

## **ECONOMIC RELATIONS BETWEEN SWEDEN AND BRAZIL**

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### **INTRODUCTION**

...At dawn the anxious call of "land in sight" was heard from the highest mast and a little later something became discernible from the deck: it was Cabo Frío. An impressive cape surrounded by mountains forming a south-eastern point of South America, it is the main navigational mark for Rio de Janeiro. This vision awoke in all of us aboard an understandable and ostensible joy...<sup>1</sup>

This is the way one of Sweden's most interesting trade agents of the last century described his first view of Brazil. Sweden had only a few decades earlier established diplomatic and trade relations and, although they were modest, they nonetheless differed in form and content from the relations already established by Sweden with the rest of the Latin American countries. Different in form because Sweden did not have as many problems in establishing them as it had establishing diplomatic and trade relations with the other countries of the area which were in the process of liberating themselves from Spanish power. Different in content because, right from the start, trade interests between Sweden and Latin America were particularly concentrated to Brazil, a situation which has remained the same through the years, as we will be able to see farther ahead.

Traditionally, a very high proportion of Swedish economical relations have been concentrated in highly industrialized countries while aid and co-operation relations have been directed towards poor countries. Swedish relations with Brazil are rather atypical in nature since Brazil is one of the few so-called "Third World countries"<sup>2</sup> which shows an interesting trade and investment flow and whose co-operation relations with Sweden are practically non-existent.

Our intention is not to concentrate on a historical study of the relations between the two countries but rather make an attempt to quantify and evaluate what has occurred in the economical relations between Sweden and Brazil during the last few decades. We plan to introduce a series of ideas in the search for a different frame of reference for the relations between the two countries.

## EXTERNAL TRADE

Import and export trade has traditionally been one of the central aspects of economical relations between Sweden and Brazil.

As in many of the other aspects we are going to study, we are faced with the problem posed by the two countries' statistical information. In the concrete case of trade, there are differences which at times surpass 30% in the results published by each country. The differences can be explained by the problems of calculating transportation costs, the factor of transportation through a third country, which are sometimes considered to be countries of origin for the merchandise, and the problem of exchange rates.

By observing the evolution of trade between the countries in the last five and a half decades, it is possible to confirm four facts: a) the gradual expansion of trade between the two countries, b) the irregular flow of Swedish exportation to Brazil, c) a commercial balance favorable to Brazil in the long run and d) the slight relative importance the transactions between the two countries have if they are analyzed from a world-wide perspective.

### *Swedish Exports*

Swedish exportation to Brazil reached its peak in the 50s and 70s, coinciding with a high demand for capital goods, the construction of several mac-

*Table 1*  
**Swedish trade with Brazil, 1934-1988**

| Year | % of Total |        | Million USD |        |               |
|------|------------|--------|-------------|--------|---------------|
|      | Export     | Import | Export      | Import | Trade Balance |
| 1934 | 0.7        | 2.1    | 2.3         | 7.1    | -4.2          |
| 1944 | 0.0        | 5.6    | 0.0         | 22.3   | -22.3         |
| 1954 | 3.3        | 3.5    | 51.7        | 62.6   | -10.9         |
| 1964 | 0.5        | 1.5    | 20.2        | 59.4   | -39.2         |
| 1974 | 1.5        | 0.4    | 235.6       | 107.0  | 128.6         |
| 1980 | 0.5        | 0.8    | 150.8       | 257.1  | -106.3        |
| 1984 | 0.2        | 1.0    | 68.7        | 288.2  | -219.5        |
| 1988 | 0.4        | 0.7    | 185.1       | 304.8  | -119.7        |

Data calculated according to: Kommerskollegium, *Handel* (various years), Stockholm, and Statistiska Centralbyrån, *Utrikeshandel* (various years), Stockholm.

ro-projects in the area of hydroelectricity, transportation and communication systems and the establishment of several multinational Swedish firms which, in time, generated an interesting trade flow.

Around 1934 Sweden barely exported for 2.3 million dollars to Brazil. This represented 1/4 of the entire Swedish exportation to Latin America, but just 0.7% of Sweden's overall export commerce (see Table 1). These proportions, undoubtedly low, reveal the scant importance Sweden has always given to the markets of developing countries. This is explained by the traditional orientation of Swedish trade towards highly industrialized countries and the traditional orientation of Brazil towards the markets of the United States and Britain, along with its specialization in raw materials.

Sweden's main export products to Brazil were paper and cellulose, motors and spare parts for gasoline-run vehicles and refrigerators, laboratory ovens and gas generators. As the two countries developed, so did their export structure. Sweden exported for almost 52 million dollars to the Brazilian market in 1954. Paper and cellulose continued to be the main exports although product diversification is evident. Now other items began to occupy an important place in exportation: steel tubes, ball bearings and gears, telephonic and communication apparatus and parts and components for motorized vehicles.

*Table 2*  
**Sweden's main export products to Brazil, 1934-1988**  
 (% of total exports)

| Products                                           | 1934 | 1954 | 1974 | 1988 |
|----------------------------------------------------|------|------|------|------|
| Wood pulp                                          | 40.1 | 23.1 | 5.0  | 0.7  |
| Paper                                              | 7.3  | 11.8 | 6.5  | 2.4  |
| Diverse chemical products                          | 4.5  | 2.8  | 0.8  | 2.5  |
| Motors and spare parts for gasoline-run vehicles   | 3.4  | 1.9  | 1.0  | 1.2  |
| Refrigerators, gas generators and laboratory ovens | 5.0  | 0.3  | 0.7  | 0.1  |
| Steel ingots and wire                              | 2.6  | 0.3  | 0.2  | 0.1  |
| Steel tubes                                        | 0.0  | 2.9  | 4.3  | 1.6  |
| Ball bearings and gears                            | 2.1  | 4.3  | 2.8  | 3.2  |
| Telephonic and telecommunication apparatuses       | 0.6  | 2.6  | 28.3 | 8.9  |
| Steel plates and sheets                            | 0.6  | 0.4  | 6.6  | 3.7  |
| Band and strips of steel                           | 0.0  | 0.0  | 2.7  | 0.5  |
| Diverse machinery and instruments                  | 0.4  | 0.1  | 2.5  | 11.3 |
| Office apparatus                                   | 0.4  | 1.8  | 3.0  | 1.0  |
| Transformers and parts                             | 0.0  | 0.0  | 3.6  | 3.5  |
| Parts for motorized vehicles                       | 0.4  | 2.3  | 5.4  | 21.2 |
| Weapons                                            | —    | —    | 0.1  | 8.2  |

Data elaborated according to: Kommerskollegium, *Handel* (various years), Stockholm and Statistiska Centralbyrån, *Utrikeshandel* (various years), Stockholm.

Export expansion continued through the following years despite the policy being initiated in Brazil of import substitution, which instead of signifying a contraction of external trade, tended to enable amplification and diversification from the middle of the 60s on.

Swedish trade is benefited by the recent need for intermediate and capital goods evolving from Brazilian development. In 1974, Sweden exported for 236 million dollars to Brazil, the highest level ever. Traditional demands for paper and cellulose continue but the areas of telecommunication, transportation and capital goods are expanding, a fact revealed by the presence of L.M. Ericsson, Saab-Scania, Volvo and ASEA.

Exports have been changing since the 70s, in quantity as well as in character. On one hand, the changes are the result of the structural transformations Swedish industry has suffered during the past decades going

from a conformation of products based on the exploitation of forests and iron to capital intensive industries producing high level technology (telecommunication, special steels, machinery, transportation materials, etc.). On the other hand, we find the changes the Brazilian economic structure has been subjected to, where enormous advances have been made in the last three decades. This will be shown later in the context of the oil crisis, monetary surpluses, external debts and the price decline for raw materials.

The oil crisis, the debt crisis and the increase in interest rates have signified a huge unbalance in Brazil's balance of payments and the forced restriction of imports. This explains how enormous oscillations in Swedish exports to Brazil in the past decade have had very little to do with import substitution or protectionism. They are more the result of payment balance problems, a deterioration in exchange rates, and the productive reorganization of the multinationals.

In 1984, 68.7 million dollars in exports i.e. 30% of the amount reached only 10 years earlier, marked one of the lowest levels of the last decades. Little by little, trade has been recovering, reaching 185.1 million in 1988 (see Table 1). Even if this does not imply any expansion, it has at least enabled the partial recovery of the positions lost by Brazil at a time of import stagnation caused by the previously mentioned problems.

In relative terms, Brazil has definitely lost importance in the importation of Swedish articles. Brazil absorbed 1.5% of Swedish export trade in 1974, falling to 0.5% in 1980 and 0.4% in 1988.

Despite this fact, there is without a doubt much greater export diversification today. This is related to the needs of the new Brazilian production structure and the Swedish multinationals established in the country. A look of the main products exported by Sweden confirm this diversification (see Table 2) and clearly shows the decrease in paper and cellulose exports and the overriding importance of products for metal-mechanical industries, transportation and communication.

### *Swedish Imports*

As far as imports from Brazil are concerned, they have generally been purchases of raw material or goods produced with little industrialization. Historically these imports have represented between 1/3 and 1/4 of Sweden's total importation from Latin America, i.e. under 1.5% of total Swedish imports from the world during the last three decades, and have been concentrated in two or three products.

*Table 3*  
**Sweden's main import products from Brazil, 1934-1988**  
 (% of total imports)

| Products                                         | 1934 | 1954 | 1974 | 1988 |
|--------------------------------------------------|------|------|------|------|
| Coffee                                           | 95.0 | 89.0 | 70.6 | 36.0 |
| Tobacco                                          | 1.9  | 0.7  | 0.4  | 1.7  |
| Raw cotton                                       | -    | 6.6  | -    | -    |
| Fruit juices                                     | -    | -    | 9.6  | 9.9  |
| Sugar and molasses                               | -    | -    | 2.0  | 3.8  |
| Animal skins                                     | 0.4  | -    | 1.7  | 1.3  |
| Vegetal products for animal consumption          | -    | 0.1  | 1.4  | 6.5  |
| Motorized vehicles                               | -    | -    | -    | 1.3  |
| Motors and spare parts for gasoline-run vehicles | -    | -    | 0.3  | 5.8  |
| Clothing and knitted goods                       | -    | -    | 0.3  | 1.4  |
| Footwear                                         | -    | -    | 0.7  | 3.8  |
| Wood pulp                                        | -    | -    | -    | 2.4  |
| Aluminium                                        | -    | -    | -    | 2.2  |

Data elaborated according to: Kommerskollegium, *Handel* (various years), Stockholm and Statistiska Centralbyrån, *Utrikeshandel* (various years), Stockholm.

Around 1934, coffee was the predominant import. It continues to be so yet today but in considerably less relative terms. In 1934, coffee represented 95% of all Swedish imports from Brazil, while around 1988 it represented only 36% (see Table 3). The absolute figures are 6.7 million respectively 110 million dollars for the same years.

Coffee continued to be nearly the only Swedish import until the beginning of the 70s when the effects of a new stage in Brazilian industrialization, the modernization of part of its agriculture and the growth of the Swedish demand, began to have effect. Little by little, a new dynamic and a growing gravitation towards other few products from the metal-mechanic industry, especially transport, has been seen emerging. Animal feed products and orange juice are gaining important ground in the Swedish market, representing today more than 16% of Swedish imports from Brazil (see Table 3). The other three products becoming relatively more and more important are: clothing, cellulose and motors and spare parts for gasoline-run vehicles, although all of them are characterized by an enormous instability caused by variations in demand and prices.

The changes in the Brazilian industry have slowly lifted the country from a raw materials exporter to an exporter that can offer a combination of industrial products intensive on natural resources and labor. Table 3 shows the slow change in the trade relations between the two countries, despite the monetary expansion in imports.

What is absolutely clear is that Swedish imports have gone from 7.1 million dollars in 1934 to 59.4 million in 1964 and 305 million in 1988, generating a trade balance that has traditionally been in Brazil's favor.

However, in relative terms, Brazil has lost part of the market. Around 1934, Brazil stood for 2.1% of Sweden's total imports and in 1954, 3.5% but in the last few years of the 80s, imports have failed to reach even 1% of the total. This reveals the necessity on the part of Brazil to look for new ways to expand trade in products that have a greater added value.

Even if the deficit in the Swedish trade balance is compensated by other items in the balance of payments, especially by profit returns and service fees, the unbalance in trade has endured particularly because of the Swedish industry's incapacity to maintain growth in exports towards Brazil. This incapacity is in turn associated with the narrow range of products Swedish industry can offer to other countries, its excessive specialization in high-level engineering products, steel, paper and high quality pulp, along with the continual transfer of Swedish multinationals' productive and research capacity to other highly industrialized countries.

To all this should be added the Brazilian industrializing strategy comprised of: a highly protected market, minimal obligation on the part of multinational companies to associate locally, restrictions on imports, and the search for a broad import substitution.

One should also keep in mind that Swedish imports from underdeveloped countries are generally in natural resources and capital goods or consumer durables from highly industrialized ones. Swedish protectionism in the area of agricultural products, textiles and clothing is of no small importance either.<sup>3</sup>

## FINANCING FLOWS

### *Swedish Private Banks and Loans to Brazil*

Perhaps this is one of the less studied areas because of the difficulty in finding information about it and because it was one of the elements that

took the longest to become established, although Swedish-Brazilian relations date back to the past century. It was not until the European market's internationalization process commenced and the Swedish multinationals needed reliable, adequate channels to manage their funds and loans that Swedish banks opened offices in Brazil.

In order to secure for their banks as much as possible of the primary deposits made by Swedish companies established in Brazil, win control over financing for imports and exports and better manage the system of loans granted to Brazilian organizations and companies, three banks opened modest subsidiaries in São Paulo in the 70s: Skandinaviska Enskilda Banken (SEB), PK-banken (PKB), and Handelsbanken.

The Swedish banks maintained a rather cautious attitude in financing, as far as the Brazilian capital market was concerned. This is partially explained by the restrictions established by the Central Bank of Sweden and which first started to be lifted in the middle of the 80s. However, the major reason for it can be found in the banks' own policies of concentrating their credit lines to the internal Swedish market as well as other highly industrialized countries.

Throughout the 80s, Sweden has directed its credit flows particularly to Asia and the highly industrialized countries. In the case of the Asian countries, it is the NIC countries that have received the greatest amount of credits, rising from approx. 200 million in debt outstanding at the beginning of the decade, to 2,236 million at the end of 1988. As regards the highly industrialized countries, the majority of the financing there has been in transactions by Swedish firms and banks with the United States and England, augmenting the debt outstanding from nearly 5,000 million dollars around 1980, to almost 20,000 million dollars at the end of 1988.

A different movement of financing granted to Latin America and Eastern Europe is discernible, one which shows a clear, declining tendency as a result of the balance of payments crisis which has stricken both of these regions.

If we look at Table 4, we will see that Mexico and Peru have ostensibly cut back on their dealing with Swedish trade banks, while Brazil has remained practically stationary during almost the entire period.

In 1982 the Brazilian debt to Swedish commercial banks was 508 million, while at the end of 1988 it was 522 million. The major part of such debt was caused by unpaid commercial export affairs, in particular those brought about by the Itaipú dam.

*Table 4*  
**Brazil and Latin America debt outstanding  
to Swedish private banks, 1982–1988 (millions USD)**

| Country                        | 1982  | 1985 | 1988 |
|--------------------------------|-------|------|------|
| Brazil                         | 508   | 456  | 522  |
| Mexico                         | 214   | 124  | 92   |
| Peru                           | 163   | 166  | 165  |
| Rest of Latin America          | 210   | 113  | 193  |
| Total                          | 1,095 | 859  | 972  |
| % of total Latin American debt | 0.3   | 0.2  | 0.2  |
| % of total Brazil's debt       | 0.5   | 0.4  | 0.4  |

Elaborated on the basis of *Sveriges Riksbank* and *BID*.

A part of this financing was arranged as syndicated loans in order to lessen risks and make possible working together with other larger banks (especially American ones) that have greater experience in the Brazilian market.

Swedish banks participated actively in the first part of the 80s in different syndicated loans granted to Electrobras (400 million dollars), Telebras (165 million), Furmas Centrais Electricas S.A. (478 million), Companhia de Celulosa de Bahía (7 million), Empresas Nucleares Brasileiras S.A. (90 million), Celulosa Aracruz, etc.<sup>4</sup>

Because of the enormous crisis in the balance of payments that befell Brazil, the Swedish banks also began to participate in the various negotiations of the short and medium term Brazilian debt and the creation of additional financing such as was granted in 1983 for 4,400 and 4,000 million dollars or in 1988 for 5,200 million.<sup>5</sup> In this case, SEB was the most intensely involved Swedish bank, associating with American, English and French banks.

With the financial system disorders and the moratorium on debt payments, it took a few years to reach an agreement between Brazil, the IMF and the private banks. In part, Sweden adopted a system of bilateral renegotiation on some of the trade loans and in part, it let the IMF and the pri-

vate banks arrange the debt payment conditions.<sup>6</sup> It has only been since the middle of 1988 that certain agreements have been reached among which the new financing mentioned above and the transformation of 1,000 million dollars from certified debts to exit bonds are notable.<sup>7</sup>

As Table 4 clearly indicated, Brazil's pending affairs with Sweden are of minor consideration seen in the context of the global financial activities of both countries. In relative terms, the Brazilian debt to Sweden in 1982 represented 0.5% of its entire debt, a figure which declined to 0.4% around 1988. Despite its small proportion, the Swedish banks have correctly safeguarded themselves against Brazil's eventual total insolvency and have managed to build up gradual reserves for unpaid debts. Today, these reserves cover more than 60% of the capital at risk.<sup>8</sup>

### *Finance Corporations*

An important role of the banks' credit lines are to facilitate the development of foreign trade. To this end, Swedish banks work in close collaboration with a series of governmental organs to guarantee and subsidize export activities. The appropriate organs to mention when discussing Swedish-Brazilian relations are EKN and SEK.

About 1,500 to 2,500 million dollars worth of trade transactions and contracts with the rest of the world have been annually guaranteed during the 80s through the EKN: The Swedish Export Credits Guarantee Board). This sum covers between 3 to 5% of the annual total Swedish export.

The majority of the Swedish export guarantees have been assumed by highly industrialized countries and most of them have terms of less than one year. As of today, highly industrialized countries' export guarantees comprise more than 70% of all short-term guarantees. Developing countries generally enjoy medium or long term guarantees.

In the case of Latin America, Brazil is undoubtedly the country to which the majority of the guarantees are concentrated and it is because of the importance of the transactions between the two countries. The amount of the sums guaranteed has been growing noticeably over the last few years. Around 1984 the outstanding commitments with Latin America were under 56 million dollars, of which an insignificant amount corresponded to Brazil. Already by the middle of 1988, Sweden's outstanding claims to the Latin American region surpassed 375 million, and to Brazil in particular 158 million, the equivalent of 12% of all claims the EKN carried worldwide.<sup>9</sup> This debt was restructured through the Club of Paris negotiations

in 1984 and in the negotiations of 1987, loan installments were moved forward to 1990–1993.<sup>10</sup>

The expansion of the guarantees and outstanding claims is explained by the debt problems which have affected Latin American countries throughout the 80s, by the greater caution exercised by the banks and the Swedish government when granting financing and guarantees, the decision by the Swedish government to stimulate exports more directly and the assessment of Swedish firms about Brazil as a high risk area.

The SEK (Swedish Export Credit Corporation) is another meeting point between the Swedish trade banks, the government and the companies. It gives access to a range of financing instruments that make it possible to sell merchandise and services through loans with prevailing market commercial terms or through subsidized loans. The latter barely make up around 10% of the total loan amount, i.e. 144 million dollars. The greater part of the loans are approved of by the 12 largest companies in Sweden.<sup>11</sup>

It is rather difficult to quantify the support received by Swedish firms for their exports to Brazil, but its tendency is closely related to the conditions of the Brazilian economy, its financial and economic credibility and its plans to expand and improve the infrastructure. At any rate, in the last few years, several of the gigantic, hydro-electric power station construction projects (Itaipú, Carajás, etc.), industrial forest projects (Bahía, Ara-cruz) and communication projects have been partially financed with loans from SEK which in turn are guaranteed by EKN, thus enabling the participation of Swedish firms.

## SWEDISH DIRECT INVESTMENTS IN BRAZIL

At the present time, Brazil enjoys the largest number of foreign investments of all the Latin American countries. While the total accumulated direct investments augmented between 1960 and 1970 from 1,197 million dollars to 3,169, ten years later it had multiplied five times to reach 16,846 million, and in the beginning of 1989 it surpassed 32,000 million dollars.<sup>12</sup>

Around 1960, the major investing countries were the United States representing 38.5% of the entire investment, West Germany 9.2%, Switzerland 13.1% and Canada 11.5%. Sweden did not even reach 1% of the total. Almost three decades later, in 1989, the picture had changed drastically, as

can be observed by the relative decline of control by the United States to merely 30% (no less important for that) of the total accumulated foreign investment in the country. Germany had augmented their involvement to 15%, Japan to 10% and Switzerland sunk to 8%. Sweden, although it had increased its total involvement through the years, barely managed to arrive at 1.4% of the total investments, placing thirteenth among the investing countries.<sup>13</sup>

Around 1969 the accumulated Swedish direct investments registered in the Central Bank of Brazil were under 17 million dollars, of which barely 0.6 million represented reinvestments. In 1976 the accumulated investments had increased to 191 million and 74.2 million in reinvestments. At the end of 1988, the total accumulated and registered investments came close to 600 million, of which 172 were derived from reinvestments.<sup>14</sup> This quantity represents almost 1/3 of the total Swedish accumulated investments in Latin America and 2% of the total Swedish accumulated investments in the world.<sup>15</sup>

Swedish investments in Brazil began several decades ago. AGA and SKF had already in 1915 opened their first productive subsidiaries after a few years of trade with their products through representation. Within a decade, AGA had created 3 companies: Companhia Brasileira Gasaccumulator, Fábrica de Aço Paulista and Companhia Aga Paulista. At the same time, other important Swedish firms began to open subsidiaries in São Paulo and Rio de Janeiro: Electrolux, L.M. Ericsson, Nife Junger, etc. Ever since the 50s, the number of companies establishing in Brazil has notably increased until today, when Brazil has become one of the countries with Swedish company subsidiaries in almost all industrial sectors, particularly chemicals and pharmaceuticals, metal-mechanics, electrical products, electronics and transportation.<sup>16</sup>

The Swedish investments in Brazil do not differ from those made by other highly industrialized countries. On one hand, they have gone gradually from trade agencies or sales offices to full-fledged production and export subsidiaries. On the other hand, they have been mostly concentrated in the manufacturing sector (81%), particularly in the capital-goods industry. Investments in the primary sector — mineral exploitation, agriculture and fishing (0.5%) —, services, trade and finances (18%) have been unimportant.

More than 30% of the total, accumulated investments in 1988, 156 million dollars, were made in the electronics and electrical supplies industry. Transportation came in second at 99 million, followed by the iron and

*Table 5*  
**Swedish production subsidiaries in Brazil, 1960-1988**

|                       | 1960  | 1965  | 1970   | 1974   | 1978   | 1986*  | 1988*  |
|-----------------------|-------|-------|--------|--------|--------|--------|--------|
| Number of firms       | 16    | 23    | 24     | 28     | 30     | 53     | 56     |
| Employment            | 4,764 | 8,065 | 12,981 | 19,892 | 24,019 | 41,800 | 42,130 |
| Assets (millions USD) | 39    | 80    | 209    | 541    | 1,018  | 1,090  | 1,185  |
| Sales (millions USD)  | ?     | 59    | ?      | 455    | 900    | 1,523  | 2,307  |

\* It includes subsidiaries with minority control.

Data elaborated according to: Swedenborg, B. (1973) op. cit., p. 142; SOU 1982: 27, Appendix D; Annual Reports and information from 110 Swedish multinationals; *Visão* (various years), *Quem é Quem na Economia Brasileira*, Rio de Janeiro, and *Conjuntura Econômica*, Rio de Janeiro.

steel industries at 95 million, mechanics and capital goods at 66 million and basic chemicals and pharmaceuticals at 42 million.<sup>17</sup>

Although Swedish investments are not very important in Brazilian manufacturing at large, it would appear that their level has increased in some specific divisions. Thus in the telecommunications sector, Ericsson undoubtedly maintains an oligopolically privileged position. A similar situation exists in transportation (buses and trucks) with Volvo and Saab-Scania, in industrial gases (AGA, Aganor) and in metal-mechanics with SKF, Dynapac and Sandvik.

By making an analysis of the number of companies, employees and assets, we can see that the situation has changed radically. In 1960, there were barely 16 producing Swedish firms in Brazil; by the end of 1988, there were 56. This growth has even expressed itself in an interesting augmentation of employees, rising from 4,764 workers in 1960 to more than 42,000 in 1988 (see Table 5), and of assets, which have increased from 39 million in 1960 to almost 1,185 million dollars in 1988.

However, the most important advancement can be seen in sales, especially during the last 20 years. Around 1965 sales figures for the productive Swedish subsidiaries in Brazil were close to 59 million dollars, in 1974 they reached 455 million and at the end of 1988, they had risen to 2,307 million (see Table 5), a sign of the subsidiaries' increased level of integration in the internal Brazilian market, their increased productive independence and their search for new export markets.

Table 6

## Some important Swedish production subsidiaries in Brazil, 1976-1986

| Brazilian subsidiary    | Swedish multinational | Assets |      | Sales |       | Profits |      | Labor force |       |
|-------------------------|-----------------------|--------|------|-------|-------|---------|------|-------------|-------|
|                         |                       | 1976   | 1986 | 1976  | 1986  | 1976    | 1986 | 1976        | 1986  |
| (millions USD)          |                       |        |      |       |       |         |      |             |       |
| Arno S.A.               | ASEA                  | 31.8   | 56.4 | 82.4  | 102.4 | 7.2     | 26.8 | 5,651       | 5,812 |
| AGA                     | AGA                   | 2.9    | 18.5 | 8.1   | 40.3  | 0.1     | 4.9  | 550         | 605   |
| Aganor                  | AGA                   | 1.4    | 11.0 | 1.3   | 10.1  | -0.2    | 2.8  | 72          | 150   |
| Atlas Copco             | Atlas Copco           | 24.6   | ?    | 76.1  | ?     | 12.7    | ?    | 600         | 950   |
| Fca. Aço Paulista       | Bolliden              | 19.1   | 27.8 | 43.3  | 52.4  | 0.1     | 6.5  | 2,485       | 2,700 |
| Interprint              | Bonniergrupp          | 1.6    | 8.5  | 5.3   | 18.1  | -0.3    | 1.4  | 300         | 1,000 |
| Electrolux              | Electrolux            | 2.5    | 7.7  | 9.3   | 12.1  | 1.2     | ?    | 345         | 542   |
| Ericsson do Brasil      | Ericsson              | 29.2   | 97.9 | 304.7 | 156.4 | -11.3   | 28.4 | 10,003      | 6,675 |
| FICAP                   | Ericsson              | 15.5   | 68.5 | 32.4  | 72.7  | 3.9     | 18.5 | 1,250       | 1,136 |
| Eletro Solda Autogena   | ESAB                  | 5.8    | 20.8 | 26.5  | 38.0  | 3.2     | 9.9  | 700         | 575   |
| Dynapac                 | Industri AB           | ?      | 26.8 | 6.2   | 36.1  | ?       | ?    | 470         | 1,035 |
| Saab-Scania             | Saab-Scania           | 26.8   | 68.9 | 176.5 | 218.1 | 13.0    | 23.3 | 2,822       | 3,000 |
| Sandvik do Brasil       | Sandvik               | 10.0   | 33.0 | 30.9  | 59.5  | 1.0     | 19.8 | 672         | 882   |
| SKF Rolamentos          | SKF                   | 22.6   | 27.5 | 29.2  | 28.0  | 7.9     | 11.9 | 1,100       | 1,085 |
| Fca. Paulista de Brocas | SKF                   | 4.3    | 8.3  | 12.2  | 61.4  | 2.2     | 9.2  | 600         | 765   |
| Aços Anhanguera         | SKF                   | 28.4   | 59.0 | 69.3  | 93.5  | 2.4     | 8.6  | 2,059       | 2,267 |
| Nife do Brasil          | Volvo                 | 3.8    | 7.4  | 4.5   | 19.3  | 0.3     | 2.4  | 600         | 510   |
| Volvo do Brasil         | Volvo                 | -      | 36.2 | -     | 141.2 | -       | 11.2 | -           | 1,060 |
| Suecobras               | Volvo                 | 7.0    | 6.3  | 13.0  | 6.7   | 4.5     | 1.5  | 237         | 310   |
| Tanac                   | Weibulls              | 7.0    | 39.7 | 6.6   | 21.5  | 0.9     | 2.6  | 334         | 2,220 |

Sources: Annual Reports from the firms; *Visão*, op. cit.; Aplicação Editora, *Relatório Aplicação*, Rio de Janeiro, and Gazeta Mercantil, *Balanco Anual*, São Paulo (various years).

Moving to the level of investment companies, we can state that an important change took place between 1976 and 1988 in several aspects. Assets, for example, increased in almost all the Swedish subsidiaries. The assets of Ericsson, which in Brazil in 1976 were almost 45 million, reached 176 million in 1986<sup>18</sup>. Those of Saab-Scania augmented from 26.1 million to 69 million, SKF's from 55 to 95 million, ASEA's from 41 to 62 million and Sandvik's from 10 to 34 million (see Table 6).<sup>19</sup>

Outstanding among the newly appearing companies are Volvo, Tetrapak, Uddeholm and MoDo, along with Alfa Laval's purchase of Reginox

Indústria Mecânica Ltda. de São Paulo and the series of companies bought by STORA in 1986-1988. In addition to these, there are three big banks present that support Swedish firms' operations in Brazil: SEB, PK-banken and Handelsbanken.

The sales also show an interesting expansion. Ericsson loses (theoretically) a part of the market because of the expansion of the Japanese firm NEC, the American ITT and the Brazilian Sul-Americana Teleinformática, along with the transfer of part of their production and sales system to the Matel group under the system of "Brazilinization" of business. Saab-Scania augmented their sales from 176 million dollars in 1976 to 430 million in 1988; SKF from 110 to 205 million dollars during the same years and Tanac from 6.6 million to 34 million. Volvo presented sales of more than 200 million dollars in 1988. This expansion is reflected in increasing net profits as well (see Table 6).

Few of the big corporations have increased their number of employees. This is a reflection of productivity increases and more intensively applied technology. The most frequent creation of new sources of employment has been in small and medium-sized companies in what is referred to as the last quinquennium. It has only been occasional in the big corporations. In 1976 Ericsson employed more than 12,000 people in its various Brazilian subsidiaries. Twelve years later the number had fallen to 6,800 people. AGA's labor force declined from 3,100 to 1,200 as a result of the sale of Aço Paulista to Bolliden which in 1988 employed 2,650 people. Saab-Scania increased its work force from 2,822 to almost 3,300 workers; SKF went from 1,550 to 2,100 workers while ASEA declined from 6,500 employees to 4,300 during the years mentioned.<sup>20</sup>

As far as the effects of the activities of the Swedish subsidiaries are concerned, an improvement in the balance of payments in Brazil's favor has taken place over the years. In the 60s and the 70s a negative balance of payments was normal. Throughout the 80s the picture has been notably favorable for Brazil, despite the large capital returns Swedish companies have sent to Sweden. Between 1983 and 1988 the balance of payments has been 320 million dollars favorable to Brazil.<sup>21</sup>

A solid establishment of Swedish subsidiaries in the country can be observed today, producing and offering services even outside of the internal Brazilian market. A slow decentralization process can also be observed, one in which Swedish subsidiaries are "nationalized," thus gaining interesting degrees of autonomy and an organization which allow them to better confront the challenges of the market, control other subsidiaries in Bra-

zil and other Latin American countries, improve export conditions to other Third World countries, initiate certain research activities and avoid pressures from Swedish unions or the Swedish government.

One last aspect worth pointing out is related to salaries and unions. Speaking briefly, we can say that there are important variations between the companies in this respect, depending on their size, specialty, location, the conditions prevailing in Brazil and the company's direction systems in Sweden.

Most of the subsidiaries have rapidly adapted to the different political, labor and wage conditions in Brazil. During the 60s and 70s it was normal to forbid union organization in the companies, to have work weeks of more than 50 hours and to pay salaries just over the legal minimum wage. In general, this behavior was just like the behavior of the multinationals from other countries which shifted their policies according to shifting circumstances.

However, a series of union activities, protests and strikes began to appear in the Brazilian labor market with the election of João Baptista Figueiredo and changes started to manifest themselves right before the "abertura" (opening).

The first big strike during the dictatorship broke in May 1978, precisely in a Swedish multinational: Saab-Scania, where the workers demanded wage rises and better working conditions. For many years Saab-Scania had been having problems because of their policies which openly contradicted minimal worker demands: 60 hour work weeks, job insecurity, the majority of the workers earning between one and two minimum wages and all union activity repressed.<sup>22</sup> Similar problems were present in most of the metal-mechanic industries located in São Paulo which caused the strike to spread rapidly along the ABC industrial corridor in São Paulo. The problems were solved directly in most of the companies with wage increases and permission given for very limited union activity.<sup>23</sup>

Two studies of a few important Swedish multinationals located in Brazil present the "new" working conditions and maintain that these firms persist in employment and wage policies similar to those held by multinationals from other countries.

The majority of the Swedish multinationals have adopted a 48 hour work week. The worker's organization capacity has improved somewhat, although Brazilian union organization levels are still rather low, even compared with the levels of some other Latin American countries. Barely three out of ten Brazilian workers in Swedish companies belonged to a union in 1986-87.<sup>24</sup>

Most of the companies paid the majority of their workers less than 250 dollars a month, an amount slightly higher than the one offered by national companies located in the same area. Dismissals were generally carried out without consulting union leaders and many of them normally took place after any kind of strike.<sup>25</sup> The Swedish multinationals interviewed followed the wage and union policies permitted in Brazil and seldom introduced innovations from Sweden on labor issues, the organization right and wage policies.

## CONCLUSIONS

When analyzed, the economic relations between Sweden and Brazil appear quite modest, in the context of their relations with other countries.

Foreign trade between the two nations does not even constitute 1% of their total exchanges. Swedish investments represent 1.4% of the total accumulated foreign investments in Brazil and the financing granted by Sweden is for small sums.

Trade exchanges have in the long run proven to be quite traditional: typical for the transactions between a highly industrialized country and a developing country.

Trade exchanges and investment flows have varied through the years and have been notable for their diversity and for their decline in relative importance. This has taken place in an era of trade and investment expansion for both countries, but one oriented towards other points on the globe and in the context of the oil crisis, the balance of payments and the foreign debt.

Although economic relations are modest, they are characterized by several, rather special aspects which open a range of possibilities which in turn ought to be considered by both nations in their development strategies. These possibilities become more obvious when we see the similarity of most of the foreign relation and trade policies upheld by Brazil and Sweden.

The strengthening of the economic relations between the two countries would without a doubt be beneficial to both of them, even if certain difficulties lie in the structure of the relationships they have with other countries in the world, in the development strategies selected and in the processes of the globalization of economies which can be observed on a world-wide level.

It is evident that both countries need to adapt themselves to the challenges of the 21st century when they ought to have already reached a close association with some kind of integration scheme, opted for a new industrialization strategy and a new social and political development policy. New relations ought to be developed in the areas of culture, trade, technology, investments, and financing.

Swedish capital and experience would be important for the support of this process but clear economic policies that specify their functions, objectives, and possible investment areas are needed in addition to the protection of capital investments to be able of working efficiently and profitably. This capital (private or public) is not only important as a source of financing, but especially as a medium to connect up with Brazilian capitals in order to build mixed corporations and/or to begin joint projects in technological research.

In the sectors of technological and economic cooperation, Brazil can contribute in several fields of energy and transportation (methanol/ethanol, aviation, nuclear research), but there are also a range of fields in which Brazil could find ways to complement Swedish companies perfectly. Here we could point out: a) metallurgic processes, b) nuclear and hydroelectric energy, c) construction equipment, e) special quality papers, f) fishing equipment, g) medical instruments, h) pollution control and purification equipment, i) the naval industry and j) the aviation industry.

In order to start such a collaboration, special programs are needed which offer incentives to joint ventures and which would give special priority to the development of high technology, good quality and strongly competitive products. In addition, Brazil would have to make progress in the creation of a more flexible bureaucracy, the search for decentralization policies, the further stimulation of the private business sector and the improved development of their support infrastructure for foreign investments.

## Notes

<sup>1</sup> Carl A. Gosselman (1842), *Resor i Södra Amerika. Åren 1836, 1837 och 1838*. Stockholm, p. 73.

<sup>2</sup> Despite the fact that Brazil is undoubtedly an industrial power on a world-wide level as far as a methodological definition is concerned, it can still be considered a country of the "third world" because of the existence of large poor strata, the low wage paid

to a large part of the population, the dominion of a labour intensive industry mainly concentrated in the elaboration of raw materials, and because of the fact that Brazil has not yet resolved many of the problems already solved in welfare societies — problems concerned with housing, education, health, culture, income and nutrition.

<sup>3</sup> The governments of several Third World countries persistently complained to the Swedish government about the negative protectionist policies in the area mentioned. See *Dagens Industri*, N° 104, June 20, 1986, p. 9 and N° 8, January 11, 1985, p. 1; Utrikesdepartamentet (several years), *Aktuellt i Handelspolitiken*, Stockholm. A positive development can be expected in the 90s with the closer contact between EFTA and EEC.

<sup>4</sup> *Euromoney* and *Veckans Affärer*.

<sup>5</sup> *Euromoney*.

<sup>6</sup> EKN (1986–1988), *Annual Report*, Stockholm.

<sup>7</sup> See CEPAL (1988), *Panorama Económico de América Latina*, p. 24–25, Santiago and *O Estado de São Paulo*, Economia, p. 3, Sep. 1, 1989.

<sup>8</sup> SEB and Handelsbanken (1986–1988), *Årsredovisningar*, Stockholm.

<sup>9</sup> EKN, op. cit.

<sup>10</sup> EKN, op. cit. pp. 32.

<sup>11</sup> See SEK (1989), *Annual Report 1988*, pp. 8, Stockholm.

<sup>12</sup> See: *Boletim Mensal do Banco Central do Brasil*, *Boletim do Banco do Brasil* and *Conjuntura Econômica*.

<sup>13</sup> There have traditionally existed good studies concerning foreign investments in Brazil. We can mention: de Martins, L. (1975) *Nação e Corporação Multinacional*, Rio de Janeiro; Doellinger, C. von & Cavalcanti, L. (1975) *Empresas Multinacionais na Indústria Brasileira*, Rio de Janeiro; CEPAL (1983) *Dos Estudos sobre Empresas Transnacionais en Brasil*, Santiago; and Appy, R. (1987) *Capital Estrangeiro do Brasil. Um Dossier*, Rio de Janeiro.

<sup>14</sup> See note 12.

<sup>15</sup> See García, R. (1989), *Transnacionales e Inversiones Suecas en América Latina*, Latinamerika-institutet, Stockholm, p. 9.

<sup>16</sup> For information about the first Swedish multinationals in Latin America, see the interesting research by Runblom, H. (1971), *Svenska Företag i Latinamerika. Etableringar och Förhandlingstaktik, 1900–1940*, Uppsala. General information about Swedish companies between 1965 and 1974 is given in Blomström, M. et al. (1987), *Inversiones Nórdicas en América Latina*, Gotemburgo.

<sup>17</sup> Data from the Central Bank of Brazil.

<sup>18</sup> This amount declined in 1987 with the sales of majority control over FACIT and FICAP.

<sup>19</sup> As a result of new investments made by Volvo, Saab-Scania, Electrolux, AGA and Ericsson during the last years, assets and sales continued to rise in the following years.

<sup>20</sup> Data according to sources in Table 6.

<sup>21</sup> Data from Banco Central do Brasil.

<sup>22</sup> Some facts about wage conditions in Brundenius, C. (1978), "Foreign Investment and Technology. The Case of Swedish Manufacturing Subsidiaries in Brazil," *Research Policy Studies*, Lund University, p. 25, April.

<sup>23</sup> Wetterblad, T. (1984), *Svenska Företag i Brasilien*, Stockholm, and (1988), *Brasilien. Svenska Företag och Fackliga Rättigheter*, Stockholm.

<sup>24</sup> Wetterblad, T. (1988) *Brasilien*. op. cit. p. 81.

<sup>25</sup> As it happened after the different strikes carried out by Ericsson workers in 1984 and 1987 when more than 129 workers were fired, or after the Saab-Scania strike in 1983 when 300 workers were kicked out of their jobs.