro, Fundação Instituto Brasileiro de Geografia e Estatística, 1985.

<sup>1</sup> The data refer to the following years: Brazil (1985), Germany (1985), Japan (1986), and the United States (1982).

<sup>2</sup> Defined as establishments with employment less than 500.

<sup>3</sup> Defined as establishments with employment less than 100.

<sup>4</sup> Defined as establishments with employment less than 50.

<sup>5</sup> Services excluding wholesale and retail trade.

<sup>6</sup> Excludes establishments with employment less than 3.

There is a lack of studies on the role of SMEs in the process of technological innovation in Brazil. Nevertheless, it is worth noting that the available evidence indicates that technological innovation by SMEs in the country is a consequence of their relationship with capital goods producers (Melo, 1981; Sebrae, 1990). It means that SMEs are recipient of new technologies. Of course, SMEs that are producers of capital goods can contribute to this process of technological innovation. In this regard, it is worth pointing out that although large TNCs and large domestic groups have a leading presence in the capital goods sector, there are several segments in this sector in which SMEs are important suppliers (e.g., specialized equipment and machinery).

As far as foreign trade is concerned, the available evidence indicates that there is a high degree of concentration of exports and imports. The 300 largest exporters accounted for 3/4 of the total value of exports, whereas the 200 largest importers accounted for 70% of the total value of imports in 1980 (Gonçalves, 1983a:23). Nevertheless, it is worth pointing out that in a sample of 20,107 manufacturing enterprises it was possible to find 3,903 exporters and 2,955 importers in 1980 (Willmore, 1987:3). It means that, although large enterprises, both TNCs and local enterprises, account for the bulk of Brazilian foreign trade, there is a signif-

icative number of small and medium-size enterprises which have had an impact on exports and imports.

**Table 2**  
The relative importance of small and medium-size enterprises in Brazil,  
according to the sector: 1985  
(SMEs as percentage of all enterprises)

Sector	Variable			
	Number of establishments	Employment	Value of sales	Value added
Mining	98.7	56.5	32.3	28.8
Manufacturing	99.4	78.7	68.7	68.8
Nonmetallic mineral products	99.8	86.8	80.6	80.2
Metallurgy	99.3	77.0	55.3	54.3
Nonelectrical machinery	98.8	74.9	66.2	68.4
Electrical machinery	97.7	69.8	66.1	68.0
Transport equipment	97.0	47.0	31.0	35.8
Wood	99.9	94.4	90.6	89.9
Furniture	99.9	94.1	91.5	91.8
Paper	98.7	85.6	76.4	71.7
Rubber	98.7	72.2	46.1	43.2
Leather	99.5	87.1	90.3	92.3
Chemicals	98.6	82.8	70.4	71.9
Pharmaceutical products	99.2	91.4	92.7	93.9
Perfumery	99.6	89.9	83.2	87.7
Plastic products	99.4	90.3	91.1	89.4
Textiles	97.8	73.7	72.2	68.0
Clothing and shoes	99.3	75.9	68.4	64.0
Food products	99.7	83.5	83.6	81.2
Beverages	99.7	91.1	88.7	87.9
Tobacco	92.3	59.3	32.8	27.3
Printing and publishing	99.8	86.8	77.8	75.5
Miscellaneous	98.9	82.5	77.4	75.8
Retail trade	99.4	82.6	75.3	-
Wholesale trade	98.8	80.6	84.4	-
Services	99.5	63.6	56.9	-
Lodging and catering	96.1	87.6	79.9	-
Repair and maintenance	99.8	94.8	89.8	-
Personal hygiene services	99.8	94.8	92.2	-
Radio, television, entertainment	97.9	58.0	31.2	-
Other auxiliary services	96.8	37.1	42.3	-
Real estate agency, leasing and management services	99.2	81.1	80.9	-

Source and note: See table 1. - = not available.

In this regard, it is worth noting two aspects. First, Brazil's pattern of comparative advantage is to a large extent associated with labour-intensive and natural-resources-intensive products.<sup>2</sup> Half of the Brazilian exports are manufactured products, whereas the other half is composed of food products, agricultural raw materials, ores and metals. The pattern of comparative advantage cannot in general be related to technology-intensive industries and human-capital-intensive industries, whose production in Brazil tend to be controlled by large TNCs. Second, as regards manufactured products, the industries in which Brazil has comparative advantage and, therefore, high positive export/import ratios, are those in which there is a predominance of small and medium-size manufacturing enterprises.<sup>3</sup>

### *Small and medium-size transnational corporations in Brazil*

The role and the impact of small and medium-size TNCs in Brazil has practically received no attention in the literature in this area. This neglect has occurred despite the extensive discussion on the activities of SMEs in the Brazilian economy in the last two or three decades.<sup>4</sup>

As regards small and medium-size TNCs, evidence is scattered and empirical analysis is only supported by fragmentary empirical information. The evidence to be presented in this section should be viewed with caution and the results must be interpreted with great care.

What strikes one at once about small and medium-size TNCs in Brazil is that there seems to exist a relatively large number of affiliates. Table 3 presents the number of enterprises according to the register of the corporate income tax in 1977. This table shows that there are

Table 3  
Number of enterprises in Brazil according to the origin and size of capital, 1977

Size of capital (K) (cruzeiros)	Origin of capital							Total (A+F+G)
	100% local (A)	100% foreign (B)	Local equal to foreign (C)	Local higher than foreign (D)	Local lower than foreign (E)	Foreign firms total (F) (B+C+ D+E)	Non- identified (G)	
K < 100,000	1,151,946	311	47	170	490	1,018	7,196	1,160,160
100,000 < K < 1,000,000	237,009	280	88	322	859	1,549	212	238,770
K > 1,000,000	42,443	356	81	798	1,244	2,479	24	45,446
Total	1,431,898	947	216	1,290	2,593	5,046	7,432	1,444,376

Source: Finance Ministry, Brazil. *Anuário Econômico-fiscal*, 1979.

Note: The data refers to enterprises in the general register of the corporate income tax system.

<sup>2</sup> For instance, shoes, wood, leather, textiles and paper. This list of industries is based on the revealed comparative index for 1980 (see Gonçalves, 1987:423). A more disaggregated analysis shows the existence of a less clear pattern insofar as Brazil shows comparative advantage in some capital-intensive industries (see Fasano Filho, 1987).

<sup>3</sup> Data on export/import ratios of manufacturing enterprises are shown in Willmore (1987) and data on comparative advantage are presented by Gonçalves (1987:423).

<sup>4</sup> For a bibliography on SMEs, most of that related to Brazil, see CNI (1985) and Cebrae (1988).

5,046 enterprises in which a non-resident had a participation in the capital. These enterprises were classified in three different size classes according to their capital. The set of the largest enterprises (capital higher than Cr\$1 million, that is, US\$55 thousand) accounted for 3.1% of the total number of enterprises in the general register of the corporate income tax system, whereas the group of the largest foreign enterprises (2,479) represented 49.1% of the total number of foreign enterprises (see table 4). Given that the upper limit for the capital of the group of the largest enterprises is relatively low, it may be said that there are at least 2,567 enterprises (i.e., 1,018 plus 1,549), in which a non-resident has a participation in the capital, which can be considered as small or medium-size foreign enterprise, according to the classification presented above.

