

Foreign Companies during the Phase of State-Led Industrialization: Organizational Structure and Entry Strategies, Argentina 1944-1972

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Abstract

This article analyzes the local and global factors that shaped direct foreign investment in Argentina. Using information provided by a new database on foreign companies in Argentina (BDEEA-FCAD), an analysis is carried out of the changes in organizational structures and entry strategies of the 100 largest foreign multinationals during the period of state-led industrialization when these companies were attracted by the expansion in industrial demand within a protected economy. The central argument of this article is that Argentina was a host economy that was very open to foreign direct investment (FDI) during the period of state-led industrialization when foreign firms increased their holdings through the acquisition of Argentine companies, the creation of joint ventures, and participation in local companies.

Keywords: Argentina, foreign companies, foreign investment, direct investment, multinational enterprises

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Acronyms used

BDEEA	Database of Foreign Companies in Argentina (Base de Datos de Empresas Extranjeras en Argentina)
CEPAL	Economic Commission for Latin America and the Caribbean (Comisión Económica para América Latina y el Caribe)
CFI	Federal Investment Board (Consejo Federal de Inversiones)
CICYP	Inter-American Council for Trade and Production (Consejo Interamericano de Comercio y Producción).
Conade	National Development Board for Argentina (Consejo Nacional de Desarrollo Argentina)
Conicet	National Council for Scientific and Technical Research (Consejo Nacional de Investigaciones Científicas y Técnicas)
DGFM	General Directorate of Military Manufacturing (Dirección General de Fabricaciones Militares)
Dinie	National Directorate of State Industries (Dirección Nacional de Industrias del Estado)
DRCLAS	David Rockefeller Center for Latin American Studies
FC	Foreign companies
FCAD	Foreign Companies in Argentina Database
FDI	Foreign Direct Investment
FIEL	Foundation for Latin American Economic Research (Fundación de Investigaciones Económicas Latinoamericanas)
FLACSO	Latin American Social Sciences Institute (Facultad Latinoamericana de Ciencias Sociales)
IAME	State Aeronautic and Mechanical Industries (Industrias Aeronáuticas y Mecánicas del Estado)
IDEA	Institute for Business Development in Argentina (Instituto para el Desarrollo Empresarial de la Argentina)
IDES	Institute for Economic and Social Development (Instituto de Desarrollo Económico y Social)
IKA	Industrias Kaiser Argentina
ISI	Import substitution industrialization
ISIC	International Standard Industrial Classification of All Economic Activities
UNGS	Universidad Nacional General Sarmiento

The study of foreign direct investment (FDI) in Argentina is a classic topic of post-WW II economic historiography, given its relevance to the country's insertion into the international economy and to the problematics of growth and economic development for late-industrializing countries. In this paper, the general inflow and outflow trends of foreign capital in Argentina during the 20th century have been systematized based on data on foreign investment related to capital flows and stock published by different organizations (Comisión Económica para América Latina y el Caribe, CEPAL; Fundación de Investigaciones Económicas Latinoamericanas, FIEL; and the Ministry of the Economy). These trends allow the identification of a first FDI boom cycle during the first globalization and a second that commenced in the late 1950s and lasted until the start of the 1970s. According to data from CEPAL, the stock of foreign capital as a proportion of total investment reached its peak in 1913, accounting for 48% of the country's fixed capital, while in absolute terms the high point of foreign capital stock was 1931, at US\$ 7.640 billion (at 1950 constant dollar prices). Foreign capital invested in Argentina during the second FDI boom cycle surpassed the values attained during the first globalization.

With respect to general FDI trends, studies on foreign companies in Argentina have concentrated on the aforementioned boom cycles. Indeed, the academic literature has analyzed the formation and expansion of multinational companies in the country, especially during three clearly delimited periods: the early boom cycle, from 1870 to 1914; restructuring and the entry of new multinational companies in the 1960s; and a more recent period - the new wave of FDI that started in the mid-1990s, centered on mining, financial, and public service activities.

This article identifies - for the first time and employing a new methodology - not only the transformations in the origin, profile, and activities of the major foreign firms in Argentina during the period of state-led industrialization but also their organizational structures and entry strategies (Ocampo and Ros 2011). It was decided to focus on this period because it permits the analysis of the transition between two FDI cycles associated with different determinants of investments at a time when the first regulations on the establishment of foreign companies in Argentina were introduced (Lluch and Lanciotti 2012).¹

Based on the nominal identification of foreign companies established in Argentina, the methodological approach used consists of identifying the 100 largest firms (in terms of

1. We understand FDI as any investment made by foreign firms that maintained directorial control of their company in Argentina. This definition includes typical multinationals that set up subsidiaries or offices in the country, free-standing companies created specifically to conduct business in Argentina, and foreign controlled and owned companies registered as Argentine.

capital stock) for the years selected (1944, 1959–1960, and 1971). Rankings of the biggest companies in each of these three baseline years were prepared by processing information on foreign companies registered in corporate guides and in complementary sources. This information was systematized in a new database: "Base de Datos de Empresas Extranjeras en Argentina / Foreign Companies in Argentina Database BDEEA/FCAD–PICT 2010/0501."²

Given that lists of leading companies in Argentina were published by the specialized press for the first time in 1955 (*Revista Panorama de la Economía Argentina*) and that these only included industrial companies, we elected to compile lists of the 100 largest companies for the preceding period based on homogeneous primary sources. The information provided in corporate guides includes company names, their incorporation date, directors, capital stock, results, and balance sheet dates. This information was processed and systematized in a database, and then utilized for the preparation of rankings of foreign companies, taking into account total capital stock or the capital assigned to the subsidiary, where applicable, converted to current dollars. The database allows for a cross-cutting comparison of sectoral distribution, entry strategies, nationality, organizational structure, and capital of companies during the years selected.³

This analytical and methodological approach, which uses the company as a unit of analysis, is complementary to the study of the development of FDI flows and stocks, while illustrating foreign firms' continual entry into the country during the interwar period and, subsequently, in the 1950s (Lanciotti and Lluch 2009: 37–66). On the one hand, our analysis confirms the validity of the aforementioned boom cycles, and, on the other hand, it illustrates with greater clarity the changes undergone in the population of foreign companies established after 1930 and which operated in Argentina during the so-called import substitution industrialization (ISI) period. The study shows that during the disintegration of the global economy, the expansion of industry oriented toward the Argentine internal market attracted the establishment of new firms and the restructuring of existing ones. The increase in the number of foreign companies during the period ushered in by the crisis of 1930 constitutes a trend that contrasts to that observed in other regions of the "developing" world during this period (Jones 2010).

