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The rise and "decline" of European companies in Argentina (1870-1945c): new evidences and discussion

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By the end of the 19th century, Latin America became a primary destination for European foreign direct investments, and Argentina soon became the recipient of the largest share of European flows, mainly from the United Kingdom. The early arrival of British firms was then followed by German, Belgian, French, Dutch and Italian companies, especially attracted by the expansion of the domestic market and a favorable exchange rate after WWI.

Considering the current theories of business internationalization, this paper intends to analyze and compare the different organizational forms of international business in Argentina (FSC, MNC affiliates, investment trusts, clusters and holding companies), the main investment destinations and sectoral distribution until the end of WWII. It will assess the effects of World War I and the multiple impacts of the great depression. As it is well known, the Depression and its by- products shaped a more complex period for foreign business during the interwar period. However, as Miller (2006) stated the Argentinean experience seemed to be a "mild case" of economic nationalism in the 1930s, mainly represented by bilateral treaties and state interventionist policies.

Based on a new quantitative estimate of foreign companies operating in Argentina, this paper surveys the dynamics, profile and evolution of European companies, analyzing the factors that influenced their investment choices as well as their defense, adjustment, and other business strategies to respond to country-specific and macro-economic changes. In particular, it intends to delve into the drivers that pushed foreign companies to settle down in Argentina, contrasting the case made by Hymer's anti-trust or exclusive competitive advantage theory, Vernon's product lifecycle argument, Dunning's eclectic paradigm, and internationalization theories upheld by Casson and Wilkins. [1] Next, this paper discusses a number of factors that influenced legal organization changes, especially focusing on the "indigenization" of foreign companies operating in Argentina that started in the 1920s and consolidated in the 1930s, with two specific cases rallying greater attention –British and German companies. We hope that our findings help enrich recent debates on Europe's big business evolution and "national specificities" in the first half of the 20th century.

Our key underlying hypothesis argues that the boom of direct European investment in Argentina that began in the last quarter of the 19th century did not come to an abrupt halt with World War I's outbreak, as noted by former studies. On the contrary, it maintained a consistently growing trend until the onset of World War II. When World War I ended, changes in Argentina's economy, primarily driven by an expansion and technological advance in agribusiness, growth in urban activities, and local economy diversification, lured new foreign companies to settle in Argentina, while existing ones reorganized themselves to seize the new

1 Dunning, J.H. & Lundan S. (2008); Buckley, P.J. (1993). Buckley and Casson (2010) Hymer, S. H. (1976), Wilkins (1994, 1974). A critical review of the internationalization theories in Hennart (2009).

opportunities offered by an expanding domestic market. European companies created in the first post-war period focused their investments in manufactured products' marketing and the manufacturing of consumer products for Argentina's domestic market. At this time, the United States' rising role as foreign investor and its dynamic multinationals have upstaged the continuity, in some cases, and the vitality, in others, of European businesses in Argentina until 1944.[2]

We also believe that this trend was not the result of the introduction of protectionist policies in the wake of the 1930 crisis –rather, it preceded that crisis. In the 1930s, this trend consolidated, as Argentina did not introduce restrictive regulations for foreign capital inflows and became a low-risk country for European companies seeking to avoid seizures and controls in their homelands –as was the case for German companies- or to avert tax increases –as was the case for British companies. Until the end of World War I, investments based in Argentina offered security, acceptable profitability and asset preservation, as the country had become a safe destination for European companies besieged by exchange rate devaluations, Europe's recession, and, finally, the outbreak of a new worldwide conflict.

Lastly, this paper sets out to undermine the notion of a decline in direct foreign investment as a result of World War I or the effects of the 1930 international crisis. In fact, it proves that international economic changes drove multinational companies to revise their business strategies and to reorient their investments in light of the specific conditions at both their home economies and their investments' destinations.

The definition of foreign direct investment (FDI) encompasses investments made by foreign companies that retained management control of their businesses in Argentina. This notion includes three types of companies: typical multinationals that established branch offices or affiliates abroad, European free-standing companies specifically created to operate in Argentina, and companies with foreign ownership and management that were incorporated in Argentina to conduct a business unrelated to competitive advantages acquired in their homelands.[3]

The methodological approach used here includes a mapping of foreign firms operating in Argentina in selected years (1923-24, 1930, 1937, y 1944), factoring in variables such as country of origin, creation date, organization format, and core business. The database employed contains both foreign corporations incorporated in their countries of origin and foreign companies created and incorporated in Argentina, identified as a result of a nominal analysis of sources, cross-referencing information to determine companies' origin and operations (see the appendix for a note on legal frameworks).[4]

This paper relies primarily on four directories of corporations edited in Argentina, which have been complemented with information from Argentina's Corporation Control Authority (locally known as IGJ) and other contemporary publications on FDI and foreign companies. This approach suffers from a number of limitations, which is why this paper is a complementary exercise and a starting point for a more complex endeavor comprising sector and case studies. These companies' operations have been categorized according to International Standard Industrial Classification (ISIC, Rev. 4) criteria elaborated by the United Nations' Statistics Division.

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[2] More Information about foreign firms in Argentina, see Lanciotti & Lluch (2009).

[3] Corley T.A.B (1994) y Jones Charles (1997).

[4] Our main sources are: Guía el accionista de sociedades anónimas 1959-1960. Buenos Aires: El Accionista, 1960. 2 v Cámara de Sociedades Anónimas; Guía de sociedades anónimas 1946/1947, responsabilidad limitada y cooperativas. Buenos Aires: Cámara de Sociedades Anónimas, 1947. 547 p.; Guía de sociedades anónimas 1944/45, responsabilidad limitada y cooperativas. Buenos Aires: Cámara de Sociedades Anónimas, 1946. p. 592; Guía de Sociedades Anónimas, Anuario 1924 (Buenos Aires, Argentina, 1924); Guía de Sociedades Anónimas. Anuario 1930 (Buenos Aires, Argentina, 1931), and Guía de Sociedades Anónimas, responsabilidad limitada y cooperativas, 1937-1938, (Buenos Aires, 1938).

1. *European Companies in Argentina before the Great Depression*

The study of foreign direct investment in Argentina is a classical issue in economic historiography. Overall trends in international capital inflows and outflows and the evolution of foreign direct investment in 20th century Argentina have been streamlined by studies published by several agencies (CEPAL, FIEL, Argentina's Ministry of Economy, and others).[5] However, studies on foreign companies' long-term track record and evolution have been rare. More attention has been paid to the creation and expansion of investment holdings, business groups and multinational companies in Argentina over two clearly-defined periods –the early boom of foreign investment in Argentina, between 1870 and 1914, and multinationals' and business groups' turnaround and composition since the mid-1960s through 2001. Except for a few case studies looking at the 1920-1960c period, there are no studies that have focused on the classical import substitution period from a business history perspective.

This oversight may be attributed to the fact that historiographical production has zeroed in on thriving foreign direct investment phases. As viewed from this standpoint, it may be said that the second foreign capital inflow booming phase that started in the early 1900s came to an end around 1913. This period witnessed an economic transformation associated with, among other things, a massive inflow of foreign investments. World War I curtailed international capital mobility just when foreign inflows peaked in Argentina.[6]

By 1914 long-term private foreign investment reached half the value of fixed capital stock. Britain led private foreign investments, with 47 per cent (59 per cent of total foreign investments), while France held a 9 per cent share, followed by Germany, with 7 per cent, and the U.S. lagging behind with only 1 per cent. FDI accounted for almost 75 per cent of Argentina's total foreign investment and a third of total FDI in Latin America. Railways topped all other sectors, garnering approximately 50 per cent of FDIs and 33 per cent of total foreign investment before the Great War.

