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Investing in growing markets: opportunities and challenges for multinationals in Argentina, 1900–1960

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This article analyzes the global and local factors that shaped foreign direct investment (FDI) in Argentina and the strategies of foreign multinationals to adapt to challenging circumstances and to exogenous shocks from the early twentieth century to the emergence of a new global economy in the 1950s. The central argument is that Argentina was a host economy attractive to foreign investments, not only in the first globalization period but also after the crisis of 1930 when the global economy started to crumble. Foreign firms viewed Argentina as a growing economy offering diverse business opportunities in different periods, with the exception of the interregnum of World War II and the Peronist administration (1946–1955), when financial and political risks appeared. The article draws on a different approach to the more traditional stock-flow FDI analyses, relying on a new database of foreign-controlled companies that operated in Argentina in the twentieth century (Foreign Companies in Argentina Database).

Keywords: waves of investment; drivers of foreign investment; host economies; Latin America; managing risks

During the first global economy, multinational firms from the industrialized countries invested heavily in Southern Europe, Latin America, and Asia. Argentina was one of the most promising economies in the late nineteenth century, and it became the second most preferred country for British investors after Canada (Platt 1985). This vast country of fertile prairies attracted European firms that invested in lands, banks, railways, port facilities, and public utilities. The first wave of foreign direct investment (FDI) in Argentina, measured by stock of foreign capital, began to decline after World War I (WWI); however, new foreign companies continued to enter the country in the 1920s, attracted by a dynamic domestic market in the Pampean Region. The Great Depression, rather than completely disrupting this trend, reinforced this type of investment as the global competition between US and German manufacturers of industrial products increased, and local conditions favored the establishment of manufacturing plants. The entrance of foreign firms declined in Argentina only from World War II (WWII) to the immediate postwar period, until a new wave of FDI arrived in the 1950s.

The driving forces of global cycles of investments are well understood in the international business (IB) literature; however, there has been no previous study of the specific conditions of Argentina as a host economy from a business history perspective.

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Therefore, we intend to examine the interplay between global and local conditions that favored the entry of foreign firms in Argentina from 1900 to 1960. We also analyze how multinational companies managed opportunities, challenges, and risks, adapting to exogenous shocks, such as the Great Depression and WWII (Jones 2010), and to endogenous processes, i.e., domestic policies toward FDI and import substitution industrialization (ISI) programs.

This case study is interesting for several reasons. First, Argentina ranked as one of the most significant host economies until WWII. Second, past events – but more importantly, recent events – in Argentina's financial history contributed to it being considered a high-risk environment (e.g., the Baring Crisis of 1890, as well as the sovereign debt default episodes of 1982–1993 and 2001–2005). Third, there are still few historical case studies of host economies in Latin America, a region that has traditionally been considered a risky place for foreign investment, as a recent study put it (Casson and da Silva Lopes 2013).

With the purpose of reviewing these ideas, we assume that Argentina was a low-risk and growing host economy, very open to foreign investments with the exception of the 1944–1952 period. Between coming out of the Baring Crisis and entry into the International Monetary Fund in the 1950s, the country was very stable both economically and financially. In contrast to the majority of Latin American countries, Argentina did not enter into default during the crisis of 1930, and at the end of WWII it emerged as a creditor country. Based on the analysis of the waves of entry, the evolution of the sectorial distribution, and the life cycles of the top 100 multinationals, we found that Argentina was considered a growing economy that offered diverse business opportunities at different periods. Moreover, financial and political stability, together with the absence of restrictions or strict regulations on foreign firms, continued to favor their entry even in the interwar period, while political, social, and financial risks increased in the industrialized countries.

To analyze the driving forces for investing in Argentina, we evaluate the five sets of considerations or parameters proposed by Mira Wilkins (1994) for explaining multinational decision-making: the opportunity parameter (prospects for markets or raw materials), the political parameter (government policies, regulations, attitude toward FDI), the familiarity parameter (a shared culture or language), the 'third country' parameter (proximity to another country); and the corporate parameter (learning process, corporate style). We found that some are far more crucial in one period than in another.

The studies by Jones (2010) provided a general framework for describing the evolution of global business and for the study of the strategies multinationals from developed countries took as they invested in growing countries. According to Jones, in the Great Depression the environment for multinational businesses became much less favorable, contributing to the disintegration of the first global economy. Nevertheless, the evidence we present here shows that the Argentine government continued to promote the entrance of new foreign firms in commercial and industrial activities during the 1930s, applying no restrictions or regulations to foreign companies until the end of WWII. Nonetheless, financial risks arose as the exchange controls and the depreciation of the Argentine peso diminished profits in foreign currency. The second exogenous shock for multinational business – the outbreak of WWII – did negatively impact foreign firms, as many of them were expropriated or confiscated by host governments in Latin America and Argentina (as in many other countries). However, the social, political, and financial risks resulting from WWII and the new climate of economic nationalism only lasted for a short period as the Peronist government reconsidered its policy toward foreign firms at the beginning of the 1950s.