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2. The main documentary sources are: "Guía el accionista de sociedades anónimas 1959–1960," "Guía de sociedades anónimas 1944–1945," "Guía de sociedades anónimas, responsabilidad limitada y cooperativas, 1937–1938," "Guía de sociedades anónimas. Anuario 1930," "Guía de sociedades anónimas. Anuario 1924," and "The Argentine Year Book 1913." Colli applied this methodological approach to the universe of multinational companies in Italy (2014).
 3. In addition, the rankings published in the *Revista Mercado* in 1971 were consulted. For a critical review of the methodology employed in the construction of the rankings in that publication, see Schwarzer (1977).

In Argentina, the outbreak of WW II consolidated the import substitution process alongside greater state intervention aimed at promoting the country's industrial development. The creation of the National Postwar Council (Consejo Nacional de Posguerra) in 1944 inaugurated state planning oriented toward industrialization, including the nationalization of sectors considered strategic to economic development: energy, communications, and transport. The program, designed by the military regime that took power in 1943, was consolidated during the government of Juan Perón (1946–1955). Between 1943 and 1948, the nationalization of rail, electricity, gas, sanitation, and communications companies engendered profound changes in the volume and composition of FDI, bringing to a close the first boom cycle spearheaded by British companies.

This led, in short order, to the withdrawal of companies that had been attracted to the country by the localization benefits associated with the availability of natural resources and market expansion prospects, in a political context that was both favorable to the entry of foreign capital and marked by the absence of regulations. At the same time, the reformulation of the Peronist government policy on foreign investment during Peron's second presidential term (1952–1955) marked the beginning of the second FDI boom cycle, led by companies that had developed exclusive competitive advantages in the petrochemical and metallurgical industries and in automobile, machinery, and engine manufacture. Their penetration was consolidated during the governments of Arturo Frondizi (1958–1962) and his successors, in which the policies applied also had an impact on the changes in the determinants of multinationals' localization strategies during this period.

This paper is organized into three main sections. In the first, the historical background and previous studies on foreign companies during the period are discussed briefly. In the second, the characteristics of the major foreign firms in Argentina in 1943 and 1973 are analyzed, taking into account industrial regulations and policies and contrasting our results with analyses based on FDI flows and stock. Finally, the third section presents our findings on the significant changes in organizational structure and entry strategies of multinational firms in Argentina during the state-led industrialization period.

1. STUDIES ON FOREIGN COMPANIES BETWEEN 1958 AND 1973

The study of economic groups and multinational companies in Argentina has centered on two well-defined periods: 1870–1914 and 1956–1973.⁴ In particular, for the period

4. Studies on this issue were promoted by CEPAL and the Latin American Faculty of Social Sciences (Facultad Latinoamericana de Ciencias Sociales, FLACSO) and, in recent years, by the research centers of the UBA and the Universidad Nacional General Sarmiento (UNGS). It should be noted that it was not until 1974 that the FLACSO initiated a program on Argentina.

under analysis, a group of economists – driven by the debate about development – began to study the relationship between foreign investment, national savings, and the foreign sector beginning in the 1960s. In this new avenue of research, some of the institutional reports issued by bodies such as CEPAL,⁵ IDEA, and FIEL, among others, stand out. These reports, with different methodologies and results, sought to open up the debate on the impact of foreign companies by employing what they referred to as more “objective” bases. Though these studies aimed to provide a long-term perspective, they primarily concentrated on the period 1957–1969. A classic example of this approach is the 1973 FIEL study, which did not take a critical stance, but proposed a systematic reconstruction of the quantitative characteristics of the phenomenon at the request of the Argentina Section of the Inter-American Council for Trade and Production (Consejo Interamericano de Comercio y Producción, CICYP). Moreover, the works of economists employed by research institutes at the Universidad de Buenos Aires (UBA) and the Institute for Economic and Social Development (Instituto de Desarrollo Económico y Social, IDES), among other academic spaces, were numerous. These contributions – provided in an advisory capacity to the National Development Board for Argentina (Consejo Nacional de Desarrollo Argentina, Conade), the Federal Investment Board (Consejo Federal de Inversiones, CFI) and the International Labour Organization (ILO) – analyzed the profile of foreign investment of the period and its impact on the Argentine economy either directly or as part of related problematics.⁶

At the same time, there was a more critical approach⁷ in which arguments were focused on more specific aspects, such as the increase in economic concentration (Skupch 1971; Khavisse and Piotrkowski 1973), the negative repercussions of foreignization on the balance of payments and the internal financial market, the introduction of technological distortions (Katz 1974), and the increasing segmentation of the internal market. For example, Khavisse and Piotrkowski (1973) conducted a thorough analysis of the degree of concentration by gathering nominal information on the companies with the highest sales in 1970 and 1971. To this end, they constructed an index of industrial concentration by branches of activity, postulating not only the increase in economic concentration in the manufacturing industry, but also the displacement of national companies.

5. CEPAL opened an office in Buenos Aires in December 1973 by agreement between its executive secretary and the Argentine government.

6. Among this literature, Sourrouille (1976, 1978) stands out. A classic reference on the use of industrial promotion instruments by multinationals is Altimir *et al.* (1967).

7. See: Petrelli (1972).

Together, and with a variable margin in each case, all of these studies provided a negative image of the impact of multinational subsidiaries in Argentina.⁸ The debate has not been limited to Argentine authors; Fischer (1973), for example, is one of the researchers who attempted a long-term analysis of external investment in the country. This author concluded that foreign investment fostered monostructural production, as well as economic dependence, intense pressure on the balance of payments, greater spatial economic imbalance, and an oligopolistic market structure.

The evaluation of this period (1958–1973) continued in the decades that followed,⁹ and it was not long before a series of works focusing on the post-1976 period were added to the debate, which has been the subject of renewed attention in recent years. Overall, we consider that the historical evidence has been underused in recent studies on foreign companies in Argentina. An approach to this topic from the perspective of business history thus aspires to complement pre-existing approaches but, at the same time, to analyze the investment strategies and the dynamic of external investment models in Argentina by articulating business strategies and practices in long term trajectories.