Table 1: Accumulated Foreign Capitals and Total Fixed Capitals Invested. Argentina 1900-1949

Year	Fixed Capital (I)	Foreign Capital (II)	National Capital	Percentage II/I
1900	6347	2020	4327	32%
1909	12966	5250	7716	40%
1913	17237	8230	9007	48%
1917	17517	7980	9537	46%
1920	17464	7300	10164	42%
1923	19061	7100	11961	37%
1927	22030	7580	14450	34%
1929	24474	7835	16639	32%
1931	25582	7640	17942	30%
1934	25479	6920	18559	27%
1940	27365	5570	21795	20%
1945	27654	4260	23394	15%
1949	32118	1740	30378	5%

Note: Figures in US$ millions adjusted to 1950 constant prices.

Source: United Nations, Economic Commission for Latin America. *El Desarrollo Económico de la Argentina*, México, CEPAL, 1959, p.251; Fundación de Investigaciones Económicas Latinoamericanas, *Las inversiones extranjeras en la Argentina*. Buenos Aires, La Fundación, 1973, p. 247.

According to these same data, annual FDI flows virtually ceased in 1914, restarting a rising trend in 1924 that peaked in 1931. In that period, although Great Britain continued to

5 UN-CEPAL (1958), UN (1955), FIEL (1973). Banco Central de la República Argentina (1975).

6 Regalsky (1986, 2002: 86-90). United Nations (1955:7).

hold the greatest share of total foreign direct investment, the U.S. became the major supplier of capital in Argentina. By the end of the 1920s, U.S. capital flows exceeded those coming from Great Britain.[7] Capital stocks registered a similar trend, though their decline started a before sooner, in 1929.

However, as noted in the introduction, this classical tenet on structural FDI behavior in Argentina does not show in foreign companies' behavior during World War I, as 95 new firms entered the country in this period. At the end of the war, European direct investments unquestionably prevailed, with British companies at the top. Equally dominant was the companies' focus on commercial activities.

Table 2: Foreign Companies in Argentina, Capital in $ mn, 1918

Nationality	Industry	Commerce
England	185.459.962	3.118.495.326
France	18.393.182	180.383.868
Belgium	14.431.818	13.227.954
United States	1.078.095	18.961.181
Germany		12.393.050
Switzerland	1.500.000	5.225.455
Spain		4.700.000

Source : Dirección General de Comercio e Industria, *Estadística Comercial e Industrial de la República Argentina,* Boletín nro. 17, Sociedades Anónimas, Buenos Aires, 1919, p.8.

The end of World War I marked, generally speaking, the end of a foreign direct investment cycle based on natural resources' ownership and localization advantages. During the primary export phase, European companies focused primarily on financial operations (banking, insurance, mortgages), railways, utilities, cattle farming, forestry and real estate.

In 1870-1914, a larger share of British companies organized as free-standing companies resulted from the development of ownership advantages in specific assets –natural resources, transportation, and utilities- and intangible assets –managerial capabilities, investment management in the Southern Cone- drawn from financial and commercial networking efforts in the region, which made European capital available. Theoretically, free-standing companies did not invest in capital-intensive industrial operations associated with technology; instead they turned to railway and utility management and funding operations as well as to natural resource exploitation investments.

The initial phase of industries based on asset specific ownership (mines, plantations, forests, railways, tramways, and other utilities) proved key, as asset exploitation rights generally involved exclusive (monopoly) competitive advantages. Firms' owner advantages at home and their exclusive right advantages in destination countries promoted their internationalization and determined their investment strategies, while natural resource location determined where they invested. [8] In general, their arrival process started with a banking house settlement, followed by the creation of a free-standing company (FSC) that secured a concession to exploit a specific resource or service in a province, region or city. Financial and economic decisions at the companies created to manage every venture were made by investment syndicates' parent companies. Thus, at the end of this process, companies had not only transferred funds and goods but also their management schemes.

This strategy suited British investment syndicates' former development, with their early specialization in finance and trade that had produced advantages in intangible asset

[7] See also R. Mikesell (1955); Grosse (1989).

8 See Casson (1994). On the internationalization of managerial skills, see Wilkins, (1994); on monopoly advantages, see Hymer (1976).

ownership management, especially when it came to knowledge, funds, and managerial skills. These capabilities could be transferred to new regions, following a common path that started with the acquisition of monopoly advantages in concession and natural resource exploitation, followed by diversification based on investment holdings' tangible and intangible assets.

Foreign companies and syndicates operating in Argentina illustrate this strategy. For instance, the region's foremost investment group traced its origins to the Mercantile Bank 's liquidation and its asset and liability turnaround with the creation of a new firm -The River Plate Trust, Loan & Agency. The Bank's asset bequest included a water company in Montevideo, the Montevideo Waterworks Company . River Plate Trust served as the parent company for the group, which intensified its investments in mortgage and financial operations, as well as in railways and utilities in the River Plate.[9]

In other cases, strategic pursuits involved partnerships among financial firms and free-standing companies with different nationalities, as illustrated by railway, forestry and financial companies operating in Santa Fe Province. Murrieta y Cía. was granted a 668-square-*legua* (1,804,563 hectare) unexplored land in Santa Fe's Chaco section by the provincial government to repay a debt. Murrieta sold the land to a British company called Santa Fe Land Co. Ltd., in which he held a stake. A few years later, this firm joined, among others, Portalis y Cía, a commercial and financial company that represented Fives Lille, the French railway building company, to create The Forestal Land, Timber and Railways Co. Fives Lille was also a shareholder at Compagnie Française du Chemins de Fer , a company that built a railway track to link forestry interests with the Port. Several British companies operating in the region, including the Banco Anglo-Sudamericano and Compañía Liebig also held a stake at The Forestal Land.

In short, these firms' ownership advantages –that is, their financial capabilities, international trade network control, specific knowledge on resource location and quality, transportation routes and their ties to local leaders- and their common governance of a network of specific assets might have been the primary driver for business internationalization in the 19th century. Nonetheless, FDI location decisions hinged on companies' possibilities to access exclusive right advantages for natural resource exploitation.

These drivers and strategies were not exclusive of British companies; rather, they were shared by European companies –specifically French and Belgian firms- entering new markets in 1880-1914. Both French and Belgian companies adopted the free-standing company format and partnered in investment syndicates (with diverse nationalities) to internalize their competitive advantages in ownership-related industries that would enable them to exploit exclusive resources in a specific region. This does not mean that these firms did not pursue industrial investments, but they did consistently seek exploitation conditions based on ownership and exclusive right advantages, which explains the vast gap between funds invested in trade and industry by foreign companies (Table 3). [10]

Before World War I, other FDI drivers weighing more heavily later, like localization advantages associated with market size and structure, were not as strong. In order to prove that World War I marked the end of a cycle, we must determine whether this situation continued immediately after the war ended.

Table 3: Foreign Companies, classified by activities. Argentina, 1923-1944

Activity	1923	1930	1937	1944
A - Agriculture, forestry and fishing	48	40	42	48

[9] Jones Charles (1973).

[10] An early exception was represented by the arrival of meat-packing companies (British (from the end of 19thcentury, and American (after 1907). More references about the US business expansion in Argentina, in Lanciotti & Lluch (2009) y Lluch (2010).