We based our arguments in this article on a different approach to the more traditional stock-flow analyses of FDI. We relied on the reconstruction of general trends through the collection of detailed information at the level of a single company. For this purpose, we developed a new database of foreign-controlled companies operating in Argentina (Foreign Companies in Argentina Database, FCAD), factoring in variables such as country of origin, creation date, organizational form, core business, capital invested/share capital, and entry strategy (see the Archival Sources in the 'References' section for the detailed sources used to compile this database). FCAD contains detailed information about foreign companies operating in Argentina by selected years (1913, 1923, 1930, 1937, 1944, 1959–1960). For this article, we identified the 100 largest multinationals (by share capital) and the 100 largest industrial multinationals in the 6 benchmark years. We also relied on information about British business groups, as well as about US-based and German multinationals that operated in Argentina in the period under analysis, collected from business archives.

Finally, it is relevant to define FDI as investments made by foreign companies that retained management control of their businesses; our definition includes three types of companies: (1) 'typical' multinationals that established branch offices or affiliates abroad, (2) 'free-standing' companies specifically created to operate in the host economies but with a (small) headquarter in their home country (Wilkins 1988), and (3) foreign-owned companies that were incorporated in Argentina to conduct a business unrelated to competitive advantages acquired in their home country – a category so far rarely considered in the IB literature (Wilkins 1988, 21–22; Kindleberger 1969; Casson 1987). To account for the latter, our database includes companies registered in Argentina as foreign corporations (Sociedad Anónima Extranjera) and companies managed and controlled by multinationals but incorporated under the local laws (Sociedad Anónima Nacional).

The article is organized as follows: Section 1 provides historical background and presents the global and local conditions that favored the entry of multinationals in Argentina from 1910 to 1960. Section 2 explores the investment patterns and strategies of foreign companies in Argentina until the Great War. Section 3 identifies the change of the investment patterns and the multinationals' strategies in the interwar period, evaluating the impact of the Great Depression and WWII. Section IV focuses on the state-led industrialization period, when multinational enterprises (MNEs) overcame rising challenges as Argentina moved from having a successful open economy to having a closed economy characterized by ISI policies. In the final remarks, we summarize the parameters that explain the decision-making of foreign firms. Based on the Argentine case, we also propose a new periodization for analyzing multinational businesses in late industrializing countries in the long term.

1. From global to local: Argentina as a host economy, 1900–1960

During the first global economy, Argentina successfully entered the international market as a producer of staples. The country became economically specialized in primary products at an early date associated with British expansion, which required new markets and sources of supply. Once the financial crisis of 1890 was left behind – as arrangements for foreign debt management were settled and foreign credit was reestablished – the export of primary goods recovered and the Pampean Region rapidly became urbanized, propelling the growth of industrial activities on a modest scale. At the same time, as the country became politically stable, a liberal order, controlled by an oligarchic elite, emerged that promoted the modernization of Argentine society and the economy's integration into the global market. As a result, Argentina ranked fourth in terms of inward stock of global FDI by 1914 (Wilkins 1994; Lanciotti and Lluch 2009).

A number of significant changes unfolded after WWI. As the Argentine domestic market expanded and diversified in a low political risk environment, it attracted more US and German companies. As Table 1 shows, after the Great War, the entry of foreign firms grew more than in any other period. By 1930, the number of foreign firms (557) had doubled the number registered in prewar years, and the capital invested by the leading 100 foreign industrial companies in current dollars increased by 405%. Industrial growth benefited from the 1923 reform that increased import tariffs during the administration of president Alvear (1922–1928) (Lewis 1987).

As the Great Depression struck financial markets, foreign capital stopped flowing into Argentina. In this period, unlike their US counterparts, British capital inflows began to drop. The fall in Latin American exports resulted in a balance of payments (BOPs) deficit and debt service default in all Latin American countries except Argentina. Currency devaluation, the introduction of exchange controls, and restrictions on foreign currency remittance all diminished foreign companies' returns, increasing their financial risks in Argentina. But, at the same time, this scenario created new investment opportunities in industrial activities. From the Great Depression until the end of WWII, the number of new foreign companies in Argentina continued to grow – albeit at a much lower rate (Table 1). Hence, the adoption of more assertive government policies in many markets did not prompt the largest multinationals to massive disinvestment or discourage the arrival of new firms. At the same time, the restrictions in international capital markets and the country's response to the crisis devaluated capital stocks invested by the leading 100 multinationals. As Table 1 shows, the capital invested by foreign companies peaked in 1930 and then began to drop. Nevertheless, while the capital stock of the top 100 foreign companies fell after 1930, FDI in industrial activities increased and peaked in absolute as well as relative terms in 1960. This point reveals the shift in FDI motivators, as we will examine in Section 2.

From the first period of globalization to WWII, the Argentine government had neither regulated nor restricted FDI. Foreign companies had the same regulations as local firms. Company taxes were very low, and some activities, such as transport and public utilities, were exempt from import taxes. In 1934, the government introduced income taxes, but these represented barely a third of the taxes foreign companies had to pay in their home countries. The outbreak of WWII transformed the Argentine economy since the war

Table 1. Foreign companies (FC) in Argentina, 1913–1960.