2. THE IMPACT OF REGULATIONS AND INDUSTRIAL POLICY ON THE 100 LARGEST FOREIGN COMPANIES, 1943–1973

From the first globalization to WWII, there were no specific regulations regarding the establishment of foreign companies in Argentina. During this period, the Argentine political leadership was open to and, indeed, in favor of such investment, believing it would contribute to economic growth. Foreign companies were thus subject to the same regulations and taxes as local ones. The tax burden was moderate; for instance, the introduction of income tax in 1932 imposed a levy of 6% on capital assets and 5% on the profits of commercial and industrial companies (Sánchez Román 2013: 75). Moreover, the main areas of activity of foreign firms, such as railroads and public services, were exempt from taxes on the importation of inputs and machinery.

From the time the Central Bank was created in 1935 and up to 1948, the establishment of foreign investment came to be governed by circulars from that entity as well as by specific clauses in international payment agreements. During the military government of 1943–1946, no specific regulations were promulgated. Then, in 1948, in order to selectively promote the establishment of entire industries, the Peronist government passed Decree

8. See, among others: Mato and Colman (1974).

9. See, among others: Sourrouille *et al.* (1985); Sourrouille *et al.* (1984); Schvarzer (1978).

3347, which regulated the introduction of capital goods and technical personnel in industry (Altimir *et al.* 1967: 363).

Thus, the transformations in the stock and composition of foreign investment between 1943 and 1948 in Argentina were not due to the introduction of legislation that opposed or discriminated against foreign companies – which remained subject to the same legal and tax regimes as local firms¹⁰ – but were the result of the macroeconomic and foreign policies implemented during the postwar period; in particular, the rescue of consolidated external public debt, the confiscation of enemy property during the war, the nationalization of public service companies, and the subsequent voluntary liquidation of foreign companies. In quantitative terms, the nationalization of British companies, the expropriation of U.S. electricity firms, and the confiscation of German enterprises, along with the increase in local invested capital, led to a reduction in foreign fixed capital stock from 15.4% to 5.4% between 1945 and 1949 (Sourrouille *et al.* 1984).

The nationalization of British transport companies was the most important factor in explaining the reduction of FDI stock, given that in 1945, they accounted for 38.1% of foreign capital invested in the country. British railroad companies were acquired by the Argentine state in 1948, following protracted negotiations regarding the British debt in unconvertible pounds – a product of its long-standing trade deficit to Argentina. In the case of nationalization in the public services field, British gas and sanitation companies were also acquired by the state, though in this case without the intervention of the UK government.

The nationalization of these firms constituted the final phase of a process that began in 1930. After the crisis, exchange rate differences precipitated a drop in the profit margins of British companies, which prompted their directors to study the possibility of transferring these railroad and public service firms to the state, anticipating the expiration of their concessions in the subsequent decade. The problem intensified at the end of WWII, when inflation and the rate freeze brought about a further fall in the revenues of these companies, thereby adding to the appeal of selling them to the state (Lanciotti 2011).

Other factors account for the expropriation and subsequent nationalization of American electricity companies conducted by provincial governments between 1943 and 1948. The

10. During Peronism, the tax regime also was not modified, though it should be mentioned that the income tax rates on companies (both Argentine and foreign) increased, reaching 24% in 1950. These rates were significantly lower than those applied in other countries: in the United States, business profits were taxed at a rate of 48% and, in France, 50% (Sánchez Román 2013: 122, 137).

decision to expropriate arose out of an investigation conducted by a military government-appointed commission, which identified serious breaches in the investment patterns provided for in the concession agreements. In the 1930s, disinvestment resulted in strenuous conflicts between the subsidiaries of the U.S. company American & Foreign Power and local governments, caused by insufficient installed capacity in the grid and the deficient distribution network in the Argentine interior. Electrification of the provinces was a priority and part of the military regime's project to promote the development of regional economies, and concessions to U.S. firms were instrumental to this. Another element that influenced the decision to expropriate these companies can be seen in the escalation of diplomatic tensions between the United States and Argentina, due to Argentina's neutrality during the war (Skupch 1972; Lanciotti 2011).

Finally, as noted above, the decrease in FDI also resulted in the seizure of German companies by the Argentine state following its declaration of war on the Axis in 1945, and its adherence to the Inter-American Treaty of Reciprocal Assistance. Thirty German companies were first placed under the administration of the Enemy Property Surveillance Board (Junta de Vigilancia de la Propiedad Enemiga), and ultimately transferred to the National Directorate of State Industries (Dirección Nacional de Industrias del Estado, Dinie).¹¹

The above-mentioned policies led to the paralyzation of new investment. In particular, the U.S. companies limited themselves to reinvesting their profits, calculated between 1945 and 1952 at US\$ 100 million - operations that were all but obligatory in view of the suspension of fund transfers abroad (*Revista Competencia* 1967).

To examine the impact of these transformations on the business world, in Table 1 below we provide an estimate of the evolution of paid-in capital for the 100 largest foreign companies between 1913 and 1971. As shown, the total capital stock began to decline in the 1930s, ushering in a trend that held firm throughout the period of analysis. Despite the fall in FDI stock and flow, we found that the number of companies established in the country continued to rise after 1930, though their impact in terms of capital invested was clearly diminished. The evolution of social capital of the 100 largest foreign firms in 1913 constant dollars points to an even steeper fall: in 1960, social capital did not even account for 10% of the capital registered in 1944.

11. This intervention responded to U.S. pressure on Argentina to join international organizations. The confiscated German companies were re-privatized in 1958 (Belini 2006).

Table 1
100 largest foreign companies (FCs), Argentina, 1913–1971

Year	Total companies	Foreign companies (FCs)	Capital of 100 largest FCs		Capital of the 100 largest industrial FCs (b)	(b) / (a) (%)
			Constant dollars (1913)	Current dollars (a)	Current dollars (a)	
1913	481	282	1,094,391,393	1,094,391,393	139,762,811	12.77
1923	1,209	436	609,000,000	1,328,585,247	185,226,286	13.94
1930	1,782	557	956,000,000	2,229,784,473	706,549,988	31.69
1937	2,100	600	706,000,000	1,662,435,885	581,482,356	34.98
1944	2,836	642	278,000,000	1,579,983,633	583,656,366	36.94
1960	10,000	834	26,400,000	362,774,696	341,893,120	94.24
1971	43,200	1,476	1,470,000	43,412,276	42,611,914	98.15

Source: BDEEA-FCAD.