B - Mining and quarrying	9	11	13	10
C - Manufacturing	67	112	143	159
D - Electricity, gas, steam and air conditioning supply	7	19	19	15
E - Water supply; sewerage, waste management and remediation activities	4	4	4	4
F - Construction	17	23	31	20
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	120	159	148	140
H - Transportation and storage	34	44	54	51
J - Information and communication	13	21	31	28
K - Financial and insurance activities	87	88	82	94
L - Real estate activities	11	13	13	12
M - Professional, scientific and technical activities	6	9	10	10
N - Administrative and support service activities	1	1	2	3
P - Education		1	1	1
S - Other service activities		0	1	1
S.D.	1	6		0
	425	**551**	**594**	**596**

Sources: Database on Foreign Companies in Argentina. See footnote 4

As shown on Table 3, by 1923, foreign corporations had shifted their industry distribution somewhat as compared to the previous period. Financial operations were still significant, but both retail and wholesale commercial activities had grown, encompassing a larger number of companies than financial operations. Ranking third were industrial operations, followed closely by primary interests. Increased commercial and industrial investments point to the emergence of localization advantages derived from domestic market expansion and consumption diversification.

Among merchant and industrial companies arriving immediately after World War I came to an end, two core businesses stand out –chemicals and metals, with a larger number of medicinal drug producers and importers as well as tool and machinery (primarily for farms) manufacturers among newcomers. Certainly, most of these companies came from the United States, but a number of British, Belgian and German firms also settled down in Argentina at this time. These companies pioneered a new kind of organization –they were set up as importing subsidiaries of their parent companies but soon embarked on assembly and retail packaging operations.

Despite the high share of distribution and marketing operations used by foreign companies as penetration strategies, this issue has remained somewhat neglected by former studies on FDI. As noted by Barbero (2004), foreign companies' installation of commercial affiliates may have served as an innovation driver, joining production subsidiaries in the transfer of technologies to destination countries. Our study confirms that contributions made by assembly and marketing affiliates may have been far more complex and manifold than previously considered.

As regards commercial firms per se, there was a striking number of merchant (import-export) houses with no specific, restricted focus. While these largely British firms' settlement in Argentina dated back to the early 1900s, a notable increase in the number of American, French, Belgian, Dutch, Italian and German newcomers characterized 1923. These new companies coming from Continental Europe did not adopt the free-standing company format from the start. Most of them were affiliates of Europe-based companies, differing from classic multinationals' subsidiaries (mostly American in origin) in that their senior managers were foreign merchants who settled down in Argentina. Composition differences among management staffs can be attributed to commercial networking efforts linking European regions and the River Plate area, which encouraged businessmen (and managers) to emigrate to Argentina in the 19th century. These business officials shared the company's homeland culture and, at the same time, became knowledgeable on host country economics, turning into a key resource for local boards or as foreign companies' agents.

In the service industry, starting in the 1920s, transportation and storage companies became more numerous. The widespread development of these operations indicates that foreign companies organized in a cumulative process. Industrial and commercial firms' demand for services brought about new, different business ventures, as shown by the increase in information, communications and professional service areas.

Among industrial firms, foodstuffs dominated the scene, with meatpacking companies leading in numbers, and sugar, oil and preserve manufacturing ranking second. After World War I (WWI), American companies prevailed in this industry, with the traditional multinational company (MNC) format, but British meatpacking firms managed to hold a market share and continued to operate as free-standing companies (FSCs). Many of these British FSCs had been created as a result of vertical integration processes, starting with initial cattle farming interests, while their managers and shareholders held stakes in other companies coordinated by investor groups. Investment decisions in these two sectors were primarily driven by ownership advantages associated with both tangible and intangible assets, including knowledge and managerial skills acquired through common governance of specific asset networks (lands, railroads, cattle), and exclusive exploitation right advantages (from privileged access to scarce resources).

As expected, 1923 trends consolidated by 1930, with a significant increase in industrial operations. However, as noted below (see Table 7), the first post-war period marked the beginning of a significant shift in the home countries and organizational schemes of foreign companies incorporated in Argentina, with numerous American multinationals taking the lead.

In this period, localization advantages associated with domestic market size and structure –as well as low communication and transportation costs- proved instrumental in driving the arrival of new foreign companies. A large cluster of foreign industrial companies in the nation's capital and Buenos Aires Province shows how influential communication and transportation costs were for venture location decisions. Indeed, in Argentina, foreign companies' concentration in Buenos Aires turned out to be nearly total. This may be attributed not only to local market significance but also to an early –though limited- emergence of a domestic market led by Buenos Aires. As David Beecrot pointed out (quoted in Selling, 1919:260), Buenos Aires was "*the political capital and the industrial capital as well. It is the railroad center, the shipping center and the center of distribution for the country".* Buenos Aires' high business concentration proved an advantage for producers and importers, enabling them to reduce costs and enhance the impact of national advertising, while facilitating their distribution tasks, arrangements with agencies, stock maintenance efforts, as well as visits from headquarters' representatives and managers. [11]

In 1930, 56% of all foreign companies in Argentina conducted business operations focusing on its domestic market. The number of foreign companies had grown 30% since 1923. This sizable increase had been led by industrial firms, as their number nearly doubled in that seven-year period. Available data reveal how significant Argentina's domestic market became, accounting for half of all business activities in South America by 1929. Argentina's appealing domestic market and custom tariffs proved instrumental to luring new companies in several industries.

Many firms built sophisticated distribution networks, with an outstanding performance by American multinationals that produced consumer goods and relied on ownership

[11] "Distribution in Argentina", Bulletin of the Chamber of Commerce of the USA in the Argentine Republic, Vol I, Nro 12, July 31, 1920, p.3.

advantages drawn from "intangible" assets like patents, brands, technological capabilities, management skills, and abilities to compete on product differentiation hinging on trademarks and innovative marketing strategies. Several contemporary reports noted that this period featured, in addition to industry leadership capability and loan availability, innovative distribution and advertising methods that proved decisive for some American consumer products to succeed in the 1920s.

British sources recognized that advertising was a key factor in Argentina, while British "*firms failed to increase the commercialization of many varieties of goods in Argentina owing to their unwillingness to advertise or their disregard for the importance of local advertising, coupled with propaganda.*" [12] More research is needed in each of these topics (especially comparing marketing strategies pursued by companies depending on their origin), but, in general terms, it is safe to say that the creation of a dense distribution network and aggressive marketing campaigns were key to the success of several U.S. consumer MNCs. [13]

Regardless of this debate on American consumer industry supremacy, market-seeking investment increases largely attracted European companies and fueled capital and intermediate asset imports, as user product imports dwindled. Argentina's growing demand for manufactured goods in 1899-1929 tripled worldwide market increases, with outstanding demand growth in metals, machinery and transportation means. Specifically, Argentina's share of worldwide machinery demand went from 1.4% in 1913 to 3.6% in 1929. In 1913, its demand accounted for 25.5% of semi-industrialized countries' machinery market, and, by 1929, its share had grown to 34.2%. Indeed, in 1929, Argentina's machinery demand roughly paralleled England's (65 million versus 67 million), making this another key aspect to consider when assessing the impact of direct investments and commercial strategies deployed by foreign affiliates in Argentina before the Great Depression.

By the late 1920s, increases became noteworthy in other sectors as well, including trade, construction, transportation and storage, information and communications (printing, movies, publishing, and telephone communications). Public works and industrial facility building, hydraulic and engineering projects, and structures with new materials, like steel, lured specialized British, Dutch, French, and German firms to Argentina. Along came a significant group of professional firms offering engineering and associated services for construction companies. European companies dominated this industry. By 1930, foreign companies' greater specialization and focus showed their use of internationalization strategies to expand their product, technology and service competitive advantages acquired in their homelands and now targeting a thriving-dynamic domestic market in Argentina.