Year	No. of firms	Top 100 FC capital in 1913 US dollar	Top 100 FC capital in US current dollar	Top 100 industrial FC capital in US current dollar	Capital top 100 industrial FC/capital top 100 FC %
1913	282	1,094,391,393	1,094,391,393	139,762,811	12.77
1923	436	609,000,000	1,328,585,247	185,226,286	13.94
1930	557	956,000,000	2,229,784,473	706,549,988	31.69
1937	600	706,000,000	1,662,435,885	581,482,356	34.98
1944	642	278,000,000	1,579,983,633	583,656,366	36.94
1960	834	26,400,000	362,774,696	341,893,120	94.24

Source: FCAD (1870–1971).

stimulated local industry in light of the increased demand it generated for manufactured and primary goods. In addition, the economic policy developed by the military government in 1943–1945, and later by the Peronist administration (1946–1955), brought changes in the volume and composition of Argentina's FDI.

Most significant for foreign business was the new role public utility companies and extractive industries took on. Beginning in 1943, provincial administrations expropriated several US electric utility companies and transferred them to the state-owned electricity company. The nationalization of public utility companies was later included in the 1946 Peronist Economic Plan and incorporated into the constitution of 1949, but not all foreign public utilities were nationalized. The acquisition of British railway companies in 1947 was part of an official agreement to recover the British commercial debt while the British pound was inconvertible (Skupch 1972). Frozen tariffs and rising costs from inflation appear to have hastened the nationalization of British utility companies. Transfer to domestic ownership in these cases was not involuntary (Lanciotti 2015). As a result, from 1946 to 1950, the size and distribution of long-term FDI changed substantially. The purchase of British railways, the takeover of US electric utilities, and the expropriation of German companies after the signing of the Act of Chapultepec reduced the stock of FDI to 5.4% of fixed capital in 1949.

Nonetheless, the administration did not formally discriminate against foreign companies once it admitted them for operations in Argentina. In fact, financial risks were the main challenges industrial and commercial foreign firms faced due to the Argentine peso's depreciation and stricter regulations on the transfer of profits abroad (United Nations 1955). The international exchange situation – particularly a shortage of US dollars and the devaluation of the British pound (1949) – exacerbated the problems. Later, exchange restrictions were extended, and no remittances abroad were allowed for any purpose. In addition, local currency devaluations and inflation reduced firms' earnings in foreign currencies.

Overall, and for the first time, between 1944 and 1952, political and social risks arose on account of unexpected restrictions, expropriations (particularly for US electric utility companies), and increasing pressure from Argentine trade unions. Rising inflation as well as stricter exchange control regulations further aggravated financial risks. Nevertheless, it should be noted that almost all of these risks equally affected local firms. In the last stage of the Peronist administration (after a serious economic crisis), the government made changes in the economic program, including new regulations for FDI: Law 14.222 on foreign capital investments was enacted in 1953. Focusing on industrial firms, this law liberalized foreign investment controls as the government negotiated special arrangements with foreign tractor, automotive, and television firms to encourage technological innovation in these industries. Frondizi's administration (1958–1962) reinforced this policy by eliminating all remaining barriers to foreign capital to promote FDI as the main vehicle for capital and technology transfer for the purpose of fostering economic growth and development. In 1958, Law 14.780 on foreign investments was passed, creating extremely favorable terms for establishing companies. We will present the results of this opening up of the economy to foreign investment (and almost unrestricted imports of capital goods) in Section 3.

To sum up, from the end of the nineteenth century until WWII Argentina as a host economy was very receptive to FDI. Its growing domestic market, political stability, and low taxes attracted new foreign firms even after the Great Depression. There were neither regulations nor restrictions concerning the activities of foreign firms. Different local governments sought to promote foreign investment. The situation shifted slightly when political, social, and financial risks emerged for the first time, particularly from 1944 to 1952. However, as mentioned previously, the foreign owners of most firms were able to negotiate the nationalizations and eventually received compensation for their expropriated companies. In 1950–1951, a new BOPs crisis forced the Peronist government to shift its policy toward inflation control and economic stability. Although the administration proclaimed that it would increasingly promote economic nationalism, there was no real discrimination against foreign investors, as occurring in other developing countries. On the contrary, president Peron signed several agreements with foreign multinationals to develop joint ventures, and a few years later, president Frondizi (1958–1962) strengthened the economic relations between Argentina and the USA by granting new oil concessions to US-based companies.

2. Multinationals in Argentina before the Great War

As favorable conditions for IB emerged in the era before the Great War, European companies greatly expanded around the world. British firms early on identified attractive business opportunities in Argentina. John Morris, chairman of the River Plate Trust, the major British business group in the River Plate, pointed out that the primary motivations for investing in Argentina were the high expectations for economic growth and the previous capacities and experience of the staff (The River Plate Trust, Loan & Agency, Report of the Second Ordinary General Meeting, May 22, 1883. River And Mercantile Records, 1819–1983).