Table 4  
Number of enterprises in Brazil according to the origin and size of capital, 1977

Size of capital (K) (cruzeiros)	Origin of capital (%)							Total (A+F+G)
	100% local (A)	100% foreign (B)	Local equal to foreign (C)	Local higher than foreign (D)	Local lower than foreign (E)	Foreign firms total (F) (B+C+ D+E)	Non- identified (G)	
K < 100,000	80.4	32.8	21.8	13.2	18.9	20.2	96.8	80.3
100,000 < K < 1,000,000	16.6	29.6	40.7	25.0	33.1	30.7	2.9	16.5
K > 1,000,000	3.0	37.6	37.5	61.9	48.0	49.1	0.3	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source and note: See table 3. Totals may not add to 100 due to rounding.

With respect to the distribution of foreign enterprises in Brazil, according to their size, the evidence found in table 5 does not lend support to the general view presented in the literature that small and medium-size TNCs are more likely to accept a lower share of capital in their foreign affiliates than large TNCs do. In table 5 one can note that 30.6% of firms in the set of the smallest foreign affiliates have a 100% ownership of capital. This share of foreign capital is lower for the largest affiliates. Besides, the share of a local partner in capital is higher than the share of the foreign partner for 16.7% of affiliates in the set of the smallest TNCs, whereas in the set of the largest TNCs the corresponding coefficient is 32.2%.

Table 5  
Foreign enterprises in Brazil according to the size of capital, 1977

Size of capital (K) (cruzeiros)	Origin of capital (%)				
	100% foreign	Local equal to foreign	Local higher than foreign	Local lower than foreign	Foreign firms total
K < 100,000	30.6	4.6	16.7	48.1	100.0
100,000 < K < 1,000,000	18.1	5.7	28.8	55.5	100.0
K > 1,000,000	14.4	3.3	32.2	50.2	100.0
Total	18.8	4.3	25.6	51.4	100.0

Source and note: See table 3. Totals may not add to 100 due to rounding.

Moreover, the evidence available shows that there were 4,656 non-residents (firms and individuals) with investments in Brazil which were registered at the Central Bank until 1986 (Cepal, 1989, table IIB). These non-residents had investments in 7,110 enterprises in Brazil. In this set of affiliates and subsidiaries there was a group of 1,207 enterprises which received foreign direct investments of at least US\$3 million, and that accounted for 93.2% of the total stock of foreign direct investment registered in the Central Bank of Brazil (Cepal, 1989, table IIB). This group of 1,207 subsidiaries had a stock of foreign direct investment of US\$30 billion, whereas the remaining set of 5,903 firms (7,110 less 1,207) had investments of US\$2 billion.<sup>5</sup> That is, the average stock of foreign direct investment of the subsidiaries of the largest TNCs was US\$25 million, whereas the average foreign direct investment of the smallest firms was about US\$340 thousand.

This does not mean that all the "small" enterprises, in which there is foreign participation and that are registered in the Finance Ministry (corporate tax system) or in the Central Bank, can be considered as affiliates of small and medium-size TNCs, according to the definition of small and medium-size TNCs presented at the beginning of this paper. It may even happen that in the set of the smallest firms there are subsidiaries of large TNCs, whereas in the set of the largest foreign firms in Brazil there are affiliates of small and medium-size TNCs. Despite the complete lack of information and studies about the specific role of small and medium-size TNCs in Brazil, the purpose of this type of data is just to show that the high degree of internationalization of the Brazilian economy and the presence of several hundreds of small and medium-size firms with foreign participation suggest that the role and the impact of small and medium-size TNCs in Brazil may be not negligible.

Although the scope for generalization is extremely limited, it may be worth looking at a more disaggregated data related to manufacturing. As far as manufacturing is concerned, table 6 shows that the Brazilian manufacturing industry presents a relatively high degree of internationalization inasmuch as TNCs account for 32% of production, 24% of capital, 23% of employment and 1.9% of establishments.<sup>6</sup> Besides, foreign capital penetrates throughout manufacturing, regardless of the type of industry. If one takes into account the different types of industries, classified according to size, one notes that TNCs tend to be relatively more important, in terms of their share of production, capital, employment and number of establishments, in the industries with the predominance of both medium-size-to-large enterprises and large enterprises (see table 7). To illustrate, TNCs account for an average share of 73.7% of production, 74.3% of employment, 55.1% of capital, and 7.9% of establishments of industries with the predominance of large-size enterprises. By contrast, in industries with the predominance of small enterprises, TNCs represent 29.3% of production, 26% of employment, 13.5% of capital, and 1.4% of the number of establishments.<sup>7</sup> On the whole, the degree of predominance of TNCs in manufacturing tends to increase with the predominance of larger enterprises in industry.

---

<sup>5</sup> It may, of course, happen that the parent firms in Brazil receive investment from abroad and distribute it among the affiliates in the country. This phenomenon is more evident in the case of the holding companies.

<sup>6</sup> The data refer to 1977. The economic crisis of the 1980s does not seem to have reduced the penetration of TNCs in Brazil. The share of foreign capital in total capital was reduced from 11.1% in 1977 to 11% in 1985. Nevertheless, the share of TNCs in the total capital of manufacturing firms increased from 23.6% in 1977 to 25.6% in 1985. The disaggregated data are presented in table 11.

<sup>7</sup> The average share for the industries with the predominance of small enterprises shows a high standard deviation inasmuch as it is very influenced by the high share of TNCs in perfumery.



**Table 6**  
**The share of transnational corporations in Brazilian manufacturing according to the**  
**predominant size of enterprises, 1977 (%)**

Industries with the predominance of	Production	Employment	Capital	Establishment
<b>Small-size enterprises</b>				
Wood	5	3	5.1	0.3
Furniture	1	2	2.0	0.2
Perfumery	82	73	48.3	3.7
<b>Small-size-to-medium enterprises</b>				
Nonmetallic mineral products	23	12	11.8	0.5
Clothing and shoes	4	2	2.9	0.3
Food products	20	11	11.9	0.9
Publishing and printing	1	1	3.1	0.7
Miscellaneous	17	13	24.4	2.6
<b>Medium-size enterprises</b>				
Leather	18	14	9.2	2.1
Pharmaceutical products	52	46	70.2	19.1
Plastic products	29	22	10.2	2.3
Beverages	19	13	6.3	1.3
<b>Medium-size-to-large enterprises</b>				
Metallurgy	16	19	15.1	1.8
Nonelectrical machinery	34	25	36.9	8.3
Electrical machinery	83	68	53.9	8.8
Paper	13	11	21.5	3.2
Chemicals	41	67	16.0	11.1
Textiles	16	13	17.3	2.6
<b>Large enterprises</b>				
Transport equipment	78	81	51.8	4.2
Rubber products	50	46	56.4	2.7
Tobacco	93	96	30.5	17.0
<b>Average</b>	<b>32</b>	<b>23</b>	<b>23.6</b>	<b>1.9</b>

Sources: Reinaldo Gonçalves, La presencia de las empresas transnacionales en Brasil. In: *Dos estudios sobre empresas transnacionales en Brasil*. Santiago, Chile, Naciones Unidas, 1983, p. 64-7 (Estudios e Informes de la Cepal, 31.), and Finance Ministry, Brazil. *Anuário Econômico-fiscal*, 1979.

Note: The classification of industries is based on cluster analysis taking into account the share of different sizes of enterprises in total gross revenue of industry, according to the following classification: small enterprises < 100 employees; 100 < medium-size enterprises < 500 employees; large enterprises > 500 employees. The average refers to the manufacturing sector as a whole.

Table 7  
The average share of transnational corporations in Brazilian manufacturing according to the predominant size of enterprises, 1977 and 1985 (%)

Industries with the predominance of	Production		Employment		Number of establishments		Capital	
	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation
Small enterprises	29.3	45.7	26.0	40.7	1.4	2.0	13.5	18.4
Small-size-to-medium enterprises	13.0	9.9	7.8	5.8	1.0	0.9	16.4	19.5
Medium-size enterprises	29.5	15.8	23.8	15.4	6.2	8.6	22.7	30.3
Medium-size-to-large enterprises	33.8	26.6	33.8	26.5	6.0	3.9	22.9	12.0
Large-size enterprises	73.7	21.8	74.3	26.7	8.0	7.9	55.1	6.2
Average	33.1	29.0	30.4	29.7	4.5	5.4	24.6	21.5

Source and note: See table 6. The average refers to the simple arithmetic average for the 21 industries.

Moreover, looking at the distribution of TNCs in Brazilian manufacturing according to the predominant size of enterprises, it can be noted that TNCs have more than 1,200 establishments in the set of industries with the predominance of both small and medium-size enterprises, whereas the set of industries with the predominance of medium-size-to-large enterprises and large enterprises have approximately 2,600 establishments (table 8). It is evident from data in table 9 that the latter accounts for 2/3 of establishments and 4/5 of capital and investment. In this connection it is worth mentioning the concentration of TNCs in the industries with the predominance of medium-size-to-large enterprises (approximately 60% of establishments, capital and foreign investment).

Although data here are so highly aggregated that, in general, results are of limited value, there is a basic point which is worth mentioning. Even though TNCs tend to predominate in industries in which the size of the enterprises is important, TNCs are also present in industries with the predominance of small and medium-size enterprises. Indeed, foreign capital — small, medium and large-size TNCs —, permeates Brazilian manufacturing. By implication, it seems that the role and the impact of small and medium-size TNCs in Brazilian manufacturing is not negligible.

As a matter of fact, a basic motivation of small and medium-size TNCs to invest in Brazil is the "drag effect" of large TNCs. In this regard, small and medium-size TNCs are *inter alia* suppliers of parts, components and specialized machinery used by large TNCs, whereas the latter tend to dominate and be concentrated in industries with the predominance of large enterprises in Brazil.

On account of the above information, it can be pointed out that small and medium-size TNCs cannot be considered as alternative channels to large TNCs for the expansion of the Brazilian manufacturing sector as whole. From the standpoint of small and medium-size TNCs, Brazil presents three important locational-specific advantages. First, it is supposed to have a favourable market potential. Second, it has a significative network of subsidiaries and

affiliates of large TNCs. Third, the Brazilian market is interesting to the extent that it allows TNCs capitalizing upon technological advantages.

**Table 8**  
**The distribution of transnational corporations in Brazilian manufacturing**  
**according to the predominant size of enterprises (1977, 1985 and 1990)**

Industries with the predominance of	Establishments 1977		Foreign direct investment 1977	Capital 1977	Capital 1985	Foreign direct investment 1990
	Number	%	%	%	%	%
<b>Small-size enterprises</b>						
Wood	66	0.5	0.4	0.4	0.4	0.9
Furniture	32	...	...	...	...	-
Perfumery	51	2.5	1.7	1.7	0.5	(a)
<b>Small-size-to-medium enterprises</b>						
Nonmetallic mineral products	126	5.5	2.5	2.5	3.5	2.5
Clothing and shoes	58	0.3	0.2	0.2	0.3	1.0
Food products	270	6.6	6.0	6.0	6.0	6.5
Publishing and printing	74	...	0.2	0.2	0.2	0.4
Miscellaneous	230	1.5	1.8	1.8	4.5	2.1
<b>Medium-size enterprises</b>						
Leather	44	0.2	0.2	0.2	0.1	-
Pharmaceutical products	165	2.2	5.8	5.8	4.3	6.3
Plastic products	102	1.6	0.6	0.6	0.9	(a)
Beverages	62	1.0	0.5	0.5	0.6	0.6
<b>Medium-size-to-large enterprises</b>						
Metallurgy	401	10.5	10.5	10.5	16.6	11.8
Nonelectrical machinery	781	8.1	10.2	10.2	9.1	11.8
Electrical machinery	361	16.0	14.1	14.1	9.8	12.2
Paper	66	1.4	3.5	3.5	3.3	3.0
Chemicals	505	14.5	11.8	11.8	12.4	19.6
Textiles	188	3.9	5.6	5.6	4.4	2.1
<b>Large enterprises</b>						
Transport equipment	144	16.9	18.1	18.1	17.0	14.4
Rubber products	49	3.2	4.4	4.4	4.8	3.6
Tobacco	56	3.5	1.9	1.9	1.2	1.0
<b>Total</b>	<b>3,831</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Sources: See table 6 and the Central Bank, Brazil, *Boletim Mensal*, June 1991.

Notes: The classification of industries is based on cluster analysis taking into account the share of different sizes of enterprises in the total gross revenue of industry, according to the following classification: small enterprises < 100 employees; 100 < medium-size enterprises < 500 employees; large enterprises > 500 employees.

... Less than 0.05%. Totals may not add to 100 due to rounding.

Table 9  
The average distribution of transnational corporations in Brazilian manufacturing  
according to the predominant size of enterprises, 1977, 1985 and 1990 (%)

Industries with the predominance of	Number of establishments 1977	Stock of foreign direct investment 1977	Capital 1977	Capital 1985	Stock of foreign direct investment 1990
Small enterprises	3.9	3.0	2.1	0.9	0.9
Small-size-to-medium enterprises	19.8	13.9	10.7	14.6	12.5
Medium-size enterprises	9.7	5.0	7.1	5.9	6.9
Medium-size-to-large enterprises	60.0	54.4	55.7	55.6	60.5
Large-size enterprises	6.5	23.6	24.4	23.0	19.0
Total	100.0	100.0	100.0	100.0	100.0

Source and note: See table 8.

As specifically concerns technology transfer, the fragmentary empirical evidence seems to lend support to the view that small and medium-size TNCs have a relatively favourable performance in Brazil.<sup>8</sup> Despite the limited scope of the available studies, it is worth pointing out some of their main conclusions. First, small and medium-size TNCs are, in general, more inclined to use new forms of investment, rather than equity holdings. Second, as regards technology transfer, "there is a better evaluation of licensing SMEs than investing SMEs" (Fleury, 1989:37). Third, it does not seem that foreign SMEs have a systematic process of introducing innovations in Brazil. Fourth, local technological capacity has been created owing to agreements and joint-ventures with small and medium-size TNCs. In the diversification of Brazilian firms, it has been important to have licensing agreements with small and medium-size enterprises. Lastly, there seems to exist some efforts towards the adaptation of technology to the local needs and conditions (White & Feldman, 1982:36).

As far as balance-of-payments is concerned, the very limited evidence available suggests that the impact of TNCs on exports does not seem to be very significant (Fleury, 1989:40). By contrast, large TNCs have been able to upgrade Brazil's patterns of comparative advantage and have contributed to a positive trade balance since the late 1970s (Gonçalves, 1987).

To conclude this section, it is worth pointing out that large TNCs have a strong presence in Brazil, mostly in manufacturing. In this regard, they account for about 1/3 of total manufacturing production and they tend to control most of the technology-intensive industries. Moreover, large TNCs are very concentrated in industries with the predominance of medium-size-to-large enterprises and large-size enterprises. It means that it is difficult to see small and medium-size TNCs playing a role as an alternative channel to large TNCs. Nevertheless, the latter can give a positive contribution to the Brazilian economy, mostly as a source of technology through subsidiaries and, still more important, through joint-ventures and licensing agreements.

<sup>8</sup> See, White and Feldman (1982) and Fleury (1989). In these studies the sample sizes are 13 and 20 affiliates of small and medium-size TNCs, respectively. Most of the enterprises in both samples are producers of metalworking machines and mechanical equipment.

### 3. Government policies, measures, and programmes

#### *A brief historical record*

The Brazilian government has a long tradition of supporting small and medium-size enterprises. Since the early 1960s the main government financial institutions have created special facilities for promoting long-term investment by SMEs. Besides, the Brazilian Center for Managerial Assistance to Small and Medium-Size Enterprises (Centro Brasileiro de Assistência Gerencial à Pequena e Média Empresa, Cebrae) was founded in 1972 to give assistance and managerial training to SMEs. Although Cebrae was legally a private non-profitable organization, its resources came from government funds.

The National Development Bank (Banco Nacional de Desenvolvimento Econômico e Social, BNDES) had its first financial facility especially created for SMEs in 1965, the Fipeme programme (Programa de Financiamento à Pequena e Média Empresa). During the 1970s and early 1980s this programme was complemented (and, eventually, replaced) by several other financial facilities, including those related to the financing of working capital. Most of the resources of Fipeme were internal funds of BNDES, but there were contributions from the Inter-American Development Bank, USA, and the Kreditanstalt für Wiederaufbau, KfW, Germany (Barros & Modenesi, 1973:59-72).

Moreover, state-owned banks, Banco do Brasil and Caixa Econômica Federal, have had a long experience in creating special financial facilities to support SMEs, mostly oriented to the financing of working capital. Also, the Central Bank has in several occasions created special mechanisms for promoting private bank loans at preferentially low rates of interest.

Nevertheless, the analysis of the government support for SMEs between the mid-1960s and the early 1980s shows that the Brazilian experience was not very different from those found in other developing countries. That is, although there was a non-negligible set of programmes, mostly related to financial support, these programmes tended to affect only a very small proportion of SMEs. Besides, the resources were always considered insufficient for the needs of SMEs as a whole, as well as it had the implicit bias of favoring the group of the largest SMEs (Soares, 1981:28).<sup>9</sup>

As far as the Cebrae system is concerned, the available critical analysis suggests that the training activities were, in geral, rather inappropriate. The impact was even less significative, given that government support was moving towards the very small enterprises (micro-enterprises) and involved modern techniques of management, which were not necessarily appropriate (Soares, 1981:31).

Since the early 1980s the economic crisis has adversely affected not only the financial facilities for short and long-term loans, but also the technical assistance and training activities sponsored mostly by government through Cebrae. As regards the financial facilities of the private banks, the consensus is that the Central Bank instructions were, in practice, hardly followed. It means that in the last few years, SMEs have suffered from the high real interest rates and the conditionalities imposed by the banks (minimum average balance, compulsory purchase of services, etc.). That is, the macroeconomic instability affected in a very significative way the performance and conduct of SMEs in Brazil in the last decade.

---

<sup>9</sup> See, for an identical conclusion, the analysis of the Indian experience by Little (1987:225).

## *Present policies and programmes*

The Brazilian Constitution of 1988 provides, in its art. 179, a special treatment for micro and small enterprises in terms of taxes, social security obligations, credit facilities and administrative requirements. It refers to a differential and most favored treatment at the federal, state and county levels.

As most articles of the 1988 Constitution, art. 179 has not been regulated yet. Nevertheless, the Brazilian government took an initiative to strengthen SMEs very recently. First of all, it improved the situation of SMEs regarding the payment of federal taxes (income taxes, value added tax, taxes on financial operations, and the special social funds PIS, Pasep and Finsocial). As a matter of fact, Law n° 8,218 (August 30, 1991) reduced the time for payment of taxes by medium and large firms, whereas the time for payment by the micro and small firms was increased.

It is worth pointing out that according to this law (art. 24) the enterprises are considered micro and small-size as long as their annual gross revenue are lower than Cr\$30 million (approximately, US\$75 thousand) and Cr\$200 million (US\$500 thousand), respectively.

At this juncture, it is also worth mentioning that these limits will affect manufacturing enterprises, in general, with less than 10 workers (gross revenue of US\$75 thousand) and with less than 50 workers (gross revenue below US\$500 thousand). The same happens with respect to establishments in the services sector (excluding trade). With respect to both retail and wholesale trade the limits are much lower, probably in the range of 1-5 workers.<sup>10</sup>

There are also mechanisms whereby micro and small enterprises benefit from special treatment in terms of the level of taxes (social security and special social funds) and they benefit from simplified administrative procedures related to the labour legislation (Coad, 1990:184-5).

As far as financial facilities are concerned, despite the general financial crisis in Brazil, there are still a few lines of official credit which are specifically oriented to SMEs. In this connection, it may be noted that the phenomenon which occurred in the past is still predominant, that is, only a very tiny fraction of SMEs benefit from this financial facilities given the bureaucratic procedures and requirements. The financial facilities especially available for SMEs are presented in table 10. Moreover, the available information clearly reveals that the credit lines which give special treatment for SMEs are still provided by those government financial institutions which in the last three decades have been engaged in supporting and promoting investments by SMEs, namely, BNDES, Banco do Brasil and Caixa Econômica Federal.

With respect to the information in table 10, it is worth emphasizing two aspects. First of all, it can be said that in relation to the financial facilities available in the late 1970s and early 1980s, nowadays there are less special programmes for SMEs in the above institutions than in the past. Second, half of the facilities available are specifically oriented to national enterprises. This last aspect is related to the financing of working capital (Banco do Brasil and Caixa Econômica Federal) and to the software support programme of Finep (a governmental agency dealing with the financing of research and development activities).

---

<sup>10</sup> These numbers are based on the average value of production of different size classes, according to the size of employment in enterprises (manufacturing) and establishments (services). See Fibge (1985a:60; 1985b:10 e 1985c:10).

**Table 10**  
Special financial facilities provided by government for small  
and medium-size enterprises

Institution and programme	Objectives	Beneficiaries	Credit limit	Period	Cost
Banco do Brasil	Working capital	MI and SMEs. National capital enterprises sectors: industry, trade and services.	Indebtedness capacity	Minimum: 90 days Maximum: 180 days	TRD + 1% monthly
Banco do Brasil Fepemi — Special Fund for Supporting Small Medium-size Industrial Enterprises	Loans for the purchase of services related to technical assistance and personnel training	MI and SMEs. Industrial sector	100% of the total cost of services maximum value	Grace period: 6 months Amortization: 2 years	4 semester repayments
Banco Nacional de Desenvolvimento Econômico e social — Finame	Purchase of machinery and equipment	MI and SMEs	Maximum participation: 60%	Grace period: 3-12 months Amortization: 12-60 months	TR + 6.5% year + 2.5% (fees)
POC — Programme of Joint Operations	Different types of investments	MI and SMEs All sectors	Maximum value	Grace period: 24 months Amortization: 60 months Maximum participation: 50-60%	TR + 6.5% - 9% + 2.5%
Caixa Econômica Federal — CEF/Giro	Working capital	MI and SMEs. Preferential treatment for national enterprises	Maximum value limit: 20% of annual gross revenue or 100% net worth	Minimum: 3 months Maximum: 6 months	TRD + spread (variable)
Finep Software Support Programme	Production and marketing of software	MI and SMEs. National enterprises	Maximum value	Grace period: 6-12 months 24 months	TR + 10 - 12% year

Source: Sebrae-RJ/Firjan-AD.Rio, *Linhas de crédito para a micro, pequena e média empresa*, 1991.

Notes: MI refers to "micro" enterprises; SMEs, small and medium-size enterprises; TR and TRD, monetary correction.

Besides the official financial support, there is a relatively large system of promoting micro-enterprises and SMEs in Brazil. As mentioned Cebrae was founded in 1972 and it had agencies in all states in Brazil. In 1990 Cebrae was replaced by the Brazilian Agency for Supporting the Micro and Small Enterprises (Serviço de Apoio às Micro e Pequenas Empresas — Sebrae). It was created by Law nº 8,029 (April 12, 1990) and the Decree nº 99,570 (October, 9, 1990). This agency is, in fact, a re-organization of Cebrae. Nevertheless, there is an important difference with respect to the funding of Sebrae, whose resources now come from a specific tax paid on the the basis of total wages and salaries paid by the enterprises. For its first year of operation (1991) the estimated revenue of Sebrae was US\$50 million.

By mid-1991 Sebrae was engaged in approximately 500 different projects, with a total cost of US\$20 million. The main projects are related to managerial assistance and training (30% of resources), a programme for increasing productivity (27% of resources), research and development activities (23%), and the diffusion of information (20%). In these different programmes and activities, the targets are the following (*Gazeta Mercantil*, 1991):

- (a) management programme — human resources development affecting 42 thousand enterprises, 75 thousand individuals and 4 thousand training programmes;
- (b) competitiveness programme — 34 thousand enterprises;
- (c) technological research and development — 12 thousand enterprises;
- (d) diffusion of information — 180 expositions and the installation of 300 posts for special assistance to micro-enterprises and SMEs.

Regardless of the possible impact of Sebrae's activities, given that the resources available are not significantly high by the standards of a huge country like Brazil, it seems that there has occurred a revitalization of the institutional mechanisms for supporting and promoting micro and small enterprises in Brazil through the new Sebrae.

### *Government policies and SMEs*

The basic policies of the Brazilian government regarding foreign direct investment have not changed significantly since the mid-1960s. By and large, government has had a liberal policy towards foreign capital in general, and foreign direct investment in particular. The current trend seems to be a further liberalization of the legislation on foreign capital.

The basic legal instrument is Law nº 4,390 (August 29, 1964), which amended Law nº 4,131 (September 3, 1962). Both legal instruments were regulated by the Executive Act nº 55,762 (February 17, 1965) and they still remain in force. The basic principle of this legislation is that foreign capital receives identical treatment to that given to local capital.

Foreign capital which enters into the country, either as direct investment or loans, must be registered at the Central Bank. It is important to note that this register is automatic and there is no prior screening or requirement. Reinvested profits should be registered as well, inasmuch as the tax rates on remittances of funds abroad used to depend on the ratio of remittances to the volume of capital registered in the Central Bank in the last three years previous to the remittance. It is worth noting that the progressive tax rates have never been seen as a major constraint and, by and large, foreign firms have not paid supplementary taxes on profit remittances inasmuch as the average ratio of profits and dividends remitted abroad to the capital registered in the Central Bank was historically below 5%. In addition, when the country of origin of direct investment had a double-taxation agreement the withholding tax decreased from 25 to 15%. However, Law nº 8,383 (December 30, 1991) abolished the progressive withholding tax and established the tax rate of 15% on remittances of profits abroad. Profit and dividend remittances have been totally free.

There is no general restriction on FDI inflows and outflows in Brazil. The basic legislation defines some few specific restrictions on the movement of risk capital. The most important one is, probably, related to a crisis situation of the balance of payments when the maximum limit of profit remittances would be 10% of the registered capital (art. 28, Law nº 4,131). Moreover, an annual limit of profit remittance of 8% could be applied in the case of superfluous goods and services (art. 11, Decree nº 55,762). Despite extraordinary balance-of-payments disequilibria during the 1980s, the Brazilian government has never used these restrictions.



The access of majority-owned foreign subsidiaries to long-term loans granted by government financial institutions (art. 39, Law nº 4,131) was also restricted. However, since September 1991, the National Bank of Economic and Social Development has begun to finance long-term investment by subsidiaries (Canuto, 1993:25).

There are, however, some sectoral restrictions. There are partial limitations in banking, insurance, domestic airlines, coastal shipping, audiovisual services, private security, and fishing. The development of mining activities and hydroelectric energy can only be carried out by national firms and require special authorization by the government. The petroleum industry, apart from distribution, is fully controlled by a state-owned company, which, however, has undertaken cooperation agreements with foreign companies for prospecting for petroleum. The ownership of communication media and health services is restricted to Brazilian citizens. The restrictions in computer systems (mostly, the market reserve for domestic enterprises) were abolished in October 1992.

The situation seems to be changing insofar as the deterioration of the economic and political crisis in the recent past has had a perverse impact on the flow of foreign direct investment. As a result, there has been an increasing pressure for changing the basic legislation towards more favourable conditions for foreign enterprises.

The basic regulation on foreign capital also regulates the payments for technology. These payments are limited to a maximum of 5% of the gross revenue from the product manufactured or sold. In addition, the law used to prohibit the payment of royalties regarding the use of patents and industrial or commercial trademarks between a majority-owned foreign affiliate, subsidiary or branch, and the parent company. However, art. 50 of Law nº 8,383 (December 30, 1991) now allows the payment of royalties between subsidiary and the parent company (Barbosa, 1993:25). Moreover, there is a project on a new code on industrial property which is been analyzed in Congress, whose objective is to give further guarantees and protection for intangible assets.

There are also some partial limitations in banking, insurance, domestic airlines, coastal shipping and fishing. Mining activities and hydroelectric energy require special authorization from government. In the 1988 Constitution the access of foreigners to mining has been further restricted (art. 178). The oil industry (extraction, refining etc.) is also a monopoly of the federal government, whereas the ownership of communication media is restricted to Brazilian citizens.

Of foremost importance is the fact that the Brazilian government has had a liberal policy towards foreign enterprises since the mid-1950s. Besides, the Brazilian government has conducted efforts to facilitate the involvement of foreign enterprises in Brazil, for instance, the changes in the administrative procedures of the Central Bank regarding the control of profit remittances (Barros, 1993). The general policy of greater openness of the Brazilian economy, which has already started in the commercial area, is probably going to be extended to technology and foreign direct investment in the future.<sup>11</sup> Nevertheless, the high degree of uncertainty and instability of the economic and political processes in Brazil indicate that forecasts should be interpreted with great care.

As far as small and medium-size TNCs are concerned, it is possible to find the presence of a bias in the Federal Constitution against SMEs. Art. 170 (IX) gives preferential treatment

---

<sup>11</sup> The present government submitted a proposal to Congress for changing the definition of foreign enterprise, as found in art. 171 of the 1988 Constitution.

for small-size enterprises controlled by national capital. Nevertheless, there is no evidence that this bias has had any effect on the presence of SMEs in Brazil. Also, there seems to be a general trend for abolishing this discrimination.<sup>12</sup>

Moreover, there are no efforts conducted by government to facilitate specifically the involvement by small and medium-size TNCs in Brazil. In this regard, it is worthwhile emphasizing two issues.

First, Brazil does not have a significative set of policies, measures, and programmes supporting and promoting SMEs from abroad. As a matter of fact, the Brazilian economy is predominantly controlled by large economic groups, national and international alike. To the extent this is so, government policies have been biased towards industries and sectors in which large economic groups have an important presence or interest. When all is said and done, one has always the impression that the past and present experiences of measures, policies, and programmes have really paid lip-service to SMEs. This phenomenon has a clear impact on the presence of small and medium-size TNCs in Brazil.

With the benefit of hindsight, it can be said that policies tend to emphasize an interest in large TNCs to the same extent that they give support to large domestic economic groups. To illustrate this phenomenon it is worth reviewing the data at tables 6 to 9, which show the relative importance of large TNCs in the Brazilian manufacturing industry. Although the data are presented in a rather aggregated way, they reveal that the share of large TNCs in manufacturing production tend to be higher in the case of industries in which predominate large-size establishments, namely transport equipment, tobacco, and rubber. The relative importance of large TNCs is also found in industries in which predominate medium-size-to-large establishments, such as electrical equipment and chemicals. Moreover, TNCs tend to concentrate their operations in industries with the predominance of both medium-size-to-large establishments and large-size establishments.

A second important aspect is that there have no been changes of attitudes, strategies, and policies of the present Brazilian government. Indeed, the government keeps on having a strategy of greater concentration and centralization of capital and, therefore, a "revealed preference" for large economic groups (Gonçalves, 1991). It does not mean a discriminatory treatment *vis-à-vis* SMEs, including the foreign ones, but a more favourable conditions for large economic groups. That is, the traditional large groups-oriented strategies have been strengthened further by the present government. Hence, in the context of a greater openness of the economy, it implies that government is looking more and more towards large TNCs as its highest priority and a key instrument for the modernization of the Brazilian economy.

To conclude, it is worth mentioning that one of Sebrae's main objectives is to facilitate the involvement by small and medium-size TNCs in Brazil through the promotion of joint-ventures. In view of the fairly wide range of Sebrae's programmes and its relatively modest resources, and under the present circumstances, it seems that the promotion of foreign direct investment by small and medium-size TNCs in Brazil is a very difficult task with uncertain results. This conclusion is further borne out by the fact that there is an increasing deterioration climate for investment in the Brazilian economy and its gloomy perspectives owing to the interaction of political, social, and economic factors. Moreover, to the extent that small and medium-size TNCs are perhaps more vulnerable to the growing uncertainties of the Bra-

---

<sup>12</sup> By the beginning of 1995, the Brazilian government sent a proposal of constitutional amendment abolishing art. 170 (IX). By the time this article was being reviewed (May, 1995), the general opinion was that the government proposal would be approved in Congress.

zilian environment, it is hardly possible to escape from an unfavourable view about the prospects for foreign direct investment by SMEs in Brazil in the near future.

#### 4. Policy options

The process of economic growth and capital accumulation in Brazil has been to a large extent determined by the dynamic role played by large TNCs and large private business groups, as well state-owned enterprises. The main reason for this phenomenon is the very high degree of concentration of wealth, income, and power in the country and, therefore, a process of legitimation of the State which brings about strategies, policies, and measures oriented to the further concentration and centralization of capital.

Moreover, there is a general pattern which can be described as an internal division of labour in terms of the sectorial predominance of large TNCs, large domestic private groups, and state-owned enterprises. State-owned enterprises have a very low participation in manufacturing. By contrast, they have a widespread penetration into the basic economic services (public utilities) and the monopoly of oil extraction and refining. Most of the investment of the public sector in manufacturing is concentrated in the iron and flat steel industries (which are in a process of being privatized by the present government), as well as in the chemical industry (mostly petrochemical products). By and large, these investments followed the strategy of "filling the empty spaces" left by the private (local or foreign) sector. Moreover, state-owned enterprises, which tend to be very large by Brazilian standards, in general, do not to compete with private manufacturing enterprises, domestic and transnational alike.

Foreign direct investors do not seem to control an important fraction of the Brazilian economy, inasmuch as the available estimates suggest that they account for approximately 11% of the capital stock of the whole economy (see table 11).<sup>13</sup> However, this result is quite misleading because TNCs are to a large extent oriented towards the manufacturing sector, which receives more than 3/4 of the total foreign direct investment in Brazil. TNCs control approximately 25% of capital, 32% of total value of production and 23% of total employment of Brazilian manufacturing (Gonçalves, 1983b). Moreover, there is a certain degree of investment concentration in some few industries, mostly in the more technology-intensive industries. Thus, more than half of the sales by TNCs are in industries such as electrical equipment, transport equipment, pharmaceutical products, and chemicals, which are, in general, associated with large-size establishments and firms.

Large national private groups tend in general to concentrate their investments in finance, heavy construction, agriculture, mining and in the more traditional manufacturing industries. At the risk of oversimplification, it can be said that although there has been an improvement of the domestic technological capability, large local groups tend to orient their manufacturing investments to the natural resources-intensive and labour-intensive industries. Most of the more technology-intensive activities in manufacturing industries are carried out by TNCs.

Given the above situation, what are the policy alternatives aiming at the improvement of the organizational-entrepreneurial structure in Brazil? How to strengthen the legal and insti-

---

<sup>13</sup> The data refer to a special register of enterprises in the general register of the corporate income tax system. The special register included 15,271 enterprises in 1978 and 48,027 enterprises in 1986. In 1986, the enterprises in the special register accounted for 12.9% of the total number of enterprises and 65.3% of the total operational income of all enterprises in the general register.

tutional framework so as to improve the contributions of small, medium and large-size enterprises, domestic and foreign alike, to development?

Table 11  
The relative importance of foreign capital in Brazil, according to the sector,  
1977 and 1985

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

Source: Finance Ministry, Brazil. *Anuário Econômico-fiscal*, 1979 and 1987.

... Less than 0.05%.

The present policy debate in Brazil seems to involve three different perspectives or strategies (Gonçalves, 1991). The first one proposes a further concentration and centralization of capital in Brazil. By and large, the advocates of this strategy tend to put forward their proposals on the basis of the experience of South Korea. Their rationale is that government should create mechanisms oriented to the promotion of large-size domestic groups. The strengthening of national groups, then, would allow them to carry out research and development activities, and increase productivity and competitiveness. As a result of economies of scale and scope, large domestic groups would be the engine of a modernization process in Brazil.

The second group of analysts points out that there is already a very high degree of concentration and centralization of capital in Brazil. They argue that most of the problems of the Brazilian economy (e.g., lack of competitiveness, low wages, poor capital-labour relations, and excessive economic power) have to a large extent been brought about by a permissive environment dominated by large domestic groups, state-owned enterprises and large TNCs. Hence, it is necessary to change the legal and institutional framework towards a more effective role for anti-trust policies and regulations, as well as greater control of economic power.

Finally, a third group of analysts argue that the previous strategies miss important aspects of the Brazilian economy. If on the one hand, the technological progress and the organizational innovations of the recent past have required synergetic forces associated with large scale, on the other, it is also correct to say that there is a very high degree of concentration of wealth, income, and economic power in Brazil, which has had a very important and perverse impact on the country. Moreover, while it is true that there is a need for strengthening the legal framework related to restrictive business practices, it is probably even truer that the effective implementation of anti-trust policies does require an institutional structure which is absent in Brazil. The building up of rather sophisticated institutions involves a long-term process, which is just starting in Brazil, at least as far the rules of a democratic regime are concerned. Consequently, the most that can be said is that anti-trust policies will tend to have a limited scope in Brazil in the near future. At the same time, growing economies of scale related to organization, technology, and other factors of production should not be promoted through a higher centralization of capital owing to the abnormally high economic and political costs in the present Brazilian context.

According to this last view, there is a need for a modification of the traditional large groups-oriented strategy. At this stage of the debate, one can only suggest a set of guidelines for further discussion, and the details would need careful examination and research. In this regard, the alternative policy option deals with two set of issues.

The first one involves the creation of instruments which promote organizational and entrepreneurial structures associated with higher stages of productivity through economies of scale, without further concentration of capital. A particularly important issue relates to the need to create financial mechanisms oriented to the financing of long-term investment associated with the "democratization" of capital. It means that sources of long-term financing provided by government would include conditionality in terms of the reduction of power of the largest shareholders. The basic objective is to remove or dilute control by the existing shareholders of the large economic groups, whenever these groups use as source of capital the long-term loans provided by government financial institutions.

The second issue deals with the role of small and medium-size enterprises, domestic and foreign alike. It would be completely misleading to describe this approach as something like "small is beautiful". There is no doubt that some of the structural problems of the Brazilian

economy (e.g., lack of competitiveness, permanent inflationary pressures, and widespread use of restrictive business practices) are largely due to the predominance of large groups and enterprises. As a consequence, and apart from political and social benefits, SMEs can play a much more important role in Brazil.

As specifically concerns small and medium-size TNCs, the characteristics of the Brazilian economy discussed in the previous sections imply a few important points. First, given the concentration of large TNCs in the more technology-intensive industries, it seems that small and medium-size TNCs and large TNCs are not substitutional, but rather complementary in these industries. Second, small and medium-size TNCs can play an important role as a source of technology for domestic enterprises, small and large alike. Given the present stage and the uncertainties of the Brazilian economy, it seems that licensing agreements and other forms of technology transfer are more appropriate mechanisms and have better chances than joint-ventures or subsidiaries. Third, given the increasing degree of external vulnerability and the weaker bargaining position of Brazil, it seems that government should look more towards small and medium-size TNCs as an alternative policy option, and especially as a source of technology and of skills related to access to foreign markets. Lastly, although small and medium-size TNCs have less capabilities of access to capital markets, management and information, they may be more responsive to measures and programmes for the promotion of foreign direct investment.

To conclude, it is also worth noting that large TNCs from most advanced countries have already some familiarity with the Brazilian market. Hence, given the gloomy prospects of this market, it may occur that their present strategies of investment (or disinvestment) seems to be much more influenced by their need to preserve their stocks of capital in the country, than by the future prospects of the Brazilian economy. In this regard, a change of attitudes, policies and strategies towards small and medium-size TNCs, as well as the implementation of the appropriate measures and programmes, seems to be more rewarding than the present and traditional bias towards large TNCs. This does not mean that small and medium-size TNCs play a substitute role in relation to large TNCs in Brazil, nor does it mean that one should neglect large TNCs. This is, however, a specific topic for another piece of work.

## **5. Conclusion: policy implications**

It is the object of this last section to present a specific set of ideas the aim of which is to strengthen Brazil's capacity to encourage flows of foreign direct investment and technology from small and medium-size TNCs to the country. It is basically oriented to design a technical assistance programme for achieving this aim.

The technical assistance programme should contain activities in three different areas, namely advisory services, training programmes, and information services (UNCTC, 1990). This programme should be basically oriented to business associations of SMEs and to the system of specialized agencies — Sebrae (the Brazilian Agency for Supporting the Micro and Small Enterprises). Insofar as a host country like Brazil is in a relatively strong bargaining position *vis-à-vis* small and medium-size TNCs, there is not much point in developing a technical programme which aims at strengthening the capacity of the federal government in its dealings with small foreign investors. Besides, Brazil has government officials relatively well trained in key areas. Nevertheless, government officials at the state and county level can benefit from training programmes to build specific skills.

By and large, business associations which deal specifically with SMEs can be found in all states of Brazil. Their main task is to lobby for special fiscal and credit treatment at the state and federal levels. These associations also provide information to start-up enterprises and training to managers and entrepreneurs.

By its turn, Sebrae is a system of specialized agencies acting at the state level, with the objective of promoting the development of micro and small-size enterprises. Sebrae carries out different types of programmes, most of them oriented to the development of the technological and managerial capabilities of SMEs.

There is no doubt that a technical assistance programme of advisory, training, and information services, related to the promotion of flows of foreign direct investment and technology from small and medium-size TNCs, is likely to have a significant impact on the performance of business associations and of the Sebrae's system in this area. In this regard, it is worth noting that according to the available evidence, the formation of joint-ventures depends on adequate information, time, and a good advisory service (Costa Cruz, 1988:94-100).

With respect to advisory services, the programme can be used by business organizations and Sebrae to obtain advice on the national policy framework related to foreign direct investment and technology transfer, as well as to the legal and fiscal framework affecting SMEs. The objective is to provide expertise to these organizations so that they can improve further their capacity to design policies and laws at the federal, state, and county levels. This type of advisory service is particularly important insofar as some basic laws related to SMEs are still in a process of being regulated by other legal instruments. Moreover, there has been a trend of greater liberalization and changes of the legal framework related to the operation of foreign capital in Brazil.

The simplification of institutional mechanisms and administrative procedures related to the establishment and the operation of SMEs is a particularly relevant issue. Thus, the technical assistance programme should provide specialized expertise whose objective would be to develop model mechanisms and procedures, which could be used all over the country. Business associations and Sebrae would be responsible for lobbying government authorities to adopt the new mechanisms and procedures.

There should also be an effort oriented to the harmonization of laws, regulations, and procedures at the state and county levels. Most states and counties in Brazil are probably not endowed with adequate technical expertise to develop their own mechanisms and instruments related to the promotion of flows of foreign direct investment and technology from small and medium-size TNCs. Besides, it is important that there should exist no predatory competition among different states or counties, regarding policies and incentives to attract foreign direct investment. Thus, it is important that the technical assistance programme deals specifically with the design of investment policies, incentives, and facilities, which can be widely used in the country.

Moreover, the available evidence suggests that the supply of advisory services related to the formation of joint-ventures by SMEs in Brazil is either insufficient or is a low quality service. The main areas are related to market conditions and opportunities, as well as specialized information support mechanism for SMEs (Vasconcelos & Henriques, 1988:65).

Training programmes should be mainly oriented to entrepreneurs, managers and government officials at the state and county levels. Technical assistance in this area involves workshops, seminars, and in-service training. More specifically, training activities should emphasize the national legal and fiscal framework related to foreign direct investment. The emphasis of the workshops and seminars should also be laid on key issues such as the basic

determinants and forms of internationalization of production, and especially the joint-venture arrangements. Besides, training activities should aim at the development of skills related to the negotiation with small and medium-size TNCs (e.g., negotiation of joint-ventures arrangements and licensing agreements).

A particularly important activity relates to entrepreneur training, that is, "people with concrete ideas for starting up new enterprises are trained in achievement innovation, product definition, management and finance. They are then assisted in launching their new businesses, and in identifying and establishing beneficial relationships with transnational corporations" (UNCTC, 1990:13). Support to local entrepreneurs may have a significative impact insofar as more than half of the joint-ventures operations seems to be an initiative of the local entrepreneur (Vasconcelos & Henriques, 1988:63-4).

At this juncture, it is worth noting that Sebrae has as one of its highest priorities the training of managers and local entrepreneurs with an emphasis on the increase of productivity and greater international competitiveness (Sebrae, 1991a and 1991b). Hence, a technical assistance programme specifically related to the encouragement of flows of direct investment and technology to Brazil by small foreign investors can be seen as complementary to Sebrae's training activities.

As far as information services are concerned, there is no doubt about the need for a much more efficient system of supplying data and information on potential partners, market conditions, and specific contractual relations (licensing agreements and joint-ventures arrangements). Technical assistance can also play an important role in the development of information centers and management of information resources, such as in-house libraries and on-line databases.

Insofar as the use of international co-operation for the promotion of foreign direct investment and joint-ventures is very modest in Brazil (Vasconcelos & Henriques, 1988:76), there should be a special effort of technical assistance in this area. International co-operation should be strengthened so as to allow business organizations and Sebrae to increase their advisory and information capabilities.

## References

- Barbosa, D. Implicações da estrutura regulatória das atividades econômicas sobre a competitividade: regulação do investimento direto estrangeiro. In: *Estudo da competitividade da indústria brasileira*. Campinas, MCT/Finep/PADCT, 1993.
- Barros, F. R. & Modenesi, R. L. *Pequenas e médias indústrias: análise dos problemas, incentivos e sua contribuição ao desenvolvimento*. Rio de Janeiro, Ipea/Inpes, 1973.
- Barros, O. Oportunidades abertas para o Brasil face aos fluxos globais de investimento de risco e de capitais financeiros nos anos 90. In: *Estudo da competitividade da indústria brasileira*. Campinas, MCT/Finep/PADCT, 1993.
- Canuto, O. *Investimento direto externo e reestruturação industrial*. Campinas, Instituto de Economia, Universidade de Campinas, 1993. (Texto para Discussão, 27.)
- Cebrae. *Catálogo de publicações do sistema Cebrae*. Brasília, Centro Brasileiro de Apoio à Pequena e Média Empresa, 1988.
- Cepal. *Directorio sobre inversión extranjera y empresas transnacionales: caso del Brasil*. Santiago, Comisión Económica para América Latina y el Caribe, Unidad Conjunta Cepal/CET, LC/R.865, 1989.



CNI. *Bibliografia de pequena e média empresa*. Rio de Janeiro, Confederação Nacional da Indústria; Serviço Nacional de Aprendizagem Industrial, 1985.

Coad. *Informativo Semanal* (22):184-5, 1990.

Costa Cruz, E. M. A experiência prática na formação de *joint-venture*. In: *Seminário Setorial de Capital de Risco, Factoring, Joint-Venture e Franchising*, Brasília, Centro Brasileiro de Apoio à Pequena e Média Empresa, 1988. p. 94-100.

Fasano Filho, U. Uma comparação entre o índice de vantagem comparativa de Bowen e o tradicional índice de vantagem comparativa revelada: o caso brasileiro — 1964/81. *Pesquisa e Planejamento Econômico*, 17(2):471-89, ago. 1987.

Fibge. *Censo comercial 1985*. Rio de Janeiro, Fundação Instituto Brasileiro de Geografia e Estatística, 1985a.

———. *Censo de serviços 1985*. Rio de Janeiro, Fundação Instituto Brasileiro de Geografia e Estatística, 1985b.

———. *Censo industrial 1985*. Rio de Janeiro, Fundação Instituto Brasileiro de Geografia e Estatística, 1985c.

Fleury, A. *Research project on technology transfer to developing countries by small and medium-sized enterprises. The case of Brazil*. Buenos Aires, Buenos Aires, Cedrei, Centro de Estudios de Desarrollo y Relaciones Económicas Internacionales, 1989.

*Gazeta Mercantil*. 3 ago. 1991.

Gonçalves, R. Empresas transnacionais y el comercio exterior de Brasil. In: *Dos estudios sobre empresas transnacionales en Brasil*. Santiago, Chile, Naciones Unidas, 1983a:1-50. (Estudios e Informes de la Cepal, 31.)

———. La presencia de las empresas transnacionales en Brasil. In: *Dos estudios sobre empresas transnacionales en Brasil*. Santiago, Chile, Naciones Unidas, 1983b:51-96. (Estudios e Informes de la Cepal, 31.)

———. Competitividade internacional, vantagem comparativa e empresas multinacionais: o caso das exportações brasileiras de manufaturados. *Pesquisa e Planejamento Econômico*, 17(2):411-36, ago. 1987.

———. Grupos privados nacionais e o futuro do capitalismo no Brasil: uma visão alternativa. In: David, Maurício D. (org.), *Economia e política da crise brasileira*, Rio de Janeiro, Rio Fundo, 1991. p. 109-18.

———. *Empresas transnacionais e internacionalização da produção*. Rio de Janeiro, Vozes, 1992.

Little, I. M. Small manufacturing enterprises in developing countries. *The World Bank Economic Review*, 1(2), 1987.

Melo, R. C. Inovação tecnológica e emprego em pequenas e médias indústrias. In: *Estudos sobre pequenas e médias empresas*, Rio de Janeiro, Iuperj, 1981.

Sebrae. *Pesquisa nacional sobre competitividade industrial*. Brasília, Diretoria Técnica, 1990. mimeog.

———. *Plano de trabalho 91/92*. Brasília, Serviço Brasileiro de Apoio às Micro e Pequenas Empresas, 1991a.

———. *Plano diretor 91/92*. Brasília, Serviço Brasileiro de Apoio às Micro e Pequenas Empresas, 1991b.

Soares, W. J. A implementação de políticas para as PMEs: descrição de agências e programas. In: *Estudos sobre pequenas e médias empresas*. Rio de Janeiro, Iuperj, 1981.

UNCTC. *Small and medium enterprises in foreign direct investment*. New York, United Nations Centre on Transnational Corporations, 1989.

———. *Technical co-operation programme*. New York, United Nations Centre on Transnational Corporations, 1990.

Vasconcelos, G. M. & Henriques, H. S. *A joint-venture na economia nacional*. Brasília, Centro Brasileiro de Apoio à Pequena e Média Empresa, 1988.

White, E. & Feldman, S. *Organizational forms of transfer of technology to developing countries by small and medium-sized enterprises: a case study of equity joint-ventures and technology agreements in Latin America*. Geneva, United Nations Conference on Trade and Development, TD/B/C.6/77, 1982.

Willmore, L. Transnationals and foreign trade. In: *7th Latin American Meeting of the Econometric Society*, São Paulo, University of São Paulo, 1987. mimeog.