1.1. ***German Companies –Investment attraction drivers and companies' organization in Argentina***

Ever since the first German company settled in Argentina in 1888 until World War I, most German firms operating in Argentina adopted the Berlin- or Hannover-based FSC format. German companies largely focused on financial services, with outstanding performances by the Banco Alemán Transatlántico (Trans-Atlantic German Bank) and the Banco Germánico de la America del Sud (German South American Bank), as well as by insurance companies like Aachen & Munich, Manhein and La Alemana. German firms also stood out in the electricity sector (CATE, CADE and AEG Compañía Sudamericana de Electricidad Ltd.), where they operated with local affiliates rather than FSCs. After WWI, German electricity companies

[12] Sanger, Jesse William, Advertising methods in Argentina, Uruguay, and Brazil, Special agents series; no. 190: Washington: Govt. Print. Off., 1920): 14. See also "Distribution in Argentina," *Bulletin of the Chamber of Commerce of the U.S. in the Argentine Republic*, Vol. I, N. 12 (July 31, 1920):3

[13] For a discussion about the British distribution system (mainly represented by the so-called *merchant-house system*) and the British economic decline, see Nicholas (1984).

became part of Belgium's SOFINA holding company, while the other German companies continued to operate in Argentina.

Also rather early on, German international trading companies started operating in Argentina, with a prevailing role played by marketing affiliates set up to promote sales abroad and provide services to clients. This group includes Mannesmann Tubes (1909), Accumulatoren Fabrik Aktiengesellschaft (1909), Koerting Hermanos Ltda. SA (1912 -Koerting Hannover AG), Compañía Transatlántica de Caucho de Hannover (Continental AG) (1910), and Orenstein & Koppel AG - Arthur Koppel (1910). These commercial affiliates' early arrival may be attributed to the significant market share held by German imports (an average 17.2% in the 1911-1913 five-year period, with clear supremacy in paper products, iron and steel products) (see Table 4).

Table 4

Imports distribution by leading countries of Argentina's foreign trade
Average annual percentages for selected periods

Country	1911-13	1917-19	1922-24	1928-30	1932-34	1936	1938
United Kingdom	30.5	23.5	23.5	19	22.5	20.4	18.3
United Sates	14.8	35.2	21.7	23.9	13.4	14.6	17.6
Germany	17.2	0.1	12.2	11.5	9.7	9.2	10.1
France	9.7	5	6.1	6.4	5.3	6.4	4.3
Italy	8.3	4.7	7.3	8.9	9.2	5.2	5.5
Belgium	5.3	0.1	4.9	4.8	4.1	4.8	5.2
Brazil	2.7	9.1	5.6	3.9	6.1	4.2	
Netherlands	2.3		1.2	1.4	1.4	2.8	

Source. Adaptation from Phelps (1938:161) and United Kingdom, Department of Overseas Trade, 1938, p. 41.

World War I changed this scenario. Germany's disappearance as merchandise supplier and its subsequent loss of assets and brands abroad prompted a change in FDI forms, as noted by Schroter (1998) and, more recently, Jones & Lubinsky (2011). According to Schroter, internalization was replaced by other mechanisms, including cartels, joint ventures and long-term contracts to reduce transaction costs.

In the interwar period, German companies seemed to prioritize long-term security and stability over profitability in order to prevent market losses. In turn, Jones & Lubinsky (2011) agree that, after WWI, German multinationals focused on managing political risks (both internally and externally) when it came to investment decisions. This led to company turnarounds. Their strategies included creating companies in neutral countries and streamlining their international businesses on the basis of cross-organizational trust-based relationships that remained operational until the second postwar period.

In Argentina, German businesses also went through a turning point at this time. The analysis of local experiences, based on new company organization schemes, reveals a different set of strategies as compared to German companies' operations in Europe. First, German direct investment in Argentina grew at this time, and second, companies registered organizational changes after the Great War. This move came with a new thrust for German imports, despite the fact that they fell to a third place, behind American imports.

The boom of German direct investments in Argentina spanned from 1919 through 1930 (42 of the 63 German companies operating in Argentina in 1937 dated back to that period). While German investments seized opportunities offered by farming, in those years they tended to focus even more on industries where it held competitive advantages –namely, chemicals, metallurgy, machinery and construction. [14]

Early German companies invested mostly in traditional sectors, like primary exports, lands, insurance and banking, while firms created after the war followed a specialization pattern that had become characteristic of German investments abroad –with commercial affiliates of industrial companies (Thyssen, Bosch, Junghans, Aceros Roechling-Buderus SA) and metallurgical firms (Krupp), construction companies (Wayss & Freytag SA), manufacturers of electrical suppliess (Compañía Platense de Electricidad Siemmens Schuckert), machinery (Argentina de Motores Deutz) and weapons (GECO). Metallurgical, machinery manufacturing and construction companies present in Argentina in 1923 were later joined by chemical and pharmaceutical firms -Establecimientos Klockner SA, Anilinas Alemanas, La Quimica Bayer SA, Merck Quimica Argentina (1930), Quimica Schering, Springer and Moller SA (1930). [15]

Table 5
German Companies in Argentina by activities, 1923-1944

Year	A	B	C	F	G	H	J	K	L	Total
1923	3	2	3	2	14		1	9	2	36
1930	4		7	5	24	2	3	12	1	58
1937	5		13	4	26	2	2	10	1	63
1944	5	0	17	3	21	4	2	13	0	65

Sources: Database on Foreign Companies in Argentina. See Footnote 4.

As regards organization format, a vast majority of the German companies that started operating in 1919 and onwards were incorporated as Argentine corporations. In 1923, two-thirds of all German companies in Argentina were indigenous firms, with both German and Argentine board members, while 21 out of these 24 companies had been created after WWI. In 1930, 80% of the 58 German companies operating in Argentina formed their boards in Buenos Aires.

Why were German investments different in Argentina during the interwar period? Despite the fact that direct investments provided better control and influence in external markets, they had become risky in Europe but not in Argentina[16], –a neutral country during the war, with no political or economic restrictions on foreign capitals and with attractive, expanding urban markets that guaranteed economy-of-scale benefits, as shown by CATE's experience. [17]

In addition, while Argentina and Germany did not share cultural or language similarities, the existence of a consolidated German-Argentine community in Buenos Aires in the late 19th century had offered ample opportunities to build a business network based on mutual trust and some cultural affinity (Newton, 1977). This trait dated back to the historic networking among Belgian and German businesses associated with wool, leather and textile trade in 1860-1890. These ties laid the groundwork for the expansion of the two leading business groups in Argentina at the turn of the century -Bunge & Born and Tornquist. Later, these networks also proved instrumental for the arrival of German capitals in the interwar period. [18]

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[14] This differs from Rapoport's characterization, which depicts German firms as showing great concentration and diversification in la Argentina. Musacchio, Rapoport & Converse (2006).

[15] See Wustenhagen (2004).

[16] Berg & Guisinger (2001) differentiated political risk from "country risk" (components: financial risks, economic risks, operating environment factors (including legal structure).

[17] See Hertner (2010).

[18] See Frid & Lanciotti (2009); Harispuru & Gilbert (2009).

The engagement of German multinationals in local networks is visible in the alternating presence of German-Argentine businessmen in the boards of German companies created after WWI. Their strong board interlocking comes as no surprise, as German-Argentine directors and receivers sat in several boards at once (including Fernando Ellerhorst, Ernesto Aguirre, Ernesto Restelli, E. Albert L Schaefer, A. Kuhn, H Hosmann, R. Staudt, G. Kraft, A Niebuhr, G. Wernicke, R. Schmidt y Carlos Meyer Pellegrini). The creation of companies incorporated in Argentina and the involvement of local board members facilitated both the protection of German assets and companies' expansion in the local market, especially in the chemical, pharmaceutical and metal industries, where they competed with American multinationals.

