FINANCING BRITISH MULTINATIONALS IN LATIN AMERICA, 1930-1970

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1. Introduction

The history of British firms in Latin America has been written largely in terms of those that dominated the period before 1914: banks and merchants, railways and mining companies.[1] The evolution of the industrial enterprises that, along with Shell and BP, now dominate British interests in Latin America has been left largely to one side. Unlike the free standing companies in railways, public utilities, or mining, their investments did not pass through the Stock Exchange and therefore escaped the attention of the financial press.[2] Within Latin America it was the older companies which attracted the ire of nationalist politicians and which were most subject to labour unrest. Firms like the railways have thus received the greatest interest from historians in the region. Their counterparts in the metropolis have also given little attention to the development of industry in Latin America. For the majority of British industrial firms, manufacturing operations there, though significant, were much less central to their performance than their investments in Europe, North America, and the Commonwealth. As a consequence they appear only on the margins of traditional corporate histories such as Charles Wilson's three volumes on Unilever, T.H. Barker's work on Pilkington, or W.J. Reader's book on ICI. Only in the case of Glaxo do a manufacturing firm's Latin American operations attract as much as a chapter in a company history.[3] The evolution of the British multinational industrial firms in Latin America is thus something of a closed book to historians and area studies specialists.

In some ways this is understandable. Alongside the value of the older British investments in Latin America, those of the manufacturing companies were small. At least until the 1970s, none compared with the £??? million nominal capital invested in the four major railway companies in Argentina in 1913.[4] Nevertheless industrial firms were one of the few areas of growth in Britain's interests in Latin America in the inter-war period, and for the most part they earned good profits. In the words of F.F. Powell, the leading Latin American expert in the Bank of England, writing in 1943:

> In general, ordinary commercial and industrial investments, and probably the smaller rather than the larger, have in the past produced and probably will continue to produce a far handsomer return than public loans to Governments

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1 The historiography is too extensive to list here, but for an overview see Rory Miller, *Britain and Latin America in the Nineteenth and Twentieth Centuries* (London: 1993).

2 The concept of the free standing company as the major vehicle for British overseas investment before 1914 derives from Mira Wilkins, 'The Free-Standing Company, 1870-1914: an important type of British foreign direct investment', *Economic History Review* 41 (1988), 259-282; for further examination of the concept, see Mira Wilkins and Harm Schröter (eds.), *The Free-Standing Company in the World Economy, 1830-1996* (Oxford: 1998).

3 Charles Wilson, *The History of Unilever: a study in economic growth and social change* (2 vols., London: 1954); Charles Wilson, *Unilever, 1945-1965: challenge and response to the post-war industrial revolution* (London: 1968); T.H. Barker, *The Glassmakers: Pilkington, the rise of an international company, 1826-1976* (London: 1977); W.J. Reader, *Imperial Chemical Industries: a history* (London: 1975). It is noticeable that Latin American operations are omitted also from D.K. Fieldhouse, *Unilever Overseas: the anatomy of a multinational, 1895-1965* (London: 1978). On Glaxo see R.P.T. Davenport-Hines & Judy Slinn, *Glaxo: a history to 1962* (London: 1992), chapter 00.

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(even those which did not at one time or another go into default) or the investment in large undertakings such as public utilities.[5]

During the 1930s the Foreign Office twice surveyed British manufacturing interests in the major Latin American countries. In 1932 31 British-owned factories were enumerated in the São Paulo consular district, including those belonging to such well-known multinational companies as British American Tobacco (BAT), British Match, J. & P. Coats, Lever Brothers (Unilever), and Reckitt & Co. (later Reckitt & Colman).[6] An incomplete listing for Argentina, prepared in 1935 for the renewal of the Roca-Runciman negotiations, found 18 British-owned factories in Buenos Aires with a total capitalisation of £7.7 million.[7] While investments in Argentina and Brazil dominated, there were also significant British-owned factories in other countries such as Chile (where firms like ICI and Price's Candles had invested in response to opportunities in the mining industry, as well as BAT). In Mexico BAT and Coats, two of the most important early British multinationals, possessed significant investments and a high share of the market for cigarettes and sewing thread respectively.

After the Second World War the number of British companies manufacturing in Latin America expanded rapidly. By 1961 there were supposedly 244 branches and subsidiaries of British firms in Latin America.[8] While many of these may have been small-scale, and in some cases primarily sales rather than manufacturing operations, the qualitative evidence makes it clear that during the late 1940s and 1950s there was a substantial influx of British companies into Latin America (and for the most part they established new factories rather than acquiring local firms). In contrast to the expansion before the war, which had been dominated by consumer goods manufacturers, the deepening of Latin American industry attracted several important engineering companies to invest: in Brazil in the 1950s these included Babcock & Wilcox, Baker Perkins, Metropolitan Vickers, Perkins Diesels, Platt Brothers, Standard Triumph, and Rolls Royce. The Automatic Telephone Company (later Plesseys), Dunlop, and Turner and Newall (Ferodo) also established factories.[9] While the Peronist administration in Argentina deterred similar investment there for a time, its fall in 1955 was followed by a similar wave of expansion involving the construction of factories by Chloride, Lucas, Perkins, Petters, Ruston & Hornsby and Stone-Platt, all of which were related to the motor and engineering industries, together with the expansion of firms like Glaxo, ICI, Pilkington (VASA), and Wiggins

5 Memo, F.F. Powell, 'Foreign Capital Investments', 3 August 1943, EC4/303, Bank of England Archive.

6 Sir William Seeds to Sir John Simon, 1 April 1932, FO371/15787/A2361/23/51, Public Record Office. British officials did not always clearly differentiate between firms ultimately controlled from Britain, and those that had been founded by expatriates resident in South America. A classic example, and one that subsequently gave rise to a good deal of controversy is Alpargatas SA, owned by the Fraser family of Buenos Aires and with operations in Argentina, Uruguay, and Brazil. See Leandro Gutiérrez and Juan Carlos Korol, 'Historia de empresas y crecimiento industrial en la Argentina: el caso de la Fábrica Argentina de Alpargatas', *Desarrollo Económico* 28: 111 (1988), 401-424.

7 Sir Henry Chilton to Sir John Simon, 18 March 1935, FO371/18628/A2903/111/2.

8 N.J.A. Cheetham (FO) to HM Representatives in Latin America, 28 January 1963, FO371/167760/A1153/2

9 British Chamber of Commerce in Brazil (hereafter BCCB), *Monthly Bulletin* 38:440 (May 1956), 83; British Chamber of Commerce in São Paulo (hereafter BCCSP), Minutes of Council Meetings, Annual General Meeting, 5 April 1960, archive of British Chamber of Commerce in Brazil (hereafter BCCB archive).

Teape.[10] While Argentina then faded in relative importance for British firms, in line with the oscillations of the country's economy, the growth in Brazil continued, especially following the crisis of the mid-1960s. By 1979 the British Chamber of Commerce in Brazil estimated that over 300 British companies had wholly owned subsidiaries or joint ventures in the country.[11] As well as greatly expanding their investments and product ranges in the two leading economies in South America, in the late 1950s and 1960s the older consumer goods firms like BAT, Coats, Reckitt & Colman, and Unilever also began to manufacture in Mexico, Chile, Peru and Colombia, as well as in Central America. The reasons for this growth varied from one company and country to another, but they included increasing tariff protection for local industry; shortages of foreign exchange for imports; a desire not to lose markets (especially when governments began to impose local content requirements in sectors like the motor industry); the strategies of global competitors; and the opportunities that they envisaged in what appeared to be rapidly growing economies.

How did such firms finance their requirements for fixed and working capital? They confronted a situation where the free movement of capital that had characterised the world before 1930 had disappeared. Instead they faced an array of government controls (and occasionally incentives) on both sides of the Atlantic. In the United Kingdom foreign investment and earnings were monitored and to some extent regulated from the beginning of the war in 1939 until the Thatcher government of 1979 (with a brief interval when sterling was convertible in the summer of 1947). In this the British firms differed from their competitors based in the United States. Latin American governments also imposed increasing controls on the influx of foreign capital, the behaviour of the firms established there, and their ability to repatriate royalty, interest and dividend payments. Moreover, in many countries, in particular the traditional favourites of Argentina, Brazil and Chile, the post-war economies were marked by a rising trend of inflation and exchange depreciation which steadily reduced the sterling value of assets and earnings.

This is a topic on which there has been very little research using the archives of the firms themselves, although many suppositions were made about their financing in the 1960s and 1970s. The contemporary controversies over the behaviour of multinational companies gave rise to a US Senate report which found that multinational corporations financed their investments from reinvested profits, depreciation, and locally raised capital rather than bringing in new funds; as a consequence, remittances came to outweigh inflows of new investment with negative repercussions for Latin American countries' balance of payments.[12] In the eyes of writers within Latin America and from the 'dependency' school in the developed world, it certainly seemed that the balance of power lay very much with the multinationals rather than the host governments trying to control the companies' financial flows. Mira Wilkins, on the other hand, noted early in the 1970s that, as in Nazi Germany in 1930s, government control over foreign exchange markets in Latin America had in effect brought about 'forced investment' by the multinational firms in the post-war period.[13] Writing in the aftermath of the debt crisis in the 1980s Robert Grosse also attempted to consider the multinationals' perspective, and in particular the obstacles companies faced in transferring value out of Latin America.[14] With

[10] British Chamber of Commerce in the Argentine Republic (hereafter BCCAR), *Monthly Journals* and *Annual Reports*, passim.

[11] BCCB, Minutes of Council Meetings, 11 June 1979, BCCB archive.

[12] Rhys Jenkins, *Transnational Corporations and Industrial Transformation in Latin America* (London: 1984), p. 14.

[13] Mira Wilkins, *The Maturing of Multinational Enterprise: American business abroad from 1914 to 1970* (Cambridge, Mass.: 1974), p. 312.

[14] Robert Grosse, *Multinationals in Latin America* (London: 1989), chapter 10.

foreign confidence destroyed and little new investment expected in Latin America for many years, few considered how multinationals had financed their growth in the past.

The emphasis in this literature is almost entirely on US companies. However, there were important differences between US and British firms operating in Latin America. The constraints within their home economy meant that British-based multinationals faced much more regulation from their home government than US firms did, at least before the late 1960s. On the other hand there was also a long tradition of British overseas banking that gave them financial options that the US firms did not possess.[15] Whether in the United States or Britain, however, there has been very little research on the problems of financing multinational operations in Latin America that uses the archives of the companies themselves, and the main objective of this paper is to begin to fill this gap.

2. The Pre-War Era

After the First World War, in its efforts to restore the pound to its pre-war parity with the US dollar, the British government imposed informal restrictions on new investment to Latin America that passed through the Stock Exchange. What this meant in practice was that merchant banks in the City of London found it difficult, though not impossible, to issue loans on behalf of Latin American governments or new shares and debentures for free standing companies during the 1920s.[16] However, there were no restrictions on outward investment financed from within companies: in other words, a firm like Lever Brothers making investments in plantations and soap factories throughout the world could freely transfer capital overseas. In Latin America there were no controls on inward investment either; the one (largely unused) means that government had of monitoring multinational companies was through the requirements for company registration and taxation, although it was often not clear to officials whether a small manufacturing company was in fact foreign-owned and controlled. In the case of British industrial firms expanding in Latin America through the purchase of existing companies, early multinationals like BAT and Coats tended to preserve the identity of the firms that they acquired. BAT's cigarette manufacturing subsidiaries, for example, are still known through local names such as Souza Cruz in Brazil.[17] While company law differed from one country to another, investment in manufacturing normally occurred through the medium of a locally registered *Sociedad Anónima* (SA) or *Sociedad de Responsabilidad Limitada* (SRL) to which the parent transferred capital and equipment.

The provision of investment finance and working capital was facilitated by the presence of British-owned banks with extensive branch networks in Latin America. By the mid 1920s these had become consolidated into two groups, the Bank of London and South America (BOLSA) in which Lloyds Bank held a majority shareholding, and the Anglo-South American Bank (ASAB). Further consolidation

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15 Geoffrey Jones, *British Multinational Banking, 1830-1990* (Oxford: 1993).

16 J. Atkin, 'Official Regulation of British Overseas Investment, 1914-1931', *Economic History Review* 23 (1970), 324-335; Donald E. Moggridge, 'British Controls on Long-Term Capital Movements, 1924-1931', in Donald N. McCloskey (ed.), *Essays on a Mature Economy: Britain after 1840* (London: 1971), pp. 113-138.

17 Howard Cox, *The Global Cigarette: origins and evolution of British American Tobacco, 1880-1945* (Oxford: 2000), pp. 131 and 255-256.

took place in 1936 with the merger of BOLSA and the now insolvent ASAB.[18] While there were clear problems in British banking in South America in the inter-war period, in particular due to bad debts and exchange depreciation, BOLSA in particular was closely linked with the major British companies in the region and their deposits provided it with a substantial base to offer local finance to incoming firms. When the major South American countries imposed exchange controls in 1931 and thus effectively blocked the transfer of remittances to the UK, these deposits became available for lending to other firms even though BOLSA itself maintained a large cash/deposits ratio as a safeguard against the crisis.[19] BOLSA had already begun to provide advances to the local subsidiaries of companies such as Crosse & Blackwell, Dorman Long, and Lever Brothers, backed, at least in part, by a guarantee from the parent firm in Britain.[20] The case of Unilever provides a good example of the means by which such firms were financed.

Lever Brothers, one of the leading British soap manufacturers, merged with the Dutch Margarine Unie in 1929 to form Unilever. By then Lever Brothers had already built a factory in Argentina, which had begun production in 1927, and was about to follow suit in Brazil, where their plant in São Paulo opened in 1930.[21] For the next thirty years the performance of the two subsidiaries contrasted. In Argentina the company already had an established market for its branded products when it began manufacturing, and it made good profits until the price controls introduced under the first Peronist administration (1946-55) began to erode its margins; in Brazil, in comparison, Levers had sold little in the way of imports and had to create markets for their branded soaps from scratch in the face of tenacious competition from local immigrant industrialists. The whole operation in Brazil was at serious risk of closure in 1933-34, having exhausted its original capital, and functioned for a time on a 'holding' basis before recovering later in the decade. In both countries the company expanded its production, moving away from its basis in soap to encompass new products such as detergents, toiletries such as shampoo and toothpaste, and foodstuffs. This demanded continual injections of new finance and the provision of large amounts of working capital to finance stocks, trade credit, and marketing expenditure.

Table 1 offers a summary of the company's financing between 1927 and the end of World War II.

Table 1: Financing of Unilever Subsidiaries in Argentina and Brazil, 1927-1960

	Argentina	Brazil
1927	Authorised capital of £200,000 (AR$2,500,000) of which £136,000 represented by fixed capital and £64,000 in stocks. Financed by transfer from UK (OSF1/2)	
1930		Authorised capital of 4,000,000 milreis

18 David Joslin, *A Century of Banking in Latin America: the Bank of London and South America Limited* (London: 1963), chapters 13 and 14; Jones, *British Multinational Banking*, pp. 141-142 and 240-242.

19 Joslin, *A Century of Banking*, p. xx; BOLSA, Board Minutes, 6 and 13 September 1932, BOLSA Minute Book #13, Lloyds Bank archive, file #4362 (hereafter BOLSA/Lloyds). Shell was one of the firms accumulating an unwanted cash pile in Argentina.

20 BOLSA, Board Minutes, 7 and 28 October 1930, 28 April 1931, Minute Book #12, file #4361, BOLSA/Lloyds.

21 These comments are based principally on Directors' reports of visits to South America that are available in the Unilever archive in Port Sunlight.

		(about £92,000); additional loan of 300,000 milreis. Financed by transfer from UK (Chipperfield Visit Report, unnumbered)
1933		Overdraft of 540,000 milreis. (OSF3/3)
1935	AR$300,000 held in General Reserve (remittances blocked). Cash reserves of Levers and Atkinsons total c. AR$900,000 increasing at AR$75,000 a month. (OSF1/8)	Overdraft now 2,091,014 milreis (OSF3/4)
1936		Interest-free loan of 4,000,000 milreis from Unilever Ltd., plus 2,300,000 milreis in overdrafts. (OSF3/5)
1937	Total investment now AR$3,338,693 (AR2,500,000 in shares, $331,792 General and Legal Reserves, AR$534,598 undistributed profits). For taxation reasons will need to declare dividend, hence requirement for AR$500,000 working capital). (OSF1/10)	
1939	AR$1,429,066 overdraft from BOLSA. (OSF 1/12)	Interest-free loan of 4,867,000 milreis from Unilever Ltd., plus 5,801,000 milreis in overdrafts @ 7%. (OSF3/7)
1940		Interest-free loan of 5,094,306 milreis from Unilever NV, bank overdrafts of 4,375,098 milreis with BOLSA and Royal Bank of Canada. (OSF3/8)
1941	Authorised overdraft now AR$1,500,000. Will need to be extended by AR$780,000 to finance Rinso plant. Recommends progressive capitalisation of profits to counteract imposition of Excess Profits Tax. (OSF 1/13). By December overdraft with BOLSA AR$2,200,000. Seeking government approval to capitalise retained profits and increase issued capital. (OSF1/15)	Overdraft now 4,068,000 milreis. (OSF3/10)
1942		Overdraft now 5,119,000 milreis (6,800,000 authorised for Levers and Atkinsons together, of which 4,050,000 with BOLSA and 2,750,000 with Royal Bank of Canada). Latter prepared to increase limit to 6,750,000 milreis, BOLSA non-committal. (OSF3/11)
1943		Loan still due to Unilever Ltd of Cr$5,104,285. Overdrafts of Cr$11,420,160 mainly from BOLSA with lesser amounts from Royal Bank of Canada and Banco do Brasil. Because of likely changes in remittance laws recommended that London loan should be capitalised to increase issued capital to Cr$9 million, and future undistributed profits should also be capitalised. (OSF3/15)
1944		Overdraft now Cr$13,346,000. Inter-company loan from Atkinsons of Cr$262,300. Proposed to inject Cr$16 million from Unilever in US to increase capitalisation to Cr$20 million and avoid reliance on banks. (OSF3/16)

Sources: Unilever archives, London and Port Sunlight. File numbers shown in brackets after each item. Atkinsons was a semi-autonomous perfumeries and toiletries company that had factories in Argentina, Brazil, Chile, and Uruguay.

It is noticeable that in neither Argentina nor Brazil did Levers make any attempt to inject new equity capital until very late in this period. In Argentina Lever Brothers survived without extensive outside borrowing until late in the 1930s when it became necessary to finance expansion. This was done by arranging a straightforward overdraft with the local British bank. Until then the branch had financed itself from undistributed profits. However, tax considerations also began to complicate the firm's financial arrangements. In 1937 Levers used a bank overdraft to finance a remittance of dividends in order to reduce their tax liability in Argentina. In 1941 they decided to capitalise undistributed profits in order to avoid Excess Profits Tax. Even then, however, the company's gearing (the ratio of debt to equity) remained less than 100 per cent.

The story in Brazil was very different, with gearing already in excess of 150 per cent in 1936, though much of this took the form of an interest free loan from Europe which had been arranged largely to prevent the subsidiary folding altogether. Irmãos Lever, the Brazilian subsidiary, retained this loan in the business throughout the period, since even though it began to make profits in 1939, it needed money to finance new product development. Gearing remained high, surpassing the capacity of BOLSA's overdraft facilities alone. The company thus turned to the Royal Bank of Canada and to inter-company loans from the associated Atkinsons perfumery business. However, increasing interest rates in Brazil meant that the cost of overdrafts forced the company to consider injecting additional capital, though no final decisions on this were made. The first director to visit South America after the war, Laurence Heyworth in 1947, summed up the problems well:

> The under-capitalization in the case of Irmaos [Lever] arises from the fact that when we started in Brazil in the early thirties we suffered severe losses, which absorbed practically all the originally subscribed capital, and it has been a slow and painful business to rebuild the capital structure out of earnings concurrently with the payment on the heavy overdrafts which have been incurred to finance the business. We could have put more money in before the war but fears of further depreciation in the cruzeiro [sic] prevented us from doing so.[22]

While such a level of detail has not been discovered in other company archives for the pre-war period, evidence from both Reckitts and J. & P. Coats suggests several parallels in their experiences. Reckitts manufactured laundry products, starch and blue, in both Argentina and Brazil, but the success of these ventures coupled with the development of other branded household and health products in the United Kingdom led them to consider further expansion in South America in the 1930s. As with Levers, their desire to transfer dividends complicated their financial planning since the remittances did not always coincide with the peaks of cash flow. In their case in 1937 Reckitts remitted AR$250,000 to Argentina in order to get their dividends of AR$214,000 back to England rather than resort to bank overdrafts. However, they also had in mind the fact that they would have to make such an injection anyway, in order to finance a new factory in Buenos Aires. This would require between £25,000 and £30,000, and they explored three options for financing it: a bank advance in Argentina, the suspension of payments by the Argentine branch for goods supplied from England, and a straight remittance from the UK to the new subsidiary, Brassovora SRL. Eventually, the third option was chosen. The remittance took the form of a 4 per cent loan from the parents rather than an expansion of equity capital, the reason for this being that the sterling required to service such a loan could be

[22] 'Report of Mr J.L. Heyworth. Visit to Brazil, March 1947'. File OSF3/17, Unilever archive, Port Sunlight (hereafter Unilever/PS). The cruzeiro replaced the milreis in November 1942.

purchased at the official rather than the free market rate in Buenos Aires.[23] In the case of J. & P. Coats, which had been manufacturing in Brazil since 1907 and Mexico since 1913, the subsidiaries were profitable throughout the 1930s and operated without new transfers of capital from Scotland. Like the other firms, in Brazil Coats used BOLSA to provide overdrafts not only for working capital but also the cash to purchase foreign exchange and get dividends back to the United Kingdom. By March 1943 their overdrafts in Brazil totalled £238,000, and, like Levers, they had also begun to use the Royal Bank of Canada for additional overdraft facilities.[24] The Mexican subsidiary acted in a similar manner, using overdrafts from the Banco Nacional de México in order to remit dividends and capitalising undistributed profits for tax reasons.[25]

To sum up the situation before World War II, therefore, British companies manufacturing in Latin America were able freely to remit the initial start up capital required for the acquisition of existing firms or the construction of new factories. At the same time they arranged local overdraft facilities with the Bank of London and South America, wholly or partially guaranteed by the parent firm in London. Additional capital was supplied by loans from the parents to the subsidiary companies, undistributed profits and reserves, and the extension of their overdraft facilities. Until late in the 1930s BOLSA could normally accommodate their requirements. However, by then limitations on BOLSA's capacity and willingness to supply further funding were beginning to appear, and the industrial firms felt the need to look for other facilities. It was also clear that the policies of individual Latin American states on taxation and foreign exchange transactions were complicating their actions. These difficulties were to intensify during the war and after, with the additional problem that the British government and Bank of England began, for the first time, to monitor and regulate the overseas investments of the industrial companies.

3. The Post-War Era: Changes in the Environment

During the 1930s the British government's priority in dealing with Latin America had been to protect the income from existing investments, in particular the government loans and companies like the railways. However, as nationalism increased in Latin America, manifest most obviously in the expropriation of the foreign oil companies in Mexico in 1938, but also in the Argentine reaction to the Roca-Runciman Pact of 1933 and the Brazilian external debt default of 1937, the need for a reassessment began to emerge.[26] The Foreign Office, the Bank of England, and merchant bankers such as Barings, who were particularly close to the Bank, all began to reconsider Britain's policy towards investments in Latin America in the light of the increasing difficulties of the older interests, the growth of sterling balances in London as a result of wartime

[23] Atlantis Ltd., Managers' Meetings, 1935-1939, 14 September 1938, 19 April 1939, 14 June 1939, 19 July 1939, unnumbered file, Reckitt Benckiser archive, Hull (hereafter Reckitts). Atlantis was a joint company of Reckitt & Sons of Hull and J. & P. Colman of Norwich, both of whom manufactured starch and blue. It had been established in 1913 to operate as a joint trading company in South America and other markets. The two parents themselves merged in 1938.

[24] J. &. P. Coats, Brazil and Portugal Committee (Selling) Committee, Minutes, 26 September 1940, 27 February 1941, 25 March 1943, file UGD 199/1/1/96, University of Glasgow Business Records Centre (hereafter Coats archive).

[25] J. &. P. Coats, Mexico Committee (Financial), 1936-1945, Minutes, 12 November 1940, 24 November 1942, 29 June 1943, file UGD 199/1/1/101, Coats archive.

[26] Miller, *Britain and Latin America*, pp. 211-216; P.J. Cain and A.G. Hopkins, *British Imperialism: crisis and deconstruction, 1914-1990* (London: 1993), pp. 158-161 and 165-167.

purchases of supplies from Latin America, and the requirements and constraints of the post-war economy. The outcome was a series of policy statements which included the famous 'Bones of Contention' memorandum of 1942, advocating the disposal of the old investments that provoked nationalists in Latin America, and a circular to ambassadors in Latin America in 1944, largely drafted in the Bank of England, that left room for the expansion of existing companies like British American Tobacco (BAT), the initiation of joint ventures with Latin American partners, and new enterprises which would provide markets for British goods and services.[27] The stimulus, in part, for these policy discussions lay in pressure placed on government from industrial firms and those members of the financial community who were seeking to adapt to the new conditions. Evelyn Baring noted in 1943, for example, that there would be 'many opportunities for profitable business to be done in Brazil in connection with the introduction of new industries, the conversion of foreign companies into national companies, the representation of important British and American firms'.[28] Despite general restrictions on the export of capital (as well as controls at the Argentine end to prevent the economy overheating) the Bank of England archives indicate that it refused very few applications for industrial investment in Argentina during the war. A Bank official noted in October 1943 that existing firms wishing to make transfers to Latin America had normally been permitted to do so and added that the establishment of new ventures should also be encouraged if it could be shown that British exports would benefit.[29]

At first sight one might think that it would be difficult to sustain such policies after the war, given the pressures on sterling that led first to the suspension of convertibility in 1947 and then to the devaluation of the pound in 1949. However, while all firms wishing to make new investments in Latin American industry had to approach the Bank of England for permission, for the most part this seems to have been granted. The Bank's leading expert on Latin America, F.F. Powell, was so keen to maintain the flow of new investment that in 1949 he suggested that there might be an official Bank mechanism to switch Argentine pesos between British companies withdrawing from Argentina and those entering.[30] The growing interest of British industrial firms in Latin America was recognised with the establishment of 'industrial sub-committees' in the British Chambers of Commerce in both São Paulo and Buenos Aires.[31] Many new firms appeared in Brazil and Argentina in the decade following the war, as noted already, while existing companies like Reckitt and Glaxo found no problems in obtaining Bank of England approval for new plants in Argentina (requiring the transfer of £30,000 and £200,000 respectively).[32] The overall policy

[27] Perowne to Waley (Treasury), 21 December 1942, annexed together with the memorandum on 'Bones of Contention in Latin America' to Eden to HM Representatives in Latin America, 22 April 1943, FO 371/33929/A3479/3479/51; 'Possibility of British Investment in Latin America during the Early Post-War Years', attached to Eden to HM Representatives in Latin America, 12 August 1944, Bank of England, EC 4/303.

[28] Evelyn Baring to Everard Meynell, 13 August 1943, file #203464, Barings archive.

[29] C.F. Cobbold to E. Rowe-Dutton [Treasury], 26 August 1943, file EC4/303; 'Capital Remittances to Argentina', File OV102/168, Bank of England archive.

[30] Memo, 'Argentina: Capital Investments', F.F. Powell, 6 January 1949, file OV 102/169, Bank of England archive.

[31] BCCB, Meeting at the Offices of the British Chamber of Commerce of Sao Paulo, 20 June 1944, Sub-Committee Papers, BCCB archive; BCCAR, Council Minutes, 26 October 1943, Minute Book #3, BCCAR archive.

[32] Reckitt & Colman, Overseas Board Minutes, 5 January 1955, Reckitt archive; H.C. Mace to Manager of Westminster Bank, 10 December 1957, GGA 135, Glaxo Group Archive.

that prevailed in the period between 1952 and 1961 was summed up by H.A. Copeman of the Treasury when he commented:

> Consent was being given to almost all genuine transactions involving the acquisition of a controlling interest in new or existing commercial or productive enterprises. The criteria were very broad, and in recent years very few applications had been refused; refusals occurred mainly where diversification was involved, when the purpose of an investment seemed to be more of a portfolio nature, or certain types of property investment... It was generally known that direct investment was allowed fairly freely.[33]

Serious problems for British firms wishing to invest in Latin America did not arise until 1961, and then as a by-product of a sterling crisis and concern over the behaviour of British firms with large investments in North America. In July 1961 the Chancellor of the Exchequer suddenly tightened policy on new investment and profit remittances by British-owned companies overseas. In order to obtain Exchange Control approval transfers of capital would now have to 'offer a clear and commensurate benefit to the UK export earnings and to the Balance of Payments' over two years.[34] The Treasury, which had drafted the policy, admitted that these restrictions were likely to hit hardest new manufacturing projects that were unlikely to provide a return for several years, but justified its approach on the need to retain dollars.[35] Important British interests in South America were, as a consequence, threatened. ICI was nearing the end of a £13 million project to build a major new chemicals plant in Argentina, and had to ask for special permission to remit the final tranche of £4 million.[36] The Bank of London and South America, which was also in the midst of an extensive programme of investment arising in part from a government review of British interests in the region, also reacted furiously as the new measures stopped it recapitalising its Balfour Williamson subsidiary. Sir George Bolton, who had been appointed as chairman in 1957 after a distinguished career in the Bank of England, precisely to revitalise BOLSA, wrote vehement letters to both the Governor of the Bank of England, Lord Cromer, and the Chancellor of the Exchequer, Selwyn Lloyd.[37] Meanwhile, in September 1961 the Bank of England issued further guidance on policy: 'An application to establish manufacturing facilities overseas, unless it is associated in an important degree with exports of semi-manufactured components, almost invariably has to be turned down because no return can usually be expected for several years and even then only in the form of dividends'. Existing enterprises would be financed only to the extent needed to protect their investment. The one concession was that if companies wished to finance a new investment by overseas borrowing guaranteed by the parent, the Bank of England would not object.[38] Policy was in fact further tightened in January 1962, with a proposal that companies should be forced to remit to the UK two-thirds of the profits they earned overseas and that they should not receive permission to invest further if they were unprofitable. The only exception envisaged was for subsidiaries

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33 Draft Minute by H.A. Copeman, 14 May 1962, EC5/594, Bank of England archive.

34 W. Clowser to D.A.V. Allen, 30 October 1961, T295/25, PRO.

35 J.G. Thompson (Treasury) to R.E. Parsons (Embassy in Buenos Aires), 31 August 1961, FO371/155847/AA1154/51, PRO.

36 Information from Dr Raúl García Heras, drawing on Foreign Office papers.

37 Sir George Bolton to Lord Cromer, 22 August 1961, and to Selwyn Lloyd, 9 November 1961, Confidential Memoranda Submitted to the Board, file #4412, BOLSA archive. These letters also appear in file T295/25 in the Public Record Office, together with Treasury officials' comments upon them.

38 J.H. Hamilton to Bank of England branches, 18 September 1961, EC5/372, Bank of England archive.

that could be proved to be undercapitalised.[39] While the protests from angry businessmen had enough force to bring about a change in policy in May 1962 with the creation of a pool of investment or 'switch' dollars that could be purchased by companies at a premium, the policy that companies should remit two-thirds of their profits remained, leading to further complaints from BOLSA in 1966 that this was resulting in a progressive decapitalisation of its subsidiaries in Latin America.[40]

While the British environment for overseas investment deteriorated, conditions in Latin America facing manufacturing firms also became much more difficult. The regulations and decrees differed from one country to another and varied significantly over time, but companies investing in manufacturing faced a number of common problems.

First, the increasing attention given to industrial planning in Latin America meant that most investment proposals had to go before the Central Bank or another government agency for approval. As the Federation of British Industries (FBI) commented in a report on investment prospects for its members in South America in 1961: 'An imponderable but undoubtedly real obstacle to the inflow of foreign private capital into some Latin American countries can arise out of requirements for administrative approval of every individual foreign industrial investment project'.[41] In practice conditions varied. In some cases foreign investment was totally barred, for example petrochemicals in Mexico. In the motor industries in Argentina and Brazil investors had to obtain detailed approval for almost all investments from the ministries responsible.[42] On the other hand, the apparent rigidity of official regulations might be tempered by what the FBI called, in the case of Mexico, 'realistic interpretations of malleable principles'.[43] As the FBI went on to explain, 'The Mexican Government's attitude has been, on the whole, one of guarded toleration and, in some cases, of restriction and tight control'. While restrictions on foreign investment might apply in certain industries, and in some sectors there was a requirement for 51 per cent Mexican ownership, in practice the British business community in Mexico City found it difficult to think of a case where a foreign company had been unable to establish a majority controlled local firm in Mexico. The long-term difficulties, as the report concluded, lay more in the possibility that changes in regulations and decrees, in Mexico as elsewhere, could alter the basis on which a company had formulated its strategy with an immediate impact on profitability.

A second set of problems lay in government controls on remittances of profits and the difficulties of obtaining foreign exchange for this purpose. Very soon after World War II both the Brazilian and Argentine governments restricted profit remittances to a set proportion of issued capital. In the Brazilian case remittances were limited to 8 per cent of declared capital in February 1946, although it is unclear how rigidly this

39 D.A.V. Allen (Treasury) to J.H. Hamilton (BoE), 31 January 1962, EC5/594, Bank of England archive.

40 Legh to Copeman, 24 May 1962, EC5/594, Bank of England archive; Memorandum, Balfour Williamson Group: South American Subsidiaries and accounting for exchange losses & related matters, 12 October 1966, Confidential Memoranda submitted to the Executive Committee, file #4394, BOLSA archive.

41 Federation of British Industries, 'British Industry and the Development of Latin America: Report of the Committee on Policy towards Underdeveloped Countries' (1961), pp. 42-43, FBI archive, MSS.200/F/4/76/18, Modern Records Centre, University of Warwick.

42 BCCAR, Annual Report, 1961, p. 10, BCCAR archive.

43 'Prospects for British Manufacturing in Mexico and Colombia (1960)', p. 25, FBI archive, MSS.200/F/4/75/4, Modern Records Centre, University of Warwick.

was applied. There was also a 15 per cent tax on remittances.[44] While the intensity with which regulations were enforced varied, the tendency was towards a tightening of restrictions on foreign capital partly due to increasing nationalism and partly to shortages of foreign exchange, particularly acute in countries like Brazil whose markets in Britain were limited. In 1952 there was a proposal in the Brazilian Congress that the 8 per cent limit should be calculated only on capital actually imported, and that no remittances would be permitted on capital that derived from reinvested profits.[45] In fact restrictions were lifted in 1953 with the introduction of a new foreign exchange system based on auctions rather than licences, but this made little real difference to British firms since they could not obtain sterling for remittances anyway. Regulations in Brazil continued to vary. The reimposition of restrictions on foreign investment under the Goulart administration in 1963 had a disastrous impact on capital inflows, and their lifting by the military government that succeeded Goulart delighted foreign businessmen.[46] The point here is not about the appropriateness of restrictions on foreign capital; rather that the limitations on remittances and the uncertainty that regulations would be maintained for any length of time, together with periodic shortages of foreign exchange, stimulated particular strategic responses on the part of foreign investors.

The regulation of foreign investment in Argentina had many parallels to the Brazilian story. In 1947 the Peronist government imposed new controls on the remittance of profits due to the rapid reduction of the country's gold reserves.[47] Although they were temporarily eased for new capital inflows in 1948, fresh pressures on the reserves quickly brought a renewed tightening.[48] In practice foreign companies could not remit profits from Argentina, even the 5 per cent of issued capital permitted, until 1953 due to the shortage of foreign exchange. By then the Peronist administration, desperate for foreign investment, was beginning to ease the restrictions, and the limit on remittances on new capital was raised from 5 per cent to 8 per cent. However, it was not until 1957 that foreign companies were able to remit 1950-55 earnings at the 5 per cent level.[49] The loosening of controls then helped to stimulate a wave of new investment projects at the end of the 1950s, but renewed economic crisis in the 1960s brought a reimposition of restrictions. By 1972 profits could only be remitted in the form of 5-year government bonds, a provision that lasted until 1978.[50] In fact the strictness of the regulations caused foreign divestment in Argentina between 1971 and 1976, a process ended when the military came to

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44 Bank of England, Memorandum, unsigned, 15 January 1952, OV103/5, Bank of England archive; British Chamber of Commerce in Brazil (Rio de Janeiro), *Monthly Bulletin*, 31:354 (March 1949), pp. 53 and 60, BCCB archive.

45 Bank of England, Memorandum, unsigned, 15 January 1952, OV103/5, Bank of England archive; British Chamber of Commerce in Brazil (Rio de Janeiro), *Monthly Bulletin*, 34:392 (May 1952), p. 124, BCCB archive. Unilever increased their issued capital in 1948, in part to overcome the 8 per cent restriction: Unilever, Directors' Conference, Minutes, 30 September 1948, Unilever archive, London;

46 J.A.L. Morgan (Commercial Department, Rio Embassy) to K.E. Mackenzie (Board of Trade), 14 June 1963, FO371/167923/ AB1151/4; L. Fry (Rio Embassy) to R.M.K. Slater (FO), 5 August 1964, F)371/173782/ AB1112/135. The latter despatch described the local chairman of Fiat Lux, the Bryant & May subsidiary in Brazil, as being 'tickled pink' at the new regulations.

47 BCCAR, *Monthly Journal* 27: 11 (August 1947), pp. 10-11, BCCAR archive.

48 BCCAR, *Monthly Journal* 28: 10 (July 1948), p. 9, BCCAR archive.

49 BCCAR, *Annual Report*, 1955, p. 8; BCCAR, *Annual Report*, 1957, p. 9, BCCAR archive.

50 BCCAR, *Annual Report*, 1972, p. 14, and *Annual Report*, 1978, p. 34, BCCAR archive.

power and introduced a new foreign investment law. Under this foreign businesses were allowed to invest retained earnings up to US$5 million without government approval, except in certain strategic areas that included steel and petrochemicals. However, any investment that involved purchasing an existing local company, or additional shares in it, did require official permission. Registered investors had the right freely to remit dividends and repayments of capital, but dividends exceeding 12 per cent of issued capital were taxed.[51]

A third set of difficulties, bearing in mind the dependence of the manufacturing companies on foreign banks before 1945, lay in the problems facing BOLSA. Early in the post-war period the governments of Argentina and Brazil, the two most important countries for British industry, began to criticise the behaviour of the foreign banks. In 1951 the British ambassador in Rio reported on a campaign against the foreign banks in newspapers closely linked to the Vargas government, noting that both BOLSA and the Royal Bank of Canada had been singled out:

> Criticism has been made of the extent of their lending activities and the size of their deposits in comparison with their capital. Another ground of complaint advanced, for which there is perhaps some justification, (although it can be explained by the greater security offered by foreign enterprises here) was that whereas foreign concerns obtain advances from foreign banks without particular difficulty, Brazilian concerns do not enjoy the same facilities. Another complaint was that the banks in question do not operate solely, or even largely, with funds from abroad but are making large profits by the use of Brazilian money deposited with them. Their remittance of profits abroad, earned by the use of Brazilian money, constituted a drain on Brazil.[52]

BOLSA's Rio office was itself concerned about the problems of appearing to favour foreign customers, writing to London in 1955:

> The greatest pressure on our resources is from overseas concerns operating here who quite naturally do everything possible to avoid transferring funds to this country in order not to incur the double risk of exchange depreciation and restriction on repatriation of capital. At the same time some of them hasten to utilize the facility of the present "free" exchange market to remit profits at the first opportunity... We are obliged to remember that, as a foreign bank, we are particularly vulnerable to criticism from the banking control authorities for utilizing national deposits to finance the operations here of foreign undertakings. For this reason we consider it politic to continue to welcome a fair proportion of domestic loan business even though this is not always so profitable as it does not necessarily bring ancillary exchange business, etc., in its train.[53]

Similar issues arose in Argentina. One BOLSA director visiting Argentina in 1949 reported that the nexus between foreign banks and foreign companies was under attack. The banks were criticised for bringing little capital of their own into the country, but making money 'by providing the working capital for foreign firms, on the security of guarantees from abroad, and these firms too are criticised for making large profits without bringing any capital into the country'.[54] A persistent theme in BOLSA's post-war strategy in Latin America was to explore means of 'diminish[ing]

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51 BCCAR, *Annual Report*, 1978, p. 34, BCCAR archive.

52 M.S. Williams [for HM Ambassador] to Herbert Morrison, 28 September 1951, OV103/5, Bank of England archive.

53 BOLSA, Extract from Rio de Janeiro Private Office letter, 21 July 1955, Confidential Memoranda submitted to the Board, file #4414, BOLSA archive.

54 BOLSA, Brief Reports by Mr E. Holland-Martin on his Visit to Argentina, Uruguay, and Brazil (22 March 1949), Confidential Memoranda submitted to the Board, file #4408, BOLSA archive.

the disadvantages of our foreign-ness', and by the mid 1960s it had become involved in several joint ventures in an attempt to do so.[55]

It was not just the nationalist attacks upon foreign banks that caused BOLSA's post-war problems and hence created difficulties for the industrial companies that it financed. First, the bank itself was concerned about tying up its resources in what were effectively long-term loans to companies unwilling to commit more capital to Latin America. A director visiting Brazil in 1950 complained that although such loans, with the backing of the parent company, were safe, they had 'considerable disadvantages in not being as liquid as they might be'.[56] The Rio branch manager in 1955 complained that 'too large a proportion of our own deposits is "hot" money and too large a part of our advances is tied up in capital loans to subsidiaries of overseas companies'.[57] Second, the Bank's share of local deposits, and hence ability to make loans, was diminishing due to increased competition for deposits plus its own reluctance both to invest more and to utilise rediscount facilities within Latin America to increase its lending capacity.[58] Inflation undermined the value of its capital and reserves. This meant that in Chile by 1956, for example, it had become impossible for the Bank to handle large clients on an exclusive basis.[59] Third, government banking regulations limited deposits and loans to a certain proportion of capital and reserves. Its reluctance to commit more capital to keep pace with inflation meant that the Bank got to the point in Chile in 1950 where it had to ask customers to take money away. In Argentina in 1953 the fact that the Bank was now having to turn first class clients away, and hence lose their foreign exchange business, stimulated the argument that it should simply capitalise unremitted profits in order to maintain its business.[60] Gradually, therefore, the British industrial firms and BOLSA drifted apart. While the appointment of Sir George Bolton as chairman of the bank in 1957 brought a reversal of its policy, with a fourfold increase in capital in the next ten years and the creation of new investment banking institutions in Argentina and Brazil, by the 1960s the British industrial firms had had to find other means of financing their operations and expansion in Latin America. Meanwhile BOLSA had become much more of an international bank, raising money in different currencies on the major financial markets and lending it on to a range of clients in Latin America, the majority of which were local state and private sector enterprises.[61]

4. The Post-War Era: the Response of the Companies

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55 BOLSA, Memo initialled G.A.W to the Chairman, 8 February 1965, Confidential Memoranda Submitted to the Executive Committee, file #4391, BOLSA archive.

56 BOLSA, Brazilian Branches. Report from the Hon. B. Pleydell-Bouverie OBE, 6 April 1950, Confidential Memoranda Submitted to the Board, file #4408, BOLSA archive.

57 BOLSA, Extract from Rio de Janeiro Private Office letter, 21 July 1955, Confidential Memoranda submitted to the Board, file #4414, BOLSA archive.

58 BOLSA, Memo by F. Glyn on "The Future of the Bank" placed before Board on 6 Sept 1955, Confidential Memoranda submitted to Board, file #4410, BOLSA archive.

59 BOLSA, Report by Hon, B. Pleydell-Bouverie on Chile, 27 February 1956, Confidential Memoranda submitted to Board, file #4410, BOLSA archive.

60 BOLSA, Hon. Pleydell-Bouverie OBE to the Chairman, 29 March 1951, Confidential Memoranda submitted to Board, file #4408; Argentine Capital, no signature (21 April 1953), Confidential Memoranda submitted to Board, file #4409, BOLSA archive.

61 BOLSA, Executive Committee Minutes, 7 January 1970, 26 January 1970, 7 April 1970, file #4388, BOLSA archive.

What did these conditions in the post-war decades mean for the British industrial firms in Latin America? It is necessary to distinguish between their needs for fixed investment and working capital. New investment could in theory be financed from a number of different sources: profits retained in Latin America voluntarily; profit and royalty payments blocked by exchange controls; a loan from the parent company and/or its associates; and an injection of fresh equity capital. The problems for the companies were that the signals from home and host governments were different; the implications with regard to remittances and taxation conflicted; and the economic and political risk was uncertain. This meant that boards in London and finance officers in Latin America were perpetually on their toes as the factors influencing their decisions could change overnight.

In essence, the parents preferred subsidiaries to be self-financing, using retained profits to fund their expansion. However, after 1961 this ran up against the policies of the British government which wished to maximise the return of remittances to the UK, and it left open the question as to whether and when the retained profits should be capitalised through the issue of new shares. If they were not, this was effectively a local currency loan from the parent. The use of undistributed profits also did not remove the need for occasional capital injections to finance large investment projects or the acquisition of local firms, and the question then became whether to utilise loans or equity finance. Loans, like royalty and licensing payments, had the advantage that in strict exchange control regimes they tended to have preference in the allocation of sterling drafts compared with the remittance of profits. Because they were normally made in sterling or other hard currencies, they also avoided exchange risk for the parent, an important consideration as inflation rates rose in the 1950s and 1960s. However, because loans did not increase the issued share capital of the subsidiary company, this method left it vulnerable to any calculations, whether for the maximum level of dividends that could be remitted, or any form of excess profits tax, that were based on the recognised capital of the firm.

In Argentina and Brazil, especially in the early 1950s, blocked profits, in effect an involuntary loan from the parent, were the obvious way for local managers to expand the business. Some companies, at least, accumulated a growing cash pile and in an environment where inflation, and hence foreign exchange risk, was increasing, the question then became how to protect the value of blocked remittances and use them more profitably. Investing in new lines of production or in stocks as a hedge against inflation was often more attractive than leaving the cash in the banks. Indeed, as the manager of Glaxo commented to London in 1954, the use of blocked remittances for working capital was 'quite a frequent situation in the case of British owned businesses in Argentina, many of which would find it commercially impossible, or at least most inadvisable, to draw on their Argentine concerns by the remittance of profits and royalties if exchange controls were suddenly and completely removed'.[62] The question then became at what point the parent should recognise reality, give up its right to remittances, and capitalise the earnings involuntarily left in the subsidiary.

However, with the exception of a few cash-rich firms, most struggled to finance new expansion and working capital from their own resources and both the parent companies and the British government would not allow them to continue for long without remitting if the exchange markets were open. In the case of firms making a loss, for whatever reason, the need for capital became acute. A discussion in the British Chamber of Commerce in São Paulo in 1957, after several years of growing British investment in Brazilian industry, noted that companies struggled with both fixed and working capital. In particular it was felt that the British infrastructure for investing capital overseas was deficient; unfavourable comparisons were drawn with the long-term financial facilities the Export-Import Bank offered to US companies

[62] R.E. Petley to Harry Jephcott, 24 August 1954, file 614/2, Glaxo archive.

(presumably for the purchase of equipment) and the lack of any British equivalent to specialist investment companies such as Deltec, which had provided some equity finance for British firms.[63] This was certainly a concern of Bolton's when he took over BOLSA, and amongst the issues he discussed when he visited Brazil in 1959 was 'the vague idea we had in London about the provision of some mechanism outside our banking functions to finance the establishment of British industry in Brazil'.[64] However, this did not come to much. While efforts on these lines were made in Argentina, through BOLSA's Balfour Williamson subsidiary and a new firm, the Cía Financiera de Londres, they seem to have benefited Argentine companies and British trading houses like Agar Cross more than British manufacturing firms. In Brazil BOLSA's efforts to improve its long-term facilities for British industrial companies came to little. Bolton explained the bank's decision not to purchase an established British trading house in Rio in 1961 in order to channel finance and equipment to British manufacturing companies as follows: 'The combination of a much stricter administration of the Exchange Control, together with the current mess in Brazil has led our Board to the conclusion that we should postpone indefinitely any further expansion in Brazil'.[65]

For many British firms, especially the recent arrivals, the provision of sufficient working capital became a struggle.[66] The Brazilian government imposed a 12 per cent cap on interest rates in the mid 1950s. However, this simply created a black market in loans. Glaxo was being quoted an annual interest rate of 20 per cent in 1955, and Unilever 2 per cent a month in 1957.[67] Money was also reported to be short in Argentina in 1958, where inflation was running at 25 per cent annually,.[68] By the early 1960s the FBI specialist on Latin America was reporting that the economic chaos of Brazil had led to interest rates of 3-4 per cent monthly, and that 'profits tended to disappear completely in these expensive financing operations'.[69] Apart from inflation and lack of adequate money markets, even in the major Latin American countries, government restrictions on bank lending to foreign companies also created problems. In 1963 the Brazilian government limited the financial facilities available to foreign companies in sectors they dominated such as motor vehicles and pharmaceuticals.[70] A similar problem in Mexico in June 1969 due to government restrictions on bank lending to the pharmaceuticals industry led Glaxo to turn to Eurodollar loans for working capital.[71] Nationalist measures in Argentina

[63] BCCSP, Minutes of Council Meetings, 9 October 1957, BCCB archive.

[64] Sir George Bolton's Report on Brazil, June 1959, Confidential Memoranda submitted to the Board, file #4411, BOLSA archive.

[65] Bolton to Benson (partner of Coopers), 30 August 1961, Confidential Memoranda submitted to the Board, file #4412, BOLSA archive.

[66] Sir Geoffrey Harrison to Selwyn Lloyd, 7 February 1957, FO371/131990/ AB1011/1.

[67] Glaxo, H.C. Mace, Report on South American Visit, June 1955, file GGA 135, Glaxo archive; Unilever, Mr A.D. Bonham-Carter's and Mr Paul Addis' Report on Visit to Brazil, 5th - 16th August 1957, p. 5, file OSF 6/6, Unilever archive.

[68] Unilever, Mr Klijnstra's report on his visit to South America, Minutes of Directors' Conference, 18 April 1958, Unilever archive, London.

[69] FBI, 'South America's Southern Six: report of a visit to six countries by A.C. McKechnie, Head of the Latin American Department (1963)', p. 13, MSS.200/F/4/78/3, Modern Records Centre, University of Warwick.

[70] J.A.L. Morgan (Commercial Department, Rio Embassy) to K.E. Mackenzie (Board of Trade), 14 June 1963, FO371/131990, Public Record Office.

[71] Glaxo, H.C. Mace, Memorandum on Mexico, International Board Minutes, 20 June 1969, file CA116, Glaxo archive.

meant that banks were prohibited in 1971 from lending more than 25 per cent of their resources to subsidiaries of foreign firms.[72]

In such an environment companies struggled to juggle their financial requirements against the resources available to them. However, each differed, not only in terms of the funds and loan facilities it possessed, but also in its evaluation of the future and the strategy that it attempted to follow. It is worth looking, therefore, at how these problems were confronted at the level of key individual British firms, commencing with Unilever. Table 2 summarises the evolution of their financing in the period after World War II.

Table 2: Financing of Unilever Subsidiaries in Argentina and Brazil, 1947-1960

	Argentina	Brazil
1947	Share capital and reserves now AR$3,500,000. AR$1,813,913 borrowed from other Unilever companies. Bank overdraft actually AR$3,176,555 (AR$4,450,000 authorised). Intend to increase authorised capital to AR$17,500,000, with immediate capitalisation of AR$1,250,000 owed to Unilever NV. (OSF1/19)	Issued capital still only Cr$4 million. Proposed to increase authorised capital to Cr$30 million, including capitalising indebtedness of Cr$5 million to Unilever Ltd and undistributed profits of Cr$1.5 million. (OSF3/17)
1948	Bank overdraft in September AR$4.5 million (AR$6.1 million authorised). Policy to capitalise profits and invest in stocks. (Directors' Conference, 30 September 1948)	Proposed that US$1,000,000 should be injected from New York to reduce overdrafts on which company paying 9.5%. (Directors' Conference, 30 September 1948)
1949	Share capital now AR$10 million (OSF1/21)	Overdrafts now Cr$23 million and inter-company loans Cr$7 million. Proposal to increase authorised and issued capital deferred due to Dutch exchange control problems and devaluation risk. (OSF3/19)
1952	Overdraft facilities now fully used: AR$5.7 million from BOLSA, AR$1 million from Société Générale @ 7%. Private 60-day facility of AR$1.2 million at 12%. Further AR$1 million arranged with Holandsche Unie Bank (OSF1/23).	
1954		Bank credit very tight. Cr$20 million borrowed from Shell. Need to finance new Rinso plant. (OSF3/21)
1955	Issued capital increased from AR$12.2 million to AR$17 million. Overdraft facilities currently AR$16.25 million. To be increased to AR$30 million to cover dividend remittances and business expansion (London places limit of £300,000 equivalent on local borrowings). (Directors' Conference, 22 December 1955).	Overdraft facilities estimated at Cr$90 million by year end, mainly from local banks. (OSF3/22). Limit of Cr$ equivalent of £550,000 placed on local borrowings. (Special Committee, 8 December 1955).
1957		Agreed to inject Cr$90 million in new capital and allow company to borrow further Cr$75 million from local facilities. (Special Committee, 30 August 1957).
1958		Local borrowings now Cr$220 million. Will also require Cr$130 million in fresh loans from parent companies. (OSF3/23)
1959	Estimated that at year end local borrowing will be AR$95.9 million; Unilever NV to provide	End of September: borrowings amount to Cr$524 million in swaps, Cr$44 million in

72 BCCAR, *Annual Report*, 1971, p. 18, BCCAR archive.

	further loan of AR$90 million (OSF1/29)	inter-company loans, Cr$170 million in overdrafts. (OSF3/23)
1961	2/3 of working capital said to come from Bank overdrafts at 12%. (Special Committee, 25 July 1961)	

Sources: Unilever archives, London and Port Sunlight. File numbers shown in brackets after each item.

There is a clear contrast between Table 1 and Table 2. As the latter shows, Unilever's financial history in Latin America after the Second World War was very different from its early expansion. In Argentina the business was really marking time, in pace with the country's economy, As the peso depreciated and the economic and political outlook under Perón remained uncertain, Unilever was reluctant to expand the issued capital and keen to repatriate dividends as far as possible. The relatively limited amount of expansion that did occur in the business was financed by overdrafts and other local borrowing. Brazil, in contrast, was the South American market where the company pinned most of its hopes for growth, paying £7 million to purchase its main rival, Gessy, in 1960. This accounted for half the growth in the company's investment in the region as a whole between the mid 1950s and mid 1960s, participation in new joint ventures in countries like Chile, Peru, Venezuela, and Mexico explaining much of the rest.[73] However, before the merger Unilever's results in Brazil had been so disappointing that successive directors had had repeatedly to approve new financing for the business, almost on an annual basis. As Table 2 shows, this had taken a variety of forms. Share capital had scarcely increased, presumably because of fears of devaluation. Unilever in Brazil therefore juggled four methods of financing depending on interest rates and the availability of money from each source: loans from the parent companies in Europe; loans from other companies in Brazil; swap deals to obtain cruzeiros in return for sterling or dollars; and bank overdrafts. The company frequently ran up against the overdraft limits imposed by the directors and no single bank was able or willing to fulfil all its borrowing requirements: at one stage in Brazil it had facilities with 26 banks (at much the same time it was also borrowing from 19 banks in Argentina).[74] The succession of visit reports concerning Brazil in the 1950s make it clear that financing was one of the three main issues that the company faced, the others being the calibre of the management and the competition in the markets for its main products.

Reckitt & Colman were involved in similar fields to Unilever, the production and sale of laundry products and other household goods including disinfectants, but its financial history in Brazil was rather different. It provides a classic example of a firm which, unable to remit royalties and dividends due to the exchange controls in force, utilised its profits to finance expansion. Already in October 1950 Reckitts had a cash balance of almost £200,000 in Brazil, four times the amount it required for working capital. A month later it was forecast that this could rise to £500,000 over five years if the regulations were not changed.[75] The outcome was twofold: first, the company increased its share capital from Cr$13.2 million to Cr$20 million in 1953, not just to capitalise blocked profits but also to mask the profit rate it was earning; second, it expanded its factory buildings (in effect investing in property) and commenced new

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73 Unilever, Minutes of Directors' Conference, 7 May 1966, Unilever/London archive.

74 Unilever, Minutes of Directors' Conference, 18 March 1948, 15 April 1954, 23 August 1956, Unilever/London archive. <add references from visit reports>

75 Reckitt & Colman (Overseas) Ltd., Minutes, 18 October and 22/23 November 1950, file C118, Reckitt archive.

manufacturing ventures, for example in paints and colours as well as pharmaceuticals (soluble aspirin) and foodstuffs.[76] In Brazil Reckitts used overdrafts almost entirely to finance remittances of royalties and profits at times when the exchanges permitted; in the 1950s, at least, such bank loans were not required for expansion. In Argentina, too, the experience was similar, despite the economic problems of the Peronist regime. Exchange controls meant that Brassovora, the subsidiary there, built up cash balances of over AR$2 million by the end of 1953, and began to expand foodstuffs production and investigate the possibility of erecting an ultramarine plant to soak up the spare cash.[77]

The pattern of using blocked profits for investment, together with loans and overdrafts, was repeated in the case of other firms in Brazil. Glaxo, which was shifting its emphasis from being a milk products to a pharmaceuticals firm, followed a similar path. Already well established in Argentina, where it had been present in the dairy industry since 1931, the company expanded both there and in Brazil in the early 1950s. In Argentina it purchased a factory to manufacture baby milk in 1949, using blocked pesos.[78] As its pharmaceuticals business in Argentina grew, Glaxo capitalised outstanding royalties due to the parent in 1956, and then embarked on an expansion of its manufacturing facilities that eventually required an additional transfer of £350,000 from the UK.[79] In Brazil the share capital was increased from Cr$700,000 to Cr$10 million in 1950 and an overdraft arranged with BOLSA backed by a parent company guarantee of Cr$3.5 million.[80] This level of gearing seems fairly typical for the time: the use of the overdraft was primarily to hedge the risk of exchange depreciation. Soon, however, shortages of foreign exchange for imports forced the company to commence manufacturing in Brazil, and it purchased a redundant factory from ICI in 1954, investing £100,000 remitted from the UK in buildings and plant.[81] Over the next fifteen years other new manufacturing investments in Latin America, including Colombia, Cuba, El Salvador, and Mexico, were financed by a combination of equity investment and loans from the parent, while for working capital the subsidiaries relied on overdraft facilities from local banks guaranteed by Glaxo Laboratories in the UK. Thus, for example, in September 1959 the parent guarantee on the overdraft facilities available to the Argentine subsidiary was raised to AR$6 million for those from the First National City Bank of New York, AR$11 million from the First National City Bank of Boston, and AR$5 million from BOLSA.[82] Like Unilever the company juggled its borrowing from different sources depending on the price of loans, the possibility of remittances, and the perceived risk of exchange depreciation in each country. When overdraft facilities became too expensive or difficult to obtain, more cash was injected from Britain. When the reverse applied, as in Mexico in 1966 when the arrangement of an overdraft with the Banco Mexicano proved to be cheaper than making a loan using

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[76] Reckitt & Colman (Overseas) Ltd., Minutes, 4/5 March 1953, file C118, Reckitt archive.

[77] Reckitt & Colman (Overseas) Ltd., Minutes, 4/5 March 1953, file C118; 2/3 June 1954, file C119, Reckitt archive.

[78] Glaxo Laboratories Ltd., Board Minutes, 27 May 1949, file CA 541, Glaxo archive.

[79] Glaxo Laboratories Ltd., Board Minutes, 2 January 1956, 5 March 1956, 2 December 1957, 2 June 1958, file CA541, Glaxo archive.

[80] Glaxo Laboratories Ltd., Board Minutes, 1 May 1950, file CA 541, Glaxo archive.

[81] Glaxo, MD Glaxo Laboratories Ltd to Manager of BOLSA (London), 21 December 1954, GGA 135, Glaxo archive.

[82] Glaxo Laboratories Ltd., Board Minutes, 7 September 1959, file CA542, Glaxo archive.

the 'investment' dollars available in the UK, the company took advantage of the local facilities.[83]

While blocked profits could finance a steady expansion of production and marketing, those companies that were making a sudden jump from sales to manufacturing had to import fresh funds. Dunlop began manufacturing in Brazil in 1951, putting in Cr$125 million in equity capital, much of which was represented by plant and machinery.[84] While the nominal share capital steadily increased, to Cr$200 million in 1954, Cr$480 million in 1959, and Cr$2280 million in 1964, what is noticeable in Dunlop's history is the increase in gearing, or in other words a growing reliance on loans from the parent company and bank overdrafts. The company's borrowing/equity ratio rose from around 75 per cent in 1959, following the capital increase that year, to almost 400 per cent in 1965, much of it in the form of loans from Europe denominated in sterling and deutschmarks. Moreover, much of the increase in share capital may well have taken the form of investments of new plant by the parent rather than financial transfers. These strategies undoubtedly reflected the economic uncertainty of Brazil in the Goulart years, and were intended to safeguard the parent against exchange risk at a time when it could not afford to ignore the Brazilian market for motor vehicle spares.

During the thirty years that followed the outbreak of the Second World War, therefore, the financial methods used by British multinational companies in Latin America changed considerably, particularly as a result of the difficulties experienced in post-war Argentina and Brazil. Just before the war most companies seem to have been following a roughly similar pattern: start-up investment came in the form of a capital transfer for shares in the new subsidiary, possibly supplemented by later loans from the parent companies; expansion, as far as possible, occurred on the basis of retained profits; overdraft facilities with BOLSA and possibly one other bank, preferably a pseudo-British one like the Royal Bank of Canada, provided adequate supplies of working capital. However, in the post war years, in the face of increasing restrictions and uncertainties on both sides of the Atlantic, as well as a remarkable expansion of manufacturing in Latin America, a number of important changes occurred.

First, the resources available to BOLSA no longer sufficed for these companies: BOLSA suffered from its own internal problems and declining access to deposits in the post-war decade; at the same time the number of companies seeking its aid increased enormously. This meant that the multinational companies had to establish relations with a range of banks in Latin America. Second, companies began to loan money to one another, by-passing the money markets. This was particularly marked at times when remittances were blocked. BOLSA, for example, complained in 1950 that they had lost deposits from one ICI subsidiary in Chile which had withdrawn the cash to lend to another ICI subsidiary, while Price's Candles also reduced its balance in order to lend to Shell.[85] Within Unilever intra-company loans between Levers and Atkinsons were frequent. Unilever also borrowed Cr$20 million from Shell in Brazil in 1954, and in Argentina Wilson Sons & Co. seems to have lent over half a million pesos in blocked funds to EMI the following year, suggesting that loans between

[83] Glaxo International Ltd., Memo from H.C. Mace on Mexico, Board Minutes 17 January 1966, file CA106, Glaxo archive.

[84] The financial material on Dunlop is taken from the annual reports of Dunlop do Brasil SA, in the Greater London Record Office.

[85] BOLSA, Chilean Branches: report from the Hon. B. Pleydell-Bouverie OBE, 10 February 1950, Confidential Memoranda submitted to the Board, file #4408, Bolsa archive.

British companies may have become quite common.[86] Third, in Brazil swaps with the Banco do Brasil became a possibility. The strongest evidence on this method of finance, depositing dollars to account of the bank in New York in return for cruzeiros in Brazil, comes mainly from Unilever archives. The advantages were that it removed exchange risk and could be cheaper, if inflation rates were anticipated correctly, than a bank overdraft. On the other hand it committed hard currency in return for a relatively limited amount of local funds, given the overvalued nominal exchange rate that was used. Unilever first seem to have considered a swap in 1954 but used the Shell loan instead (which seems to have been arranged between the two companies in Rotterdam). However, they certainly did use swaps quite extensively to expand their Brazilian business later in the 1950s, with a peak commitment of £6 million on this score in 1962 before the Brazilian government halted the practice. They were also using this method in Argentina in 1959.[87] Fourth, in order to avoid British exchange controls (and increasingly with the encouragement of the Bank of England) the finance for British firms' Latin American subsidiaries came from third countries. Unilever used US funds in the form of a loan to invest in Brazil in 1948, but the main use of third-country financing came after the tightening of British exchange controls in 1961.[88] The Bank of England allowed several investments in Latin America later that year when controls were at their strictest, but only on condition that the funds came from overseas. Thus Coats financed investment in Argentina using surplus funds from Italy, while Tanqueray Gordon in Brazil, Lucas and ICI in Argentina, were given permission to invest only if the transactions were financed by long-term overseas borrowing.[89] Fifth, there was a noticeable trend towards the use of hard currency loans rather than equity finance for the expansion of operations in Latin America. In addition, since savings rates in Latin America remained low, local banks were unable to meet the demand for funds, and nationalist governments restricted the banks' lending to multinational firms, the multinationals approached the international banks for hard currency loans in Europe and North America. By 1970, for example, Glaxo was using both US dollar loans from BOLSA and money raised on the Eurodollar market to finance its loss-making operations in Mexico.[90] Moreover, the relationship between the multinationals and the international banks, rather than being transacted at the country level, was moving to London by the end of the 1960s, at least for large loans.

5. Conclusions

Dependency theorists criticised the financial sophistication of foreign companies in Latin America in the 1960s and 1970s and the power that this gave them to accumulate profits overseas at the expense of Latin American economies. The common perception was that after the initial injection of capital into a manufacturing subsidiary, it would make extensive use of local banking deposits and remit much more than its initial investment in the form of profits, interest and royalties, creating

86 Unilever, Brazil: Mr J. Hansard's Report on his Visit, September 1954, p. 1, OSF 3/21, Unilever/PS archive; Wilson Sons & Co. Ltd., Finance Committee, Minutes, 13 September 1955, Wilsons archive, Guildhall Library, London.

87 Unilever, Directors' Conference, Minutes, 19 August 1954, 29 September 1961, 10 May 1963; Overseas Committee Minutes, 8 May 1963, 3 April 1968, Unilever/London archive.

88 Unilever, Directors' Conference, 30 September 1948, Unilever/ London archive.

89 The details of all these transactions are in file EC5/594, Bank of England archive.

90 Glaxo International Ltd., Memo from H.C. Mace on Mexico, Board Minutes, 13 June 1968 and 20 June 1969, file CA116, Glaxo archive. In 1969 Glaxo were also looking to a Eurodollar loan to finance increased investment in Peru: Glaxo Group Overseas Board, Minutes, 8 December 1969, file CA117, Glaxo archive.

a net deficit on the balance of payments. In other words, local savings in Latin America were financing profit taking in the developed world.[91] In essence, however, this is a static picture. It offers no causation for such behaviour other than the malevolence and private interest of businessmen, it is not based on archival evidence, and hence it lacks a sense of dynamic. It ignores, for example, the simple point that since the growth of manufacturing companies in Latin America was not a process that was simultaneous in all countries, at least some of the financial transfers effectively involved the use of profits from one Latin American country to invest in another.

It is important also to realise that the pattern of financial management detected by the *dependentista* writers was one that was, at least in part, the product of government policies in post war Latin America. As Mira Wilkins has put it with reference to US companies, 'Businessmen's decisions were conditioned by foreign host government measures'.[92] The evidence here has shown that while exchange controls may have created new 'forced' investment in Latin American manufacturing, they also stimulated a desire to extract whatever profits were not required for growth at times when controls were loosened, while the inflation and exchange depreciation that was in part stimulated by Latin American governments' management of their economies also created particular patterns of business behaviour, in particular a recourse to extensive borrowing on local money markets for working capital and to the use of hard currency loans rather than equity capital for new investment.

What emerges from the archival evidence is the amount of financial juggling in which multinational corporations (and Latin American governments) had to engage. As one businessman put it when asked about the greatest problem he had faced during his time as Chief Executive of a major British company in Argentina: 'Inflation because it consumed such huge amounts of scarce managerial time and talent'.[93] Companies could take the decision to sink resources in the share capital of their subsidiaries, but the timing had to be right. This might provide some protection for remittances, support for increased borrowing, and a safeguard against the compensation paid in the event of expropriation (with the examples of Cuba and Chile in mind). However, inflation and exchange depreciation meant that the sterling value of the investment was likely continually to decline, leading eventually to the need to write off assets in the company's consolidated accounts. The use of loans, whether in soft currencies locally or in hard currencies in the developed world, might protect against exchange risk but might cause problems with host governments which saw this practice as indicating both lack of commitment and the diversion of resources away from local businessmen. Underlying the financial problems of multinational companies in Latin America were the generally low level of local savings, the poor institutional development of regional capital and money markets, and the distortions introduced by government policies.

Finally, British firms were in a different position from US firms, which did not face controls on foreign investment from their home government until 1968.[94] From the outbreak of the Second World War British firms had to report overseas investments and obtain Exchange Control clearance for them. The Treasury also began to pay increasing attention, given Britain's balance of payments problems, to the level of remittances. Nevertheless, for the first fifteen years of the post-war period capital transfers were for the most part permitted, in line with the overall policy preferences for the relinquishing of old investments and a move towards investment in manufacturing. The crunch came in 1961 when exchange controls were

91 A good statement of this position is Jenkins, *Transnational Corporations*, p. 14.

92 Wilkins, *The Maturing of Multinational Enterprise*, p. 205.

93 Interview with Thomas Hudson, Buenos Aires, August 1995.

94 Wilkins, *The Maturing of Multinational Investment*, p. 335.

suddenly tightened. High profile companies like Shell and BAT in particular were open to government pressure to remit as much as possible. This drove British companies towards the use of third country financing and also, importantly, seriously hindered BOLSA's efforts to rebuild itself as a channel of financial support to British manufacturing companies. Later in the 1960s BOLSA itself became much more of an international bank, more involved in innovative financial instruments such as Eurodollar loans and less concerned with its role in Latin America.[95] A further problem for British firms that also affected their financial behaviour was their taxation treatment, and in particular the lack of a facility to offset the reinvestment of profits overseas against their UK tax liability. Members of the British Chamber of Commerce in Brazil pressed repeatedly for a formal double taxation agreement that would alleviate some of their financial difficulties.[96]

It is difficult to avoid the conclusion that while the obstacles to British companies' investment in manufacturing in Latin America before the Second World War were limited only by their own ability to make profits in a culturally different environment, after the war obtaining sufficient financial resources and protecting the sterling value of assets involved a constant struggle with government short-termism and bureaucracy on both sides of the Atlantic. It is hardly surprising that, given the choice, many companies in the immediate post-war period preferred to invest under the safe shelter of the Commonwealth and noticeable that those that expanded rapidly in Latin America frequently depended on having a 'champion' for the region at board level and a willingness to commit fresh resources despite previous disappointments. While some companies withdrew from time to time, particularly in the depths of Latin America's post war recessions, most remained, refined their financial skills, and reaped their reward, if not in heaven, at least in the long term.

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95 Jones, *British Multinational Banking*, pp. 264-268.
96 BCCB, Council Minutes, 14 June 1973, BCCB archive.