As a consequence of the above-mentioned transformations, the sectoral profile and nationality of foreign companies changed. Their reorientation towards industrial activities, apparent from the 1930s onwards, was initially brought about by protectionist policies following the crisis and by opportunities offered by the internal market. This orientation was consolidated as a result of the industrial promotion policies applied during the second Peronist government (1952–1955) and, especially, during that of Frondizi (1958–1962). From 1930 on, foreign companies prioritized investment in industrial activities and, from 1960, the largest among them invested solely in the industrial sector.

The Peronist government introduced changes to tax policy, in addition to customs, exchange rate, and credit incentives that benefited foreign corporations. For instance, in 1950, the requirement for inclusion of dividends in income tax declarations was eliminated, which exempted shareholders of Argentine and foreign corporations. That same year, petroleum producers were exempted from the sales tax (Sánchez Román 2013: 132, 149). Finally, the financial crisis of 1951–1952 prompted a comprehensive review of the Peronist government policy on foreign investment, setting in motion a series of reforms that ascribed foreign capital a complementary role to local private and state investment in intensive industrial activities using technologies that were not then available in Argentina.

In 1953, the first organic legal framework for the establishment of foreign capital was promulgated. Law 14222 established the requirement for investment to focus on the

production of goods and services that allowed for foreign currency savings, or accrual through exports. The law guaranteed duly authorized foreign companies conditions equivalent to those that applied to their Argentine counterparts, as well as exemptions on customs duties for the import of physical assets, though an 80% limit was imposed on investment recorded on remittance of profits (Altimir *et al.* 1967: 363-364). As a result of this measure, investment slowly returned and by mid-1955, it is calculated that permits valued at US\$ 15 million had been granted, of which 40% came from the United States (Fisher 1973: 158).

The military dictatorship that ousted Peronism annulled Law 14222, replacing it with legislation that was more conducive to the repatriation of profits (Decrees 13403 and 16640). From then until Circular N° 2881 of 1957 there was no formal legislation; instead, foreign investment once again was governed by Central Bank circulars. Investment was channeled through the free market, in accordance with a ministerial resolution (N° 928 of 1955) and other provisions. These measures, added to reforms such as Argentina's membership in the IMF, the liberation of the foreign exchange market, and the annulment of the banking reforms implemented during Peronism, met with no immediate response (CEPAL 1986: 31). Although there are disagreements regarding the amount of investments that were made as a result of these measures, some estimates suggest that between 1955 and 1958, they totaled US\$ 80 million, of which almost 80% came from the USA: US\$ 36 million in new investments and US\$ 25 million in reinvestments.¹²

In 1958, a new period began. In line with the global expansion of multinationals at the time, the government of Arturo Frondizi adopted an active policy aimed at capturing foreign resources. In 1958, a new foreign investment law (14780) was approved that removed the limit on the remittances of profits and the repatriation of capital.¹³ Moreover, an investment guarantees law was passed to insure foreign investors against the risks of possible currency non-convertibility, while an end was put to pending litigation between the state and foreign companies through the various agreements that set the payments for sums claimed by the expropriated companies.

12. Investment reached its peak in 1957, totaling US\$ 33 million. In addition, the statistics for the United States only recorded physical capital outflows or reinvestments made by companies that were already established.

13. Also approved was a guarantee agreement between Argentina and the United States that insured investment originating from the latter country against possible losses due to the non-convertibility of the Argentine currency. All disputes and controls pending since the Peronist government were resolved through agreements between the governments and the companies. Foreign exchange controls were eliminated, and a high degree of protection was maintained for industrial activities (Mallon and Sourrouille 1975: 19). Similar laws and convertibility agreements with the United States went on to be passed throughout Latin America in the 1960s.

Law 14780 operated as capital investment legislation and did not establish a minimum specified period for the repatriation of invested capital; this was left to the discretion of the companies themselves (DGFM 1964). One notable aspect that has received less attention in the literature, which focuses more on this law as a whole, is the considerable liberality with which it was applied, given that its complementary regulations were not introduced until 1963 (Decree 5339).

The effects of this law cannot be understood without Law 14781 on industrial promotion, approved a short few days later. The compatibility of both laws can be seen in Article 5 of Law 14780, which includes foreign investment in the most favorable regime of industrial promotion and defense. Under the terms of both laws the government was authorized to grant customs franchises to import machinery and equipment, and to protect locally manufactured items with surcharges of up to 200% on their imported equivalents. Moreover, under the "industrial promotion regime," the importation of machinery, equipment, raw materials, semi-finished products, and even finished products necessary for developing industry in Argentina were exempted from customs duties, thereby ensuring a high degree of effective protection to industrial activities (DGFM 1964: 4; CEPAL 1986: 32).

The considerable impact of these measures on the local economy can be appreciated in Table 2, which shows the years in which the 100 largest companies of this era were incorporated. Thus, for the 1971 sample, it was found that 28% were established in the 1950s, which provides evidence of the new FDI boom cycle in Argentina.

Table 2
100 largest foreign companies by year of incorporation, Argentina

Year of incorporation	Year of sample	
	1959-1960	1971
Up to 1900	7	2
1901-1910	11	3
1911-1920	15	13
1921-1930	21	12
1931-1940	19	15
1941-1950	6	19
1951-1960	21	28
1961-1970	-	10
Total	100	102

Source: BDEEA-FCAD.

As other authors have demonstrated, and as confirmed by our data, the effects of the recession of 1962-1963, as well as the removal of some of the incentives for the establishment of foreign capital - such as the implementation of controls on foreign currency operations or the annulment of petroleum contracts - had no effect on the established trend: reinvestment and the entry of capital (and firms) continued until the mid-1960s (CEPAL 1986:12; Sourrouille *et al.* 1984). Between 1966 and 1973, under three different governments, conditions for foreign investment were favorable to the point that the influx continued, albeit to a lesser extent.

Fiscal policy also remained conducive to the establishment of foreign corporations. The aforementioned exemption of income tax on shareholder dividends, which included exemption of payments on procedures related to the sales of shares, bonds, and other company assets, was complemented by an exemption for all revenues derived from shares and securities intended to finance exempted investments and projects. This regime encouraged wealthy individuals to transform their assets into company shares, thus increasing the number of stock companies registered in the country, which quadrupled between 1960 and 1971 (Sánchez Román 2013: 198-199).

Taken together, the international conditions that favored the internationalization of companies, added to the above-mentioned policies, effected a change in the countries where foreign investment originated as shown in Table 3. It is interesting to note that if we analyze all the firms included in our database according to nationality, the prominence of U.S. companies starts to come to the fore in 1944. Then, in 1958-1959, this prominence increases in inverse relation to the decline in the number of British and Belgian companies, while the presence of firms from other European countries (especially those from France, Switzerland, and Italy) and from Latin American countries rises. The analyses of flows and stock do not allow these processes to be detected with clarity.

Table 3
Foreign companies by nationality, Argentina, 1913–1960

Nationality	1913	1923	1930	1937	1944	1959-1960
Europe						
United Kingdom	179	181	201	205	202	158
Germany	15	37	60	65	70	49
Belgium	24	34	41	39	34	26
France	17	25	36	36	37	66
Netherlands	5	14	16	22	16	20
Switzerland ⁽¹⁾	4	13	21	20	24	38
Italy	2	10	14	17	15	35
Spain	1	3	5	10	11	14
Sweden	1	5	8	8	9	13
Other European countries	-	2	1	2	4	8
North America						
United States	28	88	136	158	190	293
Canada	-	4	5	6	6	10
Latin American countries	4	12	10	9	19	87
Asia						
East (Japan and China) and Middle East (Israel)	-	5	2	2	2	3
Africa						
	-	-	-	1	1	2
Oceania						
Australia and New Zealand	1	2	2	1	2	1
No information						
	-	-	-	-	-	10
Total	281	435	558	601	642	833

Note

(1) Includes companies registered in the Principality of Liechtenstein.

Source: BDEEA-FCAD.

The dominance of U.S. companies in Argentine industry was consolidated in the 1960s (Table 4). According to the National Directorate of Economic and Financial Policy (Dirección Nacional de Política Económica y Financiera), a dependency of the Ministry of Economy, the executive branch authorized the establishment of some 254 companies from 1959 to

1962, approving investments worth US\$ 387 million.¹⁴ U.S. firms were the beneficiaries of more than 60% of these authorizations, and came to account for more than half of the 100 leading foreign companies by 1971.

Table 4
100 largest foreign companies by nationality, Argentina, 1959–1960 and 1971

Nationality of the 100 largest FCs	1959-1960	1971	Participation of other companies
Europe			
United Kingdom	22	10	One with Argentine, American, and Italian participation
Germany	6	9	Two with Argentine participation
Belgium	2	1	
France	6	8	Two with German participation
Netherlands	2	3	One with British participation
Switzerland ⁽¹⁾	7	4	Two with Argentine and Italian-Argentine participation
Italy	6	6	
Sweden	5	1	
North America			
United States	38	56	Three with Argentine involvement and one with Italian participation
Canada	1	1	One with Argentine, American, and Italian participation
Uruguay	2	2	
Brazil	1	1	Two with Argentine participation
Chile	2	-	
Total	100	102	

Note

(1) Includes companies registered in the Principality of Liechtenstein.

Source: BDEEA-FCAD.

The changes in multinational companies in Argentina by nationality is correlated to the modifications in the sectoral structure. If we focus on the 100 largest companies, the significant growth in industrial firms from 1944 to 1971 is confirmed (Table 5). Indeed, investment was chiefly centered on manufacturing, capturing 95% of all new capital in this period.

14. Another general appraisal of foreign investments over the period 1958-1962 provides the following figures: a total investment of US\$ 730 million, US\$ 460 million of which came from transactions conducted under Law 14780, and US\$ 270 million from petroleum contracts.

The leading firms in 1971 do not include companies engaged in farming, transportation, and storage activities, which predominated during the first globalization. The displacement of firms engaged in traditional activities, together with the expansion of industrial multinationals attest to the change in the determinants of FDI, stemming from multinationals' internationalization strategies based on exclusive, monopolistic competitive advantages in production, technology, organization, and product differentiation, as well as style of management or commercialization (Himen 1976; Kindleberger 1969).

Table 5
Classification of the 100 largest foreign companies, Argentina, 1944–1971
(based on ISIC Rev. 4)

Code	Activities	1944	1959–1960	1971
A	Agriculture, forestry, and fishing	5	10	0
B	Mining and quarrying	6	5	6
C	Manufacturing	30	59	81
D	Electricity, gas, steam, and air conditioning supply	10	2	1
E	Water supply; sewerage; waste management and remediation activities	4	0	0
F	Construction	5	2	1
G	Wholesale and retail trade	11	8	6
H	Transportation and storage	15	2	0
I	Accommodation and food service activities	0	0	0
J	Information and communications	5	2	1
K	Financial and insurance activities	8	10	6
L	Real estate activities	1	-	-
Total		100	100	102

Source: BDEEA-FCAD.

Internationalization during the first globalization had been associated with the provision of natural resources to expanding markets by companies that had developed specific expertise and skills in the management of a range of financial resources. During the interwar period, internationalization decisions depended increasingly on global competition between multinationals with exclusive competitive advantages in certain mass consumer products and processes, as recognized by Hymer and Kindleberger (Kindleberger 1969). After WWII, the industrialization policies adopted by the Argentine state favored the entry of multinationals by offering, as we have seen, a series of political "advantages," as a consequence of industrial promotion laws and regimes that promoted the establishment of foreign companies financed principally through national savings (Katz and Kosacoff 1989).

By 1971, the change in the profile of foreign firms that entered in the 1960s can be clearly seen. In those years, foreign industrial companies occupied a stand-out position in the substitution process for intermediate and durable consumer goods (Table 6). The advantages enjoyed by multinationals were enhanced in a highly protected economy, where attractive investment opportunities combined with limited public sector capacity to foster a long-term industrial sectoral strategy.

The data on the 100 largest industrial multinationals in 1971 represents the development of the total investments authorized between 1959 and 1962, 90% of which (in terms of amounts of investment) were concentrated in the automobile, chemical, petrochemical, petroleum derivatives, and metallurgical industries; and in transportation materials, electrical, and non-electrical machinery manufacturing (CEPAL 1986).

Table 6
Activity of foreign industrial companies by field, based on the 100 largest, Argentine, 1959-1960 and 1971 (based on the ISIC Rev. 4)

Division	Description of activity	1959-1960		1971	
		Quantity	%	Quantity	%
10	Manufacture of food products	7	12	6	7,5
11	Manufacture of beverages	4	7	5	6
12	Manufacture of tobacco products	-	-	5	6
13	Manufacture of textiles	6	10	6	7,5
15	Manufacture of leather and related products	-	-	1	1
17	Manufacture of paper and paper products	1	2		
1920	Manufacture of coke and refined petroleum products	-	-	3	4
20	Manufacture of chemicals and chemical products	9	16	14	17
21	Manufacture of pharmaceuticals, medical chemical and botanical products	7	12	3	4
22	Manufacture of rubber and plastic products	2	3	5	6
23	Manufacture of other non-metallic mineral products	2	3	3	4
24	Manufacture of basic metals	1	2	4	5
25	Manufacture of fabricated metal products, except machinery and equipment	-	-	2	2
26	Manufacture of computer, electronic, and optical products	2	3	3	4
27	Manufacture of electrical equipment	7	12	8	10
28	Manufacture of machinery and equipment not elsewhere classified	6	10	4	5
29	Manufacture of motor vehicles, trailers, and semi-trailers	4	7	9	11
Total C (industrial activities)		58	100	81	100

Source: BDEEA-FCAD.

It is noteworthy that the predominant position of foreign companies in the industrial sector entailed a radical transformation in the structure of Argentine industry over those years, even when capital investment was appreciably less than during the first FDI boom cycle, as we have already seen. In particular, the increase in the foreign share of industrial production from less than a fifth in 1955 to almost a third by the beginning of the 1970s stands out. The profile of this investment, with companies oriented toward the internal market, corresponds to the way that a small and protected economy operates.

In 1970 and 1971, while prior investment was still at a stage of development, there were new variations in the handling of foreign investment, which contributed to a fall in capital inflow and a significant rise in repatriation. The passage of Law 18567 (February 1970) introduced new criteria on the use to which foreign investors could put the industrial production regime. This reform was not to last, however, since in July 1971, it was replaced by Law 19151, which imposed restrictions on access to internal banking credits for the first time, as well as demanding the registration of shares and the obligation that at least 80% of foreign companies' personnel must be local technicians and professionals. Moreover, a National Register of Foreign Investments (Registro Nacional de Inversiones Extranjeras) was created and it was required that – subject to authorization – the contents of future promotion agreements signed with the government be made public. These innovations were maintained by the legal framework approved by the Peronist government that took office in 1973. Unlike prior legislation and regulations, this constituted a restrictive framework governing the activities of foreign companies in Argentina. This legislation stipulated for the first time that in no case could foreign companies be treated more favorably than their local counterparts, as well as restricting the activities of the former (Sorrroule 1976). Along the same lines, a number of modifications were introduced into the tax regime: dividends were taxed at a progressive rate, and the rate for undistributed profits was increased. The consequences of all this were a fall in the inflow of new capital, a rise in repatriated funds, and a drop in reinvestment, in a local recessionary context but in conjunction with radical changes to international capital markets. Together, these factors explain the reduced inflow of foreign companies in those years (CEPAL 1986; Katz and Kosacoff 1989).

3. ORGANIZATIONAL STRATEGIES AND FORMS OF ENTRY OF FOREIGN COMPANIES IN ARGENTINA

During the period of state-led industrialization, there were significant changes in the organizational structure and the entry strategies of multinational companies in Argentina. Insofar as both corporate structure and the form of entry of multinationals reflect differing degrees of autonomy or control of business in the country, we will analyze these changes in detail.

As we have seen from the findings of a previous study (Lluch and Lanciotti 2012: 125-134), multinationals in Argentina preferred to organize themselves as free-standing companies during the first globalization and up to WWI. These legally autonomous companies, headquartered in their country of origin, were especially incorporated in order to engage in specific activities in a region (Wilkins 1988), entering into alliances with economic groups and business networks. During the interwar period, this form of organization gave way to the creation of foreign companies incorporated as public limited companies in Argentina to engage in specific activities as well as the establishment of typical subsidiaries of multinationals. The former, also known as stand-alone companies, drew on foreign capital but were incorporated as Argentine, with headquarters in that country, and run by foreign businessmen and traders based in Argentina. In this type of structure, which was prevalent among European companies, local directors intervened in decision-making, resulting in a relatively autonomous administration in comparison with the management styles adopted by free-standing companies or by typical subsidiaries of U.S. companies. The increase in the number of foreign firms registered as Argentine public limited companies was the culmination of "Argentinization" and camouflage strategies aimed at evading the mounting political risks that affected companies on the European continent, while allowing them to capitalize on the benefits of competing in a protected internal market by presenting themselves as Argentine companies.

By the end of WWII, foreign companies were equally distributed among free-standing companies, typical subsidiaries, and stand-alone companies. In 1960, half of all companies were structured as stand-alone companies, a quarter were subsidiaries of multinationals, and the remaining quarter were registered only in their country of origin, while in 1971, practically all foreign firms were registered as Argentine public limited companies. Thus, the "Argentinization" of foreign firms that began in the interwar period was consolidated during the postwar decades due to the companies' orientation towards the internal market.

The change in structure implied an equivalent change in the operation of companies, which took the form of an increased number of local directors compared with the previous period. In the 1960s, the hiring of directors and managers trained to run Argentine subsidiaries ran into problems due to the multinationals' policies of capturing managerial resources (Miller 2010). On the other hand, the increase in global competition between industrial multinationals in a protected market and a fluctuating macroeconomic context required the participation of local and foreign directors.

As Hill *et al.* (1990) point out, entry by multinationals through the granting of licenses or representation, forming joint ventures, or assuming total shareholder control entail

different degrees of control and commitment in the deployment of resources and risks. Both control and commitment stemming from the investment of specific assets are enhanced if the subsidiary is entirely under the control of its headquarters. On the other hand, if internationalization is based on technological advantages, the risk that the agent who operates under the license will promote the dissemination of specific knowledge is greater than is the case in joint ventures and controlled subsidiaries.

In Argentina, the big multinational firms operated through representatives only during the first globalization; nonetheless, as we noted above, most companies registered as free-standing, which reflected a preference for total control over activities within the country, a high commitment to investment in fixed assets, and low risks of unauthorized transfer of technological knowledge. This approach was associated with the global strategies of rail, public service, and financial companies – characteristics of the first FDI cycle in which British greenfield investment held sway. From WWI, engagement in commercial and industrial activities implied the creation of autonomous companies and subsidiaries of multinationals registered in Argentina, in addition to the increase of brownfield acquisitions – a product of the increased investment by U.S. and German firms in the local internal market, as can be seen in Table 7. During the interwar period, representations of big multinationals all but disappeared, reflecting the decision by companies to maintain control of their patents in the country in a context in which the competition between German and U.S. multinationals had intensified.

Table 7
Entry strategies of the 100 largest foreign companies, Argentina, 1913–1971

Strategy	1913	1923	1930	1937	1944	1960	1971
New companies (greenfields)	91	81	75	72	71	74	69
Acquisitions (brownfields)	9	17	23	23	21	15	14
Joint ventures	-	2	2	5	8	11	17
Total	100	100	100	100	100	100	100

Source: BDEEA-FCAD.

Entry through acquisition was a strategy frequently used by U.S. companies to confront the presence of local and, above all, foreign competitors. In this regard, some authors have shown that Argentine industry only became subject to a clear foreignization process in the 1960s, this was facilitated by strong devaluations in the local currency (85% in 1962 and 40% in 1968), the drop in internal demand, and the difficulties in obtaining long-term credit.¹⁵

Among the 100 largest foreign companies, joint ventures were practically absent until the 1940s; it is notable that the state fostered the creation of companies of this kind. As we have discussed, the currency crisis precipitated by increased imports of industrial inputs led the Peronist government to a reorientation of its foreign investment policy, a move that was conducive to the establishment of companies specializing in the production of industrial products requiring technology that was not then available in the country. From then on, joint ventures were set up with the involvement of foreign companies, state-owned firms, and local investors in the petrochemical and automobile industries. Thus, in 1951, Monsanto entered into partnership with Atanor to produce plastics, and soon afterwards the state-run Industrias Aeronáuticas y Mecánicas del Estado (IAME) joined up with Kaiser Motors to create Industrias Kaiser Argentina (IKA).¹⁶

The number of joint ventures that united local investors and foreign companies increased in the following years and peaked in 1971, when the industrial sector was at its height. This strategy was adopted primarily by those industrial firms that operated in the fields where there was the most competition: chemicals, electricity, and metallurgy. On the other hand, U.S. multinationals tended to establish their own fully-controlled subsidiaries, unlike French, German, and Dutch firms, which generally opted for joint ventures. Analyzing the period 1944-1971 as a whole, it can be seen that, despite the increase in joint ventures, the 100 largest foreign companies prioritized entry strategies that assured complete control of their subsidiaries. The dissemination of this approach was associated with global insertion strategies.

According to the classification elaborated by Hill *et al.* (1990), we consider that multinationals' investment decisions depend on strategic variables, variables associated with the investment destination or the investment environment, and, finally, variables

15. This process was particularly visible in the tobacco, metallurgy, and automobile sectors, as well as in banks and financial companies.

16. Set up in 1938 by local investors, Atanoe was the first petrochemical company in Argentina. In 1944, the General Directorate of Military Manufacturing (Dirección General de Fabricaciones Militares, DGFM), a state holding controlled by the army, took a third of the shareholding capital in Atanor.

dependent on transaction costs. In the Argentine case, we note, first of all, that global strategies were imposed on the multidomestics in both FDI boom cycles. As regards variables associated with the operating environment (risk, familiarity, demand, and competition with other firms), it can be seen that multinationals preferred to maintain a large degree of control over their investments, even during periods when there were risks of expropriation or transfer (1943-1949) and political risks (1955-1971). This contrasts with the usual strategy of scaling back participation in foreign investment and sharing risks with local investors when such conditions exist.

Even though we have identified an increase in joint ventures during the period of state-led industrialization, most entry strategies continued to prioritize total control over subsidiary companies. In the case of variables associated with the host economy receiving the investment, the continuity of entry strategies that involve close control over subsidiaries would appear to be associated with two remaining factors, namely: optimistic expectations of expanding demand, given the maturity of the internal market; and the absence of strong competition from local companies in the area of industrial activity.

Finally, as far as variables associated with transaction costs are concerned, it is assumed that problems of agency increase the risk of transfer of multinational firms' exclusive competitive advantages through evasion of the use of patents in the FDI host economy. Conversely, these risks are reduced to a minimum when control over the subsidiary is greater; this is true of the case analyzed, insofar as the large companies opted to minimize the risk associated with the dissemination of technology.¹⁷

The specialized literature on this subject finds that multinationals tend to prioritize modes of entry that entail low investment commitment in the most volatile economies. In the case of Argentina, the analysis of entry strategies shows that such companies - especially those from the U.S. - had optimistic expectations regarding the profitability and security of their investments in the country during the period of state-led industrialization. At any rate, it should be noted that the option of maintaining strong control over subsidiaries also is due to the conditions of oligopolistic interdependence of global industry during the period analyzed.

17. A 1969 report of the American Chamber of Commerce confirms this trend. A full 63% of patent agreements with U.S. companies in Argentina were for the use and provision of trademarks and technical services, and the leading multinationals licensed these to their own subsidiaries over which they exercised total or near-total control (American Chamber of Commerce 1969).

4. CONCLUSIONS

The analysis of FDI from the perspective of business history illustrates that the entry of foreign companies into Argentina continued during the disintegration of the global economy (1930–1979) and, especially, during the period of state-led industrialization (1943–1973). In the 1930s, the introduction of foreign exchange controls and the devaluation of the local currency opened up new opportunities for multinational companies, whose investments in industrialized countries were under threat from the great depression and, soon afterwards, by the war. At the end of WWII, the industrialization policies implemented by different governments encouraged the establishment of new foreign industrial companies producing goods and supplies for the internal market, with no restrictions applied even in strategic sectors, such as petroleum and petrochemicals. In consequence, the transition between the first and second stages of FDI did not result in the withdrawal of multinationals but in a change in their profile and the restructuring of subsidiaries based on global strategies aimed at increasing their participation in protected internal markets with unmet demand for consumer durables. The increase in oligopolistic competition in the most dynamic industries during the interwar period and from the 1960s on, following the economic recovery of Europe, accentuated the expansion of industrial multinationals in developing countries in general and in Argentina in particular.

In this sense, the new foreign firms clustered around certain selected areas of industry: chemicals, petrochemicals, automobiles, and electricity. Of the foreign multinationals, U.S. firms attained indisputable dominance in the industry of the region, which corresponded to global patterns. In Argentina, the leadership of U.S. firms was the result not only of the entry of new companies with exclusive advantages in the above-mentioned industries, but also of the decline of British companies due to nationalizations in the immediate postwar period and the confiscation of German companies during WWII. However, it is noted that the British firms – especially industrial ones – continued to operate in the country and remained second in prominence only to those from the U.S. Of all the foreign companies in 1960, 158, representing 19% of the total, were of British origin. Moreover, the German multinationals recovered their most important subsidiaries starting in 1958, and went on to play an active role in the electricity, chemical, and automobile industries. Another continuity that should be highlighted is the lengthy life cycle of financial and agricultural companies, which continued to rank among the 100 largest multinationals at the end of the cycle in the second post-war period. In 1960, firms that were engaged in traditional activities accounted for 20% of the 100 largest foreign companies, but by 1971 only six financial companies figured among the leaders.

On the other hand, it can also be observed that in the second stage of FDI (1958-1970), capital investment in the country was substantially lower than that injected during the first (1880-1930). Therefore, the contribution to the capital accumulation process by foreign companies was less significant. However, at the same time, foreign companies made a considerable impact on the Argentine economy due to their high concentration in the most dynamic sectors of the economy, in which only a few foreign companies operated. Therefore, the number of foreign companies among the 100 largest operating in the country grew considerably during the period, and by 1971, they constituted 51% of this group, reflecting their presence in the internal market. Nonetheless, sales in Argentina represented, save for the case of Italian companies, a smaller percentage compared with the global sales of their respective parent companies. Moreover, the analysis of the large multinationals in 1971 made it possible to verify, from a different perspective, that a stage of maturity and consolidation of the investments made during developmentalism had by then been achieved.

With respect to corporate structures and forms of entry, first, there have been significant changes that tended towards consolidating the "Argentinization" of foreign companies. As we have pointed out, the registration of these companies as Argentine public limited companies increased notably during the period of state-led industrialization. This strategy did not respond to specific government-implemented regulations, but rather to an interest in securing a larger market share, given the tax legislation and legal regime for the establishment of companies with foreign capital approved in 1958.

Second, the continuity of global strategies that prioritized total control over Argentine subsidiaries stands out. This is an indication of the volatility of the macroeconomic context during those years, characterized by inflationary pressures and considerable political instability aggravated by successive military coups. However, this did not have a negative influence on the expectations placed on the growth of the Argentine internal market during the period studied. On the contrary, corporate strategies would appear to suggest a high degree of confidence and expectations in the growth of their businesses, especially in the 1960s.

Table 8 below sets out the main business opportunities, risks, and entry and investment strategies of the biggest foreign companies in Argentina until the 1960s.

Table 8
Outline of the main opportunities, risks, and organizational strategies of the biggest foreign companies in Argentina

Period	Opportunities	Risks	Organizational strategies
First globalization	<ul style="list-style-type: none"> - High receptivity; concessions as incentives (public services and infrastructure) - Location advantages (availability of natural resources; low taxes) - Political factors: legislation and ideology favorable to foreign investment - Familiarity parameter: international networks and alliances - After the WWI: economic diversification (attractive local market) - Import substitution: investment opportunities in industrial activities; increase in rates - Political stability (in comparative terms, especially with Europe) 	<ul style="list-style-type: none"> - Low political risk: absence of regulations; low taxes - Low financial risk after the 1890s - Knowledge of and adaptation to a different legal regime and tradition 	<ul style="list-style-type: none"> - Free-standing companies (groups and investment syndicates) - International business networks - Alliances with local elites - After the WWI: innovation in commercialization and marketing strategies (especially U.S. companies) - Increase in the presence of free-standing companies and subsidiaries of multinationals registered in the country
1930s	<ul style="list-style-type: none"> - Import substitution: investment opportunities in industrial activities; increase in rates - Political stability (in comparative terms, especially with Europe) 	<ul style="list-style-type: none"> - Increase in financial risks: devaluation, foreign exchange controls, restrictions on remittance of profits 	<ul style="list-style-type: none"> - Strengthening of local identity: "Argentinization" and camouflage strategies - Increase in typical subsidiaries and stand-alone companies - Increase in recruitment of local staff - Greater number of local directors
Post-war (to 1958)	<ul style="list-style-type: none"> - Low taxes (in comparative terms) - Economic nationalism and state intervention: alternative policies - Closed and protected markets: orientation of firms to the internal market 	<ul style="list-style-type: none"> - New regulations on foreign exchange control and increased restrictions on remittance of profits - Increased political risks: nationalizations during Peronism (unforced) - Increase in power of labor unions 	<ul style="list-style-type: none"> - Need for greater negotiation with governments - In strategic sectors: joint ventures (with state initiatives) - Increased adaptation to foreign markets
Second ISI stage (1958-1970)	<ul style="list-style-type: none"> - Closed and protected markets (oligopolies): orientation of firms to the internal market; optimistic expectation of profitability - New laws and foreign investment - Tax incentives and industrial promotion regimes; fiscal policy - Limited competition from foreign firms 	<ul style="list-style-type: none"> - Political risk assumes different forms; increase in uncertainty - Growing inflation; devaluations and currency exchanges; implementation of controls on new currency transactions - Diseconomies of scale 	<ul style="list-style-type: none"> - Increased entry via acquisition (with complete control of subsidiaries) - Registration as Argentine public limited companies - In strategic sectors: joint ventures (more competitive branches) - Negotiations with the government (FD) promotion laws and subsidies, and industrial promotion)

In summary, from the end of the 19th century to the present day, foreign companies have played a leading role in the Argentine economy, even in periods of crisis and investment withdrawals as well as in contexts of increased state intervention in the economy. This article, then, has contributed new evidence to the debate on the role of multinationals in late-industrializing economies, as well as illustrating the distinctive dynamic during each of these stages and, in particular, the continuities and ruptures that characterized the different investment cycles in a context of the progressively increasing influence of foreign companies on the Argentine economy during the import substitution stage.

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