While German investments dwindled in other latitudes, as noted by Schroeter, several German companies increased their capital in Argentina in 1919-1938. During the 1920s, to enhance their share in Argentina's competitive market, companies specializing in metallurgy, machinery manufacturing and construction (as well as their associated financial institutions) increased their equity. This group included Thyssen Lda. Cia Industrial y Mercantil, Krupp Sociedad Metalúrgica Argentina, Tubos Mannesmann Ltda., Argentina de Motores Deutz, Sudamericana Robert Bosch, Wayss & Freytag SA Empresa Constructora, Unitas Compañía Financiera, and Fuhrmann Ltda. SA Financiera y Comercial.

1.2. ***British Companies –Investment Reorientation and Organizational Changes in the Interwar Period***

British companies also consolidated their operations in Argentina by creating Argentine corporations. As noted earlier, most British firms adopted the free-standing company format, based in London. However, by 1923, 20% of British companies operating in Argentina had been incorporated under Argentine laws. By 1930, this share had risen to 25%. Like German companies, British firms did not operate as typical multinational affiliates; rather, they were created specifically to operate in Argentina, with their Boards featuring British nationals residing in London, British nationals residing in Argentina –usually representatives of financial trusts and British insurance companies- and local agents. Were these companies truly British? Indeed they were. Their capital was British, and their stockholders were largely British businessmen who had previous and various other interests in the region, although there were also local shareholders with minority stakes. Until 1930, this organizational scheme was mostly employed by construction companies and farms –both operations being strongly dependent on local economic conditions and requiring specific knowledge as well as local contacts, rather than access to international financial support.

Not all these British companies stood for new investments. In 1920-1930, several merchant houses and shipping agents reorganized themselves as local firms, including Belwarp Limitada Argentina SA, Thornycroft Argentina Ltda. SA, Lister y Cía. Ltda., Houlder Brothers and Co. Argentina Ltd., and Chadrick Weir & Co Ltd. A group of newly created British multinationals' affiliates joined these firms as they initiated their industrial operations in Argentina, including Imperial Chemical Industries (ICI), Crossley Brothers Limited, The Patent Knitting Co. Buenos Aires, Buxton Ltda. SA Comercial e Importadora, Cartuchería Orbea, and Crosse & Blackwell Argentina Ltda.

Thus, British investments in Argentina shifted their focus to industrial activities. Most British companies arriving after WWI, based both in London and Buenos Aires, concentrated on industrial operations. This trend emerged clearly in the 1920s and consolidated after 1930. How should this change be construed?

Table 6
British Companies, by activities, 1923-1944

Year	A	B	C	D	E	F	G	H	J	K	L	M	Total
1923	30	2	18	4	4	9	33	23	4	34	7	3	171
1930	23		32	6	4	8	46	26	5	36	8	5	199
1937	25	1	38	8	4	12	31	28	3	36	7	6	199
1944	28	1	34	4	4	8	35	25	5	38	6	5	193

Sources: DataBase on Foreign Companies in Argentina. See Footnote 4.

Basically, British investments' refocus and organizational changes came in response to transformations in the host economy that bore an impact on the drivers that had attracted earlier British funds. Traditional activities, like insurance, finance, farming, real estate, and utilities, yielded satisfactory returns in the 1920s. However, market conditions had changed as a result of the arrival of Belgian and Dutch competitors that rivaled British companies for their formerly captive clientele in financial, mortgage and insurance services. At the same time, Argentina's growth and thriving agribusiness sector in the 1920s had made farming outfits less dependent on external lending, and, thus, British companies' managers foresaw the end of the regional investment boom, as the host economy no longer needed British funding. Profitability remained high, but the expansion of traditional British businesses in Argentina had come to an end.

Argentina's flourishing economy also led to local currency revaluation, higher income and economic diversification. These conditions afforded new investment opportunities for British companies (and not only for American or German firms, as traditionally argued) eager to supply new consumer and investment goods to Argentina's domestic market. These opportunities were seized, and British companies increased their share in the local industrial sector, as shown above.

As noted in an earlier paper, another element that is often overlooked when it comes to weighing the penetration of some products and marketing firms is competitiveness. According to some estimates, by 1929, 64% of U.S. manufactured exports to Argentina involved products with scant competition as a result of production advantages in that country.[19] Thus, the classic debate on British-Argentine rivalry should incorporate a notation for import shares for every country, as the United States and the United Kingdom exhibited some complementariness rather than competition until 1930, which did not mean that the market as a whole was not competitive.

2. *European Companies in the Period between the Great Depression and World War II*

The Great Depression dealt a heavy blow to financial markets. As export values collapsed, deficit struck Latin American countries' balance of payments. In addition, local currency devaluation, exchange rate control introduction, and restrictions on foreign funds all bore a negative impact on foreign firms' operations. Starting in 1929, foreign capital stocks dwindled until reaching their lowest record in 1949.[20]

In 1930, all of Latin America embarked on a period of greater state control over foreign direct investments, stemming from a number of concerns that included limiting cash outflows and promoting import substitution practices. However, new economic policies also drove the

[19] See McCrae, Van Metre and Eder (1931), *International competition in the trade of Argentina.* Worcester, Mass, New York, Carnegie Endowment for International Peace, Division of Intercourse and Education, p. 10.
[20] United Nations (1955).

emergence of investment opportunities for foreign companies, as shown by the 7% increase in the number of foreign companies between 1930 and 1937 (Table 2), resulting from the arrival of new industrial firms –especially in the chemical and pharmaceutical industries. These industries were dominated by German and American companies, but there were also numerous British companies.

Also significant was the printing and publishing industry growth driven by the arrival of Spanish firms in Buenos Aires as a result of Spain's civil war. British supremacy consolidated in the construction industry (over a third of all construction companies were British), although French, Belgian and Dutch firms also held a substantial share of the market. The establishment of aviation and shipping companies of several origins explains the increase in transportation firms.

This is significant, as classical historiography studies on external capital cycles in Argentine have largely viewed FDI as dropping in the 1930s. On the contrary, these findings show that foreign companies consolidated and diversified in Argentina, attracted by import substitution policies and domestic market expansion. As Phelps (1938: 99) pointed out, "foreign capital will fail to seek profitable investment again in this rich young country, as soon as evidence of economic recovery and the restoration of international confidence become more pronounced. In fact, all reports indicate that during 1936 and the early months of 1937 an increasing volume of foreign funds, largely European, has been entering Argentina for investments."

The advantages drawn from economic localization proved evident in the industrial sector, especially in the chemical, pharmaceutical and editorial fields, as noted. Indeed, foreign capital inflows (mostly from the United States, now) were partly driven by the conditions resulting from the 1930 crisis. Rising import duties propelled the establishment of sales offices and affiliates, as international companies also started to invest in the production of industrial goods for Argentina's domestic market, thus eluding high tariffs. Import substitution industrialization offered an existing, captive market and quick profits. [21]

In this period, many foreign companies turned into Argentine corporations. Essentially, multinationals organized their businesses abroad in three ways. The first was to create a company in the country of origin to operate overseas (free-standing company), as showed by the first British, French and Belgian companies arriving in Argentina. The second option was to create a branch of a corporation organized abroad,[22] as American multinationals did at first, with Swiss, Dutch and Italian companies (in share order) imitating them later. This method proved simpler in terms of legal reports and offered the advantage that "*business was always handled in the name of the company.*" The third choice was to start a new company according to Argentine laws, usually adopting the corporation format. This option became widespread in the 1930s –by 1937, 42% of all foreign companies were incorporated as Argentine corporations.

Foreign companies' incorporation decisions were influenced by legal, economic and political concerns. Nonetheless, starting in 1930, political issues acquired greater significance, as indicated by a report written by a legal consultant for foreign companies in Argentina, "I*n brief, taking efficacy of control intro 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."* Additionally, tax advantages might have weighed in these decisions as well, as the same report noted that the incorporation of Argentine corporations allowed for "*the distribution of profits in the manner which may be considered most advisable, as this depends on the price at which*

[21] See Villanueva (1972) and Phelps (1939).