In the first global period, British supremacy was based upon a mix of competencies: organizational, managerial, and financial. Many British companies came to Argentina to invest in activities they had previously developed in the USA and Australia, where they had acquired valuable knowledge on managing financial crises. As Morris put it, his company would not carry out an original idea but rather look for applying in Buenos Aires and the River Plate,

> that experience which has been learned and applied in the case of the Australian and New Zealand Colonies, in the United States, and other progressive well-settled countries, where capitalists can find a remunerative rate for safe loans on mortgage, and where they can, through the activity of mercantile life, find opportunities for making commissions, as agents, involving little or no pecuniary responsibility. (The River Plate Trust, Loan & Agency, Report of the Second Ordinary General Meeting, May 22, 1883. River And Mercantile Records, 1819–1983)

Overall, the main advantages of British firms over their competitors were their privileged access to the London financial market, their position as ‘first comers’, and long experience in business abroad in the hands of qualified staff (Barbero, Gilbert, and Lanciotti 2012) The corporate parameter is important to explain the dominance of British companies in Argentina from the first globalization up to WWII.

Although the British companies enjoyed the greatest advantages in this respect, French and Belgian firms also entered new markets in 1880–1914 based on their access to London financial market. In this early period, European companies adopted the free-standing company form and partnered with investment trusts and business groups to internalize their competitive advantages in property-related industries that enabled them to exploit exclusive resources in a specific region (Casson 1994). As this organizational form was suitable to developing the management of property, free-standing companies were concentrated on transport infrastructure, utilities, primary sector investments, and urban development (Wilkins 1988; Casson 1994). In fact, our data confirm that in the first global period, the main activities of the largest MNEs were property-related industries such as transport and storage infrastructure, utilities, lands, cattle and grain production, and financial activities, all of which were associated with exporting commodities (Table 3). Argentina became Britain's main partner in Latin America as it had the necessary resources to ensure a wide variety of products for export to Northern European countries, as well as very profitable opportunities for investment in services associated with export (transport, trade, and finance), low tax rates, and financial stability.

An additional parameter for explaining the attractiveness of the Argentine economy was 'familiarity,' which implies that investments there involved lower transaction costs and lower risks. Despite divergent languages and culture, Northern European firms found a familiar environment in the River Plate resulting from the early immigration of British, Belgian, German, and French who had settled in the Pampas since the 1830s. These immigrants – most of them merchants – had formed associations with the native elite through marriage and commercial partnerships, creating the earliest business community in Argentina. Settling into the port cities of the River Plate (Buenos Aires, Montevideo, and Rosario), they managed the trade of wool and leather to Europe, as well as importing metal, coal, and manufactured goods from their regions of origin (London, Liverpool, Antwerp).

Early British immigration to the River Plate had a particularly important influence on the training of the Argentine business elite in the period before the massive immigration of Italians and Spaniards. Around the mid-nineteenth century, the number of British residents was significantly higher in Buenos Aires than in any other Latin American region; moreover, these immigrants had a privileged status (Silveira 2013). Similarly, the migration of Belgian and German traders to the River Plate led to the creation of business networks specializing in the export of leather, wool, and cereals. The most important economic groups of the country such as Bunge & Born and Tornquist were then founded upon these networks (Barbero, Gilbert, and Lanciotti 2012; Gilbert and Harispuru 2009). Even if the Northern European migrations were not quantitatively significant, they had a fundamental influence in that they served to train a business community and establish a favorable climate for foreign investment.

Political and opportunity parameters also contributed to Argentina's attractiveness. Both the national and local government policies were very favorable to foreign investors. Thus, the government gave foreign firms special benefits, such as tax exemptions and long-term concessions. At the same time, Argentina's rich resources and a growing internal market combined with the lack of local competition (except for the banking sector) provided ample opportunities for multinationals (Regalsky 1997, Jones 1993).

Thus, we conclude that foreign companies experienced few of the alleged 'liabilities of foreignness.' Indeed, they likely captured many of the benefits of being 'insiders' in their business systems (Jones and Lubinski 2012). These conditions explain the expansion of IB networks and the creation of investment groups in the River Plate that channeled capital resources and information across the Atlantic Ocean. Despite the geographical distance, early British, Belgian, and German companies in Argentina benefited from a cultural proximity based on a common culture which was reinforced by these business networks.

3. Multinationals in Argentina in the interwar period

The evidence from the database seems to confirm the general findings in the existing literature regarding the changes that unfolded in the course of WWI, although it does provide some new and interesting information. First, the number of US companies grew significantly during the 1920s but did not take over the first position in the total of foreign firms or the top 100 until much later. US firms primarily concentrated on general services and industrial activities, staying away from the sectors in which British companies were operating, such as banking and railways, and moving toward intermediate and consumer goods distribution (see Tables 2 and 3). The American & Foreign Power Co. was the exception to this pattern as it acquired several British electric utilities and tramway companies between 1927 and 1929.

Second, the share of European investments (including British) started to grow once again in 1923 – albeit not at the same rate as in the previous period. The entry of German firms investing in industrial activities was quite remarkable: 67% of German companies registered in 1937 had been created in the 1920s. Most of them were registered as Argentine companies, headquartered in Buenos Aires, and had both German and local directors on staff (Lluch and Lanciotti 2012). As a result, it is safe to conclude that, despite the events unfolding in the international setting, the number of European firms did not change significantly. These new findings may undermine the notion that their presence in Argentina declined in this period.

Third, looking at the distribution of the main targets of foreign capital, the period after WWI marked the end of an FDI cycle that had focused on the exploitation of natural resources. Changes in Argentina's economy, primarily driven by agribusiness expansion and technological advance, urban growth, and local economy diversification in the 1920s, opened new investment opportunities and encouraged new foreign companies to settle in Argentina, while existing ones reorganized to seize the new opportunities of the expanding domestic market. In this period, localization advantages associated with domestic market size and structure, as well as low communication and transportation costs, proved instrumental in fueling the arrival of new foreign companies.

These factors explain the increase and relative constancy of industrial activity from 1923 onward. Food industries were the main target of foreign industrial firms. In order of relevance, the second position was occupied by utilities (gas, water, and electricity) showing the important demand for infrastructure following the urbanization of Buenos

Table 2. Top 100 multinationals in Argentina, by home-source country, 1913–1960.

Home country	1913	1923	1930	1937	1944	1959–1960
Great Britain	78	54	44	41	38	22
Belgium	8	8	9	9	5	2
Germany	1	7	7	8	11	6
France	5	6	6	6	10	6
Netherlands	2	5	2	3	1	2
Italy		2	2	1	1	6
Switzerland	1	1	1	1	1	7
Sweden			1	3	2	5
Spain		1	1			
USA + CA	5	10	24	25	27	39
Chile		2	2	2	3	2
Uruguay		2				2
Paraguay		1	1	1	1	
Brazil						1
Peru		1				
	100	100	100	100	100	100

Source: FCAD (1870–1971).

Table 3. Top 100 multinationals in Argentina, by activity, 1913–1960.

Activity ISIC	1914	1923	1930	1937	1944	1959–1960
(A) Agriculture, forestry, and fishing	11	13	8	9	5	10
(B) Mining and quarrying	1	1	6	6	6	5
(C) Manufacturing	16	22	24	21	30	59
(D) Electricity and gas supply	10	6	14	11	10	2
(E) Water supply; sewerage	4	4	4	4	4	0
(F) Construction	2	3	1	3	5	2
(G) Wholesale and retail trade	9	12	7	7	11	8
(H) Transportation and storage	26	17	18	17	15	2
(I) Accommodation and food service activities	1	0	0		0	0
(J) Information and communication	1	2	5	4	5	2
(K) Financial and insurance activities	14	16	9	14	8	10
(L) Real estate activities	5	4	4	4	1	
	100	100	100	100	100	100

Note: ISIC, International Standard Industrial Classification of All Economic Activities.
Source: FCAD (1870–1971).

Aires and Rosario. Oil production, refining, and distribution also received the attention of foreign firms in the 1920s, in addition to mining (see Table 4).

Wilkins's opportunity parameters serve to explain the entry of new companies into Argentina in the 1920s; however, the corporate parameter is also relevant as US, German, and Swiss companies in the interwar period created new subsidiaries in Argentina as a part of their global strategies. These companies sought to control their respective markets (meat companies competing in the British market; chemical and pharmaceutical firms supplying the domestic market) by means of monopolistic advantages in technology, product differentiation, and special marketing skills (Hymer 1960; Kindleberger 1969).

Table 4. Top 100 industrial foreign firms in Argentina, by activity, 1913–1960.

Industry ISIC	1913	1923	1930	1937	1944	1959–1960
Mining	1	4	3	3	4	3
Food and beverages	25	25	27	23	22	15
Textiles and apparel	3	5	8	8	4	7
Pulp and paper; publishing		4	1		3	3
Coke and refined petroleum	4	7	8	5	5	2
Chemicals and pharmaceuticals	1	5	5	5	8	24
Rubber and plastics				5	3	5
Nonmetallic minerals					2	3
Basic metals	3	5	2		3	
Fabricated metals		3	3	5	8	3
Machinery and equipment	2	5	6	5	4	11
Office machinery						1
Electrical machinery	1	3	3	5	5	8
Communication equipment						
Precision instruments				1		
Motor vehicles and other transport equipment		6	3	1	1	7
Other manufacturing	9	17	11	16	3	2
Electricity, gas, and water production and distribution	18	11	20	18	25	6
Total	67	100	100	100	100	100

Note: ISIC, International Standard Industrial Classification of All Economic Activities.
Source: FCAD (1870–1971).

The low degree of technology in the domestic industries reinforced the success of these strategies in Argentina, where these firms had no local competitors.

Regarding corporate strategies, we must note that the reorganization of German businesses in Argentina was based upon the networks that German and Belgian businessmen had developed in the River Plate starting in the mid-1800s. After the Great War, German multinationals setup new subsidiaries in Argentina, managed by their German–Belgian partners, to protect their assets from confiscation and also to compete with US chemical and pharmaceutical companies. Such cloaking was a common strategy of German multinationals in the interwar period, as previous studies have pointed out (Jones and Lubinski 2012; Casson and da Silva Lopes 2013).

A business-history analysis of FDI cycles in the period after the Great Depression, therefore, complements the picture drawn by stock patterns, which show a slightly different scenario. First, the Argentine case confirms that the more complex environment did not induce multinationals to divest their investments, nor did it interrupt the arrival of new firms, as we explained in Section 1. Second, and according to distribution by the home country, British companies led the top 100 list until 1944 (see Table 2). British firms in Argentina enjoyed a long life cycle because the conditions that attracted early investments, mainly related to the opportunity, familiarity, and corporate parameters mentioned earlier, continued. British firms in Argentina continued to generate satisfactory returns until WWII due to economic growth and market openness. Railway and tramway companies, however, were an exception as they were adversely affected by the depreciation of the Argentinian peso and the new regime of currency exchange after 1930, as well as by growing competition with automotive transportation (García Heras 1985). Third, the distribution of foreign capital across industries confirms that industrial activities dominated, with the value of foreign investments in industry practically doubling that of 1910 by the 1940s. As mentioned previously, foreign firms continued investing in food industries, electricity, oil and mining industries. The initial assets in these industries derived from the location advantages of diverse natural resources, an expanding domestic market, and financial stability, as well as a favorable political climate with low taxes and an open economy. Later, Argentina's lack of formal discrimination against foreign businesses fostered these assets.

Foreign pharmaceutical companies had many competitive advantages, including advanced technology, product differentiation, and special marketing skills (distribution networks, post-sale services; Rohm & Haas; Warner Co., Sidney Ross, Johnson & Johnson, Sharp & Dome, Suarry) over local companies in the interwar period (Buckley and Casson 2010). German and Swiss multinationals such as Merck, Schering, Bayer, IG Farben, Klockner, Beiersdorf, Ciba, and the BioChemist Institute consolidated their position in the interwar period by means of exclusive competitive advantages in technology (packing process), the cost of transportation, and product differentiation. In perfumes and cosmetics, US multinationals such as Colgate Palmolive, Coty, Elizabeth Arden, and Helena Rubinstein entered the domestic Argentine market, competing with British and French first-comers (Lever, Atkinson; Roger & Gallet, Bourjois, Guerlain Parfumeur). The perfume and cosmetic industry promoted advertising based on trademarks in particular. MNEs in these sectors took dominant market positions as they had no – or very limited – competition from local firms. Indeed, they established completely new companies to manufacture these new products. Argentine manufacturing subsidiaries wholly or partially owned by US companies accounted for 89% in 1939 (FIEL 1973; Fischer 1973). In fact, the first joint ventures (e.g., Duperial) were organized in the late 1930s, promoted by multinational chemical and electrical equipment companies.

After the Great Depression, one of the major challenges western multinational firms faced was the emergence of nationalism (Jones 2010). More foreign companies converted into domestic corporations as international trade barriers increased, the domestic market expanded, and imports dropped. Regarding corporate strategies, multinationals had adopted three organizational forms in Argentina before 1930. The first, which the initial British, French, and Belgian companies utilized, was to create a company in the country of origin to operate overseas (a free-standing company). The second was to form a branch of a corporation organized abroad, as US multinationals had initially done with Swiss, Dutch, and Italian companies (in share order) following suit after WWI. The third was to start a new company in accordance with Argentine laws, usually adopting the corporation format. We find that this option became widespread in the 1930s: by 1937, 42% of all foreign companies were incorporated as Argentine corporations.

The spread of this organizational form is associated with corporate risk management strategies for three reasons. First of all, favorable fiscal policies and a favorable political climate became ever more important drivers of this preventive corporate strategy, even though the subsidiaries of foreign companies registered in Argentina were subject to almost exactly the same rules and regulations as local corporations. This strategy generated favorable, long-term expectations and, more fundamentally, precluded the threat of asset seizures in Argentina. In 1928, the consultant firm Price, Waterhouse, Faller & Co. supported this strategy in a letter sent to Radio Corporation of America:

> In brief, taking efficacy of control into consideration and in view of the present evident tendency toward protection of Argentine national industry, the advantages even now favor the formation of local companies, and it is probable that these advantages will sensibly increase. (Ernest Munster Papers – Accession, 2031 Letter to Mr. Geo W. Hayes, Radio Corporation of America (Buenos Aires) signed by Price, Waterhouse, Faller & Co. August 22, 1928. Hagley Collection).

Secondly, as the business environment grew more challenging, many companies sought to reinforce their local identity in host countries by forming local corporations. As O'Brien (2006) stated in reference to US companies operating in Latin America, their ability to manage risk largely depended on managers' skills and networks. In this light, Miller (2010) recently studied British companies' increased recruitment of local staff. The outbreak of WWII strengthened these mitigation strategies, and multinationals found themselves forced to focus even more on 'domestic' operations by tariff barriers and more sophisticated exchange controls that mandatorily enhanced affiliates' autonomy (Jones 2005).

Third, we identified new board member selection practices as a complementary mitigation strategy. This finding complements a recent study on corporate network of Argentina's largest companies that identified a growing trend for foreign companies to establish local boards within a climate of increasing regulations, contract negotiations, and declining profitability in some sectors. Therefore, we conclude that many foreign companies not only converted into Argentine corporations but also created local boards in order to prevent and minimize risks posed by increased regulation and protectionism in national economies. Foreign investors chose specific partners, based on the personal reputations of lawyers and businessmen, as well as their contacts in social and political circles. These partners reduced the uncertainty involved in doing business in a more complex environment (Lluch and Salvaj 2014).

British railway and public utility companies followed a different strategy. The conditions favoring large investments in fixed assets to develop railways and public utilities in the host economies broke down after the Great Depression when the gold standard collapsed. The depreciation of the Argentine peso and the introduction of foreign exchange controls reduced profits in pounds sterling. While financial profits were declining, the managers of the leading British railway companies elaborated a first proposal to sell these facilities to the Argentine government in 1936. Negotiations to nationalize the British railways did not succeed until 1947 (Skupch 1972). But railway companies and public utility firms gradually raised their reserves and ceased their investments in Argentina; subsequently, the larger, more capitalized firms did implement a withdrawal strategy in the 1930s.

4. Multinationals during state-led industrialization

The outbreak of WWII had a profound impact on foreign firms in Latin America, as the role of the states began to expand in the world economy. The emergence of developmental programs managed by Latin American states in the region's leading economies favored industrialization projects oriented to domestic markets. In this period, the Argentine government hoped to achieve industrialization by promoting the local production of all consumer goods and integrating the production of intermediate inputs and capital goods (Ocampo and Ros 2011). Policy-makers sought to broaden the range of local production in order to solve endemic deficits in the BOPs and deal with exogenous shocks. This political environment generated new investment opportunities for western multinationals, specifically in oil energy, petrochemicals, and basic equipment; at the same time, companies were withdrawing from public utilities and railways.

The evidence from the FCAD confirms the predicted decline in transport and utilities (H, D, E) among the largest companies measured by capital after 1945. However, the data also show that companies in more traditional areas such as agriculture, forestry, mining activities (A, B), and international trade (G) experienced continuity. Similarly, financial activities remained quite stable (K). These new findings reflect the stability of structural conditions until the 1950s. Industrial firms accounted for 59% of the top 100 foreign companies by 1960 (see Table 3). The variety of industries in which foreign capital was present seems to be wider with respect to the previous benchmarks and confirms that, in the late 1950s, the situation was markedly different from the one seen in 1944. Chemical and pharmaceutical companies, as well as machinery and equipment production, became the leading fields. The data also show the overwhelming presence of foreign capital in technology and capital-intensive industries.

The shift in technological paradigms coincided with changes in the countries of origin of companies investing in Argentina. Analysis of the data on the home country of the largest industrial foreign firms reveals new trends. The dominance of British and European companies finally ended with US companies moving into this prime position (see Table 2). Another interesting piece of information comes from the analysis of the data-set for 1959–1960 ordered by the year of foundation. Most of the US companies included in the top 100 foreign industrial firms in 1959–1960 were created before the end of WWII and they covered almost all industrial activities (oil, cement, mining, food, textiles, pharmaceutical and chemical products, equipment, motor vehicles, and electricity).

In this phase, economic growth and increased productivity, together with an expanding population and rising per capita incomes resulting from the increase in real salaries, strengthened firms' confidence that the Argentine market offered diverse business opportunities for foreign industrial firms. In terms of corporate parameters, it was the foreign firms with exclusive competitive advantages in technology, marketing, and product differentiation that led this new wave of FDI. For example, 11 new US firms entered Argentina to manufacture chemical and pharmaceutical products (Monsanto, Dow, Pfizer, Essex), and agricultural machinery (John Deere and International Harvester started local production at this time). In the late 1950s, capital-intensive industries with high asset intensity consolidated their presence in the top 100. By 1960, 43 of the top 100 companies under foreign control were to be found in the chemical, pharmaceutical, electrical machinery, and other machinery industries (these constitute half the sample when vehicles are included). In short, the paradigm of foreign investment in manufacturing in Argentina at the end of the 1950s shifted from industries that exploited local resources, as well as finance, utilities, transportation, and public services, to manufacturing, technological, and capital-intensive industries.

Political risks became more subtle in the 1950s as multinationals had to adapt to local markets and find strategies for dealing with inflation and negotiating with the governments that intended to promote industrialization. The case of the automobile industry illustrates the importance of those strategies. Similar to South Korea and Brazil, Argentina prioritized increased production in the car industry during the Peron administration (Catalan 2010). The shortage of foreign exchange spurred the government to welcome foreign capital in 1953. In this context, the US firm Kaiser Motors proposed a joint venture with the Argentine government to manufacture cars that would eventually use 90% local parts. After some negotiation, Industrias Kaiser Argentina was formed, with Kaiser, state-owned Industrias Aeronáuticas y Mecánicas del Estado, and private Argentine shareholders putting up the capital (Belini 2001). Later, the Frondizi administration liberalized licensing to stimulate investment and also mandated that a large proportion of parts be produced locally. This curtailed imports, changing the context to which multinationals had to adapt. But from late 1958 on, the government made it easier for foreign capital to be invested in the creation of new automobile plants (Sourrouille 1980). As a complementary incentive, the government also lifted restrictions on profit repatriation by foreign companies, although multinationals still needed to make licensing and other agreements with locally owned or controlled firms, as in other countries.

The entry of MNEs – into sectors such as motor vehicles but also the chemical and oil industries – had a significant impact on the concentration levels within the economy (Katz 1967); according to the information in the database, these MNEs did not result in a higher stock of foreign capital (see Table 1). Many of these industries faced significant diseconomies of scale. From a longer term perspective, multinationals did not decrease technological dependency or create competitive advantages for the Argentine industrial sector. The main motivation of industrial MNEs was to exploit a protected domestic market through stand-alone subsidiaries (Sourrouille 1976).

The nonexistence of mandatory limits on foreign participation in the local industry explains why, in the vast majority of the cases during this period, foreign companies achieved presence, usually in the form of a subsidiary or branch of a parent company in which local capital participation was low or non-existent. From a theoretical perspective, this means that the level of control was at a maximum, implying a high resource commitment that constituted an exit barrier and limited the strategic flexibility of the firms (Hill, Hwang, and Kim 1990).

5. Final remarks

During the first global economy, the majority of foreign companies in Argentina were part of British, Belgian, German, and French business groups and networks. Their arrival was promoted by a combination of parameters such as opportunity (resource allocation, growing markets), political (no regulation, low taxes, favorable attitude toward FDI), familiarity (entrepreneurial networks based on immigration), and corporate parameters (managerial capabilities, specific knowledge, and access to financial resources). Regarding the activities conducted by the largest foreign companies, we established that the availability of abundant natural resources made primary activities, transportation, trade (often associated with commodity exports), and financial operations dominant. Nonetheless, in the 1920s, industrial activities grew more prevalent, and companies from the USA began to take the lead. Industrial activities surged as a result of new opportunities stemming from domestic market expansion and consumption diversification.

In the 1920s, these processes began to consolidate, and continued to do so after the Great Depression, exhibiting more continuity than previously suggested in the literature. In this new environment, the Argentine government began to restrict exchange, and the political setting prompted companies to internalize transactions to avoid conflicts, prevent competitor growth, and maximize profits or secure assets abroad. The new economic measures paved the way for new business opportunities. The advantages in technology, product differentiation, and marketing know-how were crucial to industrial multinationals' decisions to enter and expand in Argentina in the interwar period.

By 1960, the situation in Argentina was different, with a significant change in the profile of large foreign firms. First, the nationalization of public utilities and railway companies in 1943–1949, and, second, policies welcoming foreign capital in the 1950s to promote industrialization encouraged this shift. As argued, this second wave of FDI focused on highly technological industries whose penetration relied on the internalization advantages of US firms as they sought to minimize technology transfer costs (leading to the supremacy of specific assets – such as ownership of technological knowledge) and to avoid the high protectionism of the domestic market (Buckley and Casson 2010). As noted in this study, multinational companies largely came to Argentina to compete with other multinationals and to increase their market share.

These long-term trends that we identified here have allowed us to call the more traditional global business periodization into question, at least concerning the specificities of Latin American and late industrialized economies in the interwar period, where the Great Depression did not interrupt FDI, administrations promoted industrialization policies (ISI) and granted significant advantages to foreign companies, encouraging them to establish themselves in these countries.

The evidence we present here also supports the claim that Argentina proved to be a comparably low-risk country, with long-standing investment opportunities for foreign businesses throughout this period of change. In fact, our database reveals that there was no massive departure of foreign companies, except during a short period and only in the case of firms that had operated in the country for over 50 years (with large investments in fixed assets that were nationalized by the Perón administration). Even though the appeal and main investment drivers of Argentina changed, we argue that the attractiveness of this host economy remained strong except for the period from 1943 to 1952. However, in these years, the processes of nationalization and regulation were similar to those happening in other contexts worldwide. Our study also complements the view based on stock analysis that shows a steady inflow of companies into Argentina. It also proves that FDI inflows in the first global economy were never matched by capital stocks after WWII as the new arrivals then made lower investments.

The parameters that remained constant included the opportunity and political parameters – both, of course, with changing specificities over time. The familiarity parameter in Argentina, however, was distinct, as it weighed heavily during the first global economy, clearly pointing to the significance of social networks and the impact of foreign immigration on the country. Following Wilkins's considerations that multinationals have two closely interrelated but distinguishable impacts on hosts – one associated with domestic economic and social changes and the second specifically linked to contacts the host has with the rest of the world – this case study shows that the former was stronger until the beginning of WWII as FDI strengthened the integration of Argentina into the global economy, but during the second FDI wave that began in the 1950s, the latter was more important, with MNEs focusing on the domestic market.

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Notes

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