[22] Letter to Mr. Geo W Hayes, Radio Corporation of America, signed by R. W. Huntuington, Cangallo 666 Buenos Aires, dated August 22, 1928. Identical instructions to create a local affiliate in a letter dated September 18, 1924, addressed to Otis Elevators' Manager. Tomas Munster Papers. Hagley Museum.

the merchandise is supplied to the subsidiary company."[23] Thus, a combination of legal, political and economic went into consideration when companies assessed host country conditions and headquarters' global policies. In the 1930s, this also reflected an international trend, as, by 1936, only 6% of American FDIs around the world fell into the direct-branch operation format, and the remaining 94% operated as subsidiaries.

Argentina's case confirms these trends, and, as in other countries, a new economic and political setting increasingly prompted –as the phenomenon was not new- that a share of foreign direct investments adopted the Argentine corporation format. Old and new companies found incentives to turn "native" in the 1930s. For European companies, this strategy was supported by several reasons, including the difficulties to transfer profits abroad, high taxes, and increased state regulation at their homelands, double taxation, and growing uncertainty in European economies. [24] As a result, the change in organizational strategies enabled foreign companies to continue operating and expanding, while the first global economy crumbled. These changes sought to overcome the challenges posed by increased regulation and protectionism in national economies, but they were also intended to safeguard investments in stable nations like Argentina, as European countries navigated an uncertain political and economic scenario caused by the financial crisis, currency instability and growing nationalism.

The outbreak of World War II strengthened this asset protection strategy (Jones, 2005). In addition, multinationals started to focus on "domestic" operations, forced by tariff barriers and exchange controls that mandatorily enhanced affiliates' autonomy. Growing nationalist policies also drove many companies to reinforce their local identity in host countries.

A nationality-based categorization (Table 7) illustrates the stability of foreign companies operating in Argentina, as well as the shares boasted by European companies throughout the period under study. In 1923, 75% of all foreign companies operating in Argentina were European. An increasing share of American FDI naturally pushed Europe's share down to 66% by 1944, but this was still a sizable share.

Another fresh trait that emerges with this analysis is the stability of classical investor countries (the United Kingdom, Belgium and France), compounded by an increase in the number of German companies and the arrival of "newcomers", such as Spain. As regards Italy, Argentina was one of the very first destinations in the international expansion of large companies such as Fiat, Olivetti, and Pirelli. In this period, Italian companies gained a more significant share in Argentine industrial activities, with the emphasis moving from food, textiles and services, for which there was a captive market of Italian immigrants, to durable consumer goods.

Over the interwar period, American companies certainly prevailed and showed greater dynamism, but, in absolute terms, this period recorded no decrease in the number of European companies (and foreign in general) operating in Argentina -quite the contrary: this number rose from 318 in 1923 to 396 by 1944, peaking in the 1930s. Among European companies, in addition to a continued dominance by British firms, Argentina welcomed a sizable number of German, Belgian and French companies. As a result, it is safe to conclude that, despite the massive changes unfolding in the international setting and for the reasons mentioned above, there were no significant changes in the number and composition of European firms, and the notion of their declining presence in Argentina by 1944 may be undermined by these new findings. Indeed, this scenario would soon change, first as a result of

[23] Letter dated November 27,1927, addressed to Sydney Ross Cia. SA, Tomas Munster Papers. Hagley Museum.

[24] This strategy was based on favorable, long-term expectations and, fundamentally, on the absence of asset seizure threats in host economies. Miller (2006). On the ambiguous ties among multinationals and nationality, see Jones (2006).

the seizing of German companies and, alter, with the Peronist government's nationalization policies.

Table 7: Foreign Companies, by nationality, 1923-1944.

Country	**1923**	**1930**	**1937**	**1944**
United Kingdom	179	204	206	198
Germany	36	58	63	65
Belgium	30	37	37	32
France	25	37	37	33
The Netherlands	14	18	23	13
Switzerland (*)	13	21	20	22
Italy	10	14	17	14
Spain	3	5	12	9
Sweden	5	5	5	6
Other European	3	3	2	4
United States	88	133	155	173
Canada	4	5	6	6
Other LA countries	9	8	7	17
Oriental Japan/China	5	2	2	2
Africa		0	1	1
New Zeeland	1	1	1	1
Total	425	551	594	596

Sources: Database on Foreign Companies in Argentina. See Footnote 4.

Taking into account companies' authorization/inception dates, we find that most of them were created in the 1920s, which proves that internalization decisions were based on economic localization advantages derived from domestic market expansion –namely, increased economies of scale, cost reductions, and demand growth. The size and diversification of the domestic market in the 1920s, as well as its further consolidation in the 1930s, provided a key incentive for foreign companies' arrival, as noted earlier. At the same time, the slight decrease in the share of companies created before the first post-war period in the financial, farming and forestry sectors account for the continuity of ownership advantages associated with intangible assets, specific asset coordination and monopoly advantages.

Table 8: Foreign firms, by date of entry (1923-1944)

Period	1923		1930		1937		1944	
	V.A.	***%***	**V.A.**	***%***	**V.A.**	***%***	**V.A.**	***%***
Before 1890	33	*8%*	31	*6%*	29	5%	27	5%
1891 - 1900	37	*9%*	35	*6%*	39	7%	33	6%
1901 - 1910	82	*19%*	72	*13%*	66	11%	65	11%
1911 - 1920	176	*41%*	153	*28%*	127	22%	113	19%
1921 - 1930	97	23%	260	47%	216	36%	192	32%
1931 - 1940					113	19%	121	20%
1941 - 1944							42	7%
Total	425	100%	551	100%	590	100%	593	100%

Sources: DataBase on Foreign Companies in Argentina. See Footnote 4.

Finally, it should be noted that, by late 1944, foreign companies' industry distribution did not change, as the trend started in the first post-war period consolidated, instead. By the end of WWII, industrial operations dominated the scene, followed by trade and finances. Over those years, a large number of foreign industrial firms operating in Argentina moved from a scheme based on a commercial affiliate to deploying assembly and manufacture facilities. [25] Depending on product lifecycles, this process usually combined imports and local manufacturing at first, with a later focus on manufacturing. This was particularly the case for companies operating in the pharmaceutical and cosmetic industries, where firms leveraged concentrate import advantages with local packaging capabilities.

2.1. German Companies after the Great Depression

As stated earlier, exchange control policies seemed to have been an incentive for foreign investments. Indeed, some German companies found new incentives for increasing their capital, with notable examples including, once again, Bosch Robert Cía. Sudamericana de Magnetos y Equipos, Thyssen, Tubos Mannesmann, as well as GECO, Química Bayer SA, Merck Química Argentina and Química Schering. In this last case, Wustenhagen (2004) has documented that, despite the difficulties brought by exchange controls, Química Schering SA -eager to cater to a growing local demand that turned Argentina into the world's fifth largest sales and profit market- managed to substantially raise its capital and, in 1938, opened a modern production plant, becoming the "first large subsidiary in Latin America," which served nearly all Latin American markets.

German internationalization efforts, embodied in Argentine affiliates, share the same drivers that attracted German FDIs to Latin America since WWI until the late 20th century – primarily, a business expansion to protected markets, relying on advantages developed in their homeland. German leadership in Argentina (as in other countries) was based on capital and knowledge-intensive industries (for example, chemical and electro-technical) –these traits also characterized some major German products imported by Argentina in the 1930s, including some drugs, iron and steel products, paper products, machinery, electrical motors and equipment in general. High expectations for the penetration of German chemical products, electrical equipment and machinery had been validated by I.G. Farben's report on Argentina, quoted by Newton (1986), which mentioned that "*Opinion held that, because of raw material and energy problems, a heavy industry will never develop in Argentina."(I. G. Farben Report, fi. 87).*

In the 1930s, German companies' operating strategies followed the increasing localization efforts deployed by other foreign companies, but, in their case, these strategies were combined with a global attempt to camouflage the German nationality with company names unrelated to parent companies. For instance, the El Fénix Sudamericano reinsurer company was actually a Munich Reinsurance Company affiliate, Geope (Compañía General de Obras Públicas) was an affiliate of Philipp Holzmann. In the chemical industry, several Argentine companies were IG Farben subsidiaries, including Anilinas Alemanas, Química Bayer. The Compañía Argentina de Comercio (CADECINA) was created as a result of an initiative by Staudt & Co., with stakes held Krupp and Siemens-Schuckert. Another example is Química Schering SA, which, in 1939, was incorporated as a Swiss company. This company's disguise process had begun when, as a result of restrictions and regulations enacted in Germany before WWII (regulation 152/36), several MNCs created holdings in countries like Switzerland and Panama. In this case, starting in 1937, Schering reorganized its international businesses to escape "the grip of the German government."

[25] Wilkins (1970 y 1974).

As a result, estimations on the number of German companies operating in Argentina have differed, and German FDIs in Argentina during the interwar period have been largely underestimated. Traditional studies have ranked Germany fourth or fifth among foreign investors, following Great Britain, the United States, and France. However, in terms of the number of companies operating in Argentina, Germany ranked third and second among European investors. As shown in Table 4, this trend remained unchanged until 1944.

Until 1945 and as compared to other latitudes, German companies operating in Argentina did not experience a negative business environment. Local economic and political conditions remained stable, and regulations in this period continued to welcome foreign companies. Regardless of a greater complexity in bilateral trade in the 1930s, from a political standpoint, increased foreign direct investments in Argentina enabled German companies to avoid controls and confiscations by Hitler's regime, safeguarding their interests nearly until the end of WWII. This changed when, in 1945, Argentina declared war on the Axis, giving in to U.S. pressure. Argentina's adherence to the Chapultepec Treaty implied the intervention of German companies, deemed as enemy assets. Fifty-one firms were put under control of the Board of Vigilance and liquidation of Enemy Property. Finally, thirty German companies were nationalized and merged to the National Department of State-Owned Industries (DINIE, for its Spanish acronym) in 1947 (Belini, 2001).

From a long-term perspective, the organizational formats adopted by German companies in Argentina confirm Schroeter's statement that, from a historical standpoint, the variety of "special cases" undermines the scope of classical theories on multinationals. Additionally, the Argentine experience provides an answer to Wilkins' (1993) observation on the difficulty to identify stand-alone German companies in investment destination economies. This organization format –stand-alone companies incorporated in host economies with foreign management and controlling stock- was effectively used in Argentina and prevailed among German interests in the interwar period.

Finally, findings referring to the German case also undermine Chandler's characterization of prevailing bureaucratic, centralized schemes among German multinationals. In particular, based on an analysis of Thyssen, Fear (2005) argues that, until the 1920s, most German industrial companies did not have a large middle-management staff, and their structures were, in fact, much more diversified and decentralized than those of their American counterparts. Also, recent studies indicate that the use of trust-based business networks to organize businesses was a common trait among industrial German firms until WWII. As noted, this feature would also surface, as personal relations proved significant in the expansion of German business in Argentina.

3. A Long-Term View of Drivers for Foreign Corporations' Move to Argentina

Based on a study of foreign companies' major operations and industry distribution in Argentina between 1923 and 1944, as well as their organizational changes throughout that period, we have analyzed the key drivers for FDI in Argentina in general and some specificities of European companies operating in the country to identify the leading attraction factors as well as the ownership and internalization advantages that promoted foreign companies' arrival. As noted throughout this paper, in order to analyze foreign companies' settlement in Argentina in several periods, we have relied on a number of different theories that explain business internationalization processes.

First, in general terms, during the stage marked by agricultural exports, financial capabilities, international trade network control, specific knowledge on resource location and quality, transportation means, and a coordinated management of a network of specific assets were the leading ownership advantages that drove European companies to come to Argentina. Second, following Dunning's formulation, specific localization advantages drawn from natural resource availability determined the destination of direct investments. Companies settled mostly in the Buenos Aires, Santa Fe and Patagonia provinces. However, these localization advantages did not only hinge on available natural resources, but also on exclusive access guaranteed by the state. Thus, initially, localization advantages proved to be monopoly advantages, as formulated by Hymer.

In addition, during this early stage, European companies' overriding internationalization strategy rode largely on the creation of free-standing companies (FSCs) for specific ventures, overseen by investment groups. This FDI format implied the successive introduction of operations associated with ownership management, which did not require specific technological knowledge but management skills, as note by Casson. This organizational scheme helped investment groups to expand into financial, extraction, transportation and utility operations until WWI, ensuring their continuity until the 1940s, several decades after the end of the investment cycle that had led to their emergence. These attraction drivers and strategies characterized all European companies –mostly British, but also German, Belgian and French- that settled in Argentina.

Foreign investments in the so-called dynamic industries, like the chemical and metallurgical industries, started in the first post-war period, before the classical industrialization phase began in the 1930s. This confirms that WWI brought new conditions to Argentina's economy that promoted FDIs and were not largely present in the agricultural export boom. These conditions primarily hinged on localization advantages associated with the size and type of Argentina's domestic market, as well as the internalization of competitive advantages acquired in companies' homelands. As a result, we disagree with Kosacoff (1999), who argues that these factors emerged only after the 1930 crisis.

Thus, in the 1920s, the key drivers fueling the arrival of transnational companies in Argentina stemmed from ownership and localization advantages based on the exclusive access to resources and, mostly in the late years, a strategy that focused on the domestic market, prompting the development of specific product and service competitive advantages. Investment strategies may have adopted two formats: affiliates in charge of local marketing and production operations, with little integration, and subsidiaries that built manufacturing plants in Argentina, starting industrial production to serve the local market.

The existence of attraction drivers that differed from those existing in the agricultural export boom mark the beginning of a new foreign investment cycle in the first post-war period, with its impact consolidating in the 1930s. Thus, early localization efforts by foreign companies in the 1920s may be construed as intended to strengthen their domestic market operations. A growing domestic market lured new service companies, especially in the fields of professional services, information and communications agencies (led by American firms), but, more importantly, it encouraged the development of competitive advantages through distribution networks for differentiated products. As a result, ownership advantages derived from intangible assets, like patents, trademarks, technological capabilities, favored the internationalization of a set of transnational companies in the 1920s.

As to factors influencing the destination of new companies, economic localization advantages associated with local market size and structure zeroed in on more heavily populated areas, with higher per-capita income levels and more extensive transportation systems. The nation's capital and Buenos Aires province became a preferred destination for new investments, based on economies of scale, labor availability, and lower transportation costs resulting from their proximity to large consumer markets. Localization patterns were more concentrated and less integrated than those followed in the previous period, as a result of an increase of market seeking investments.

Reconstructed evidence indicates that, in the 1930s, the ownership and localization advantages that had determined the arrival of new companies in the previous decade consolidated as competitive advantage in a setting with import restrictions and increased government control over exchange rates and fund transfers, while national industry was subject to greater protection. On the one hand, these drivers reinforced a trend that had surfaced in the 1920s, as noted in the paragraph above, and, on the other hand, they account for a more noticeable change in new companies' organization formats, as foreign companies were incorporated as Argentine corporations. Foreign companies' efforts to become Argentine locals also contributed to their strategy to avoid taxes in their homelands on profits made abroad, which would now be subject to Argentine laws. In short, legal and political factors added to the competitive advantages drawn from ownership and localization advantages. In addition, a study of German companies operating in Argentina at this time also illustrates another scheme, with local drivers at play alongside specific strategies to camouflage and safeguard their investments.

Increased employment and a growing share of Argentina's GDP riding on its manufacturing industry brought more appeal to Argentina as a foreign investment destination. This new attraction may be explained by Vernon's product lifecycle model. Certainly, with the outbreak of WWII, demand became more inelastic in developed countries, especially in the United States. At the same time, a growing industrial labor base in Argentina and a relative stagnation of real salaries in the 1930s enhanced its appeal for industrial, value-added operations, as production costs ran lower than in their countries of origin. These conditions, compounded by exchange rate and closed economy incentives, propelled foreign companies in dynamic industries to intensify their local assembly and manufacturing operations in detriment of their end product imports (it should be noted that this process fueled a greater increase in the number of American manufacturing affiliates than in the number of their European counterparts). Finally, this study has shown that it is possible to undermine the notion of an absolute decline in FDI as a direct consequence of WWI or the effects of the 1930 international crisis. On the contrary, we hope to have proved that international economic changes forced multinational companies to revise their strategies, reorienting their investments on the basis of a thorough evaluation of specific features in both their economies of origin and their investment destinations.

Lastly, it should be noted that the methodological approach used has enabled us to accurately identify the dominating factors influencing foreign –and European, in particular- companies' decision, as well as to shed some light on the ties linking companies organization formats and strategies with local economic conditions, helping to narrow down more general views based on the analysis of capital flows and stocks, which usually describe more general trends shaping foreign investment cycles. Indeed, this study shows that investment drivers cannot be explained with a single theory. Transformations in long-term investment modes and economic conditions call for the consideration of a number of different variables that escape generalizations. While Dunning's eclectic paradigm does provide the most comprehensive explanation for business internationalization processes, as it factors in ownership, localization and internalization advantages, other theories, including Hymer's and Vernon's, provide for an interpretation of specific processes, such as foreign investments focusing on natural, non-renewable resource exploitation or changes in typical multinationals' organization formats to respond to local market growth and diversification.

Appendix: The Argentine formula and companies' *nationality*

Historically, Argentina followed a very broad judicial tradition for foreign companies' operations. Article 285 of Argentina's Commercial Code established that corporations legally incorporated in a foreign country, with no local address, subsidiary or representation, could engage in "isolated business operations," as long as these operations were not "contrary to Argentine laws."[26] The next article regulated the operations of corporations incorporated in foreign countries conducting their core business in Argentina, which were "viewed, for all intents and purposes, as national corporations subject to the provisions of this code." On September 30, 1897, this article was amended: "*Las sociedades que se constituyan en país extranjero para ejercer su comercio principal en la república, con la mayor parte de sus capitales levantados en esta o que tengan en la misma su directorio central y la asamblea de socios, serán consideradas, para todos sus defectos, como sociedades nacionales sujetas a la disposiciones de este código*".

From a judicial standpoint, several criteria were set to establish or determine the nationality of a corporation:

1) Place where its Articles of Incorporation were issued;
2) Nationality of the majority of its partners;
3) Actual and effective location of its headquarters;
4) Headquarters' address, and
5) Location of its core business operations.

Thus, Argentine laws did not ban corporations' nationality, but they did not establish a single criterion, either (until Act 20,557 (1973) was sanctioned). As a result, there was some leeway for the adoption of the so-called negativist theories. Indeed, Argentine doctrine traditionally established that corporations –as legal entities- could not have a specific nationality, reserving this political attribute for individuals (Art. 282). On the contrary, the European doctrine argued that both corporations and individuals had a nationality.[27] Argentina's case law largely considered that corporations' "economic" explanation was upheld by major "corporation-exporting" countries, which were interested in attributing a nationality to their corporations to provide them with diplomatic protection and to determine their *lex societatis*.[28]

The criterion known as "negative nationality doctrine"[29] was adopted early by Argentina and was later "exported" under the "Latin American doctrine" name. It dates back to 1876 and originated as a result of a conflict between Banco de Londres y Rio de la Plata and the Province of Santa Fe. When British officials complained about the sanctions imposed on this foreign bank, Argentina's Secretary of State at the time, Bernardo de Irigoyen, explained what would later be known as "the Argentine thesis: "*las personas jurídicas deben exclusivamente su existencia a la ley del país que las autoriza y por consiguiente ellas no son ni nacionales ni extranjeras. La sociedad anónima es una persona jurídica distinta de los individuos que la*

[26] Article 285 of Argentina's Commercial Code read, "corporations legally incorporated in a foreign country, with no seat, subsidiary or any kind of societal representation in Argentina, will nonetheless be able to conduct here their business operations that are not contrary to national laws."

[27] Aztiria E., *La nacionalidad de las sociedades mercantiles en la Academia Interamericana*, lecture delivered at French-Latin American Seminar on Comparative Law, Buenos Aires, Tipográfica Editora Argentina, 1948, p 41. It should be noted, however, that some authors in these countries also rejected the notion of corporation nationality.

[28] Luis A. Estoup, available at http://www.javeriana.edu.co/Facultades/C_Juridicas/pub_rev/international_law/revista_2/5.pdf

[29] J P Niboyet, *Principios de derecho internacional privado*, Madrid, 1928.

forman y aunque ella sea exclusivamente formada por ciudadanos extranjeros no tiene derecho a la protección diplomática".[30]

This doctrine was restricted to corporations, and some authors have argued that this was more of a diplomatic than technical doctrine, as partners' and/or individuals' nationalities were not disputed.[31] Nevertheless, this thesis was upheld by several jurists until the mid 20th century.[32] Carlos Saavedra Lamas, one of its strongest supporters, championed this thesis at the 1927 Rio de Janeiro Conference, which sanctioned it as the "non-nationality principle." In 1940, the Montevideo Congress ratified this view (in its article 4).

Argentina's Supreme Court of Justice recognized the nationality of corporations incorporated abroad. In one of its rulings, it sentenced, "according to our laws, corporations existing overseas are legal entities, under the same conditions as those incorporated here, and may, therefore, exercise all the rights granted by Argentine laws" (Civil Code, articles 33, 34 and 35).[33] Zavala Rodriguez believed that this ruling did not undermine the negativist doctrine, as it only admitted that foreign corporations might conduct their business operations in Argentina without compromising their nationality, which depended on the state where the act that initiated its legal existence had taken place (1956:301).

The "Argentine doctrine" principles were undermined by the decrees that declared war on Germany and Japan (March 27, 1945), establishing the control and surveillance of the so-called "enemy assets" (7032/1945, Articles 1, 2 and 4). As noted by some jurists, in times of war, countries adopted the "doctrine of national interests." The economic control criterion had already been applied during World War I, and several countries characterized assets as enemy holdings depending on the nationality of the people managing their business operations.

The Executive Branch authorization and the status of corporations incorporated abroad:

The requirement of an Executive Branch authorization for corporations' operations (regulated by Articles 317, 323, 342 and 370) became the standard system around the world, under the "octroi" name (Zavala Rodriguez 1956:386). In Argentina, the Executive Branch not only conferred legal status to corporations but also monitored their operations, overseeing their balance sheets and other issues. This control system was instituted by several regulations. Especially noteworthy are the powers vested on Argentina's Corporation Control Authority, locally known as the IGJ (*Inspección General de Justicia).* A team of inspectors was created by decree on July 22, 1893, as per the provisions of Article 342 of Argentina's Commercial Code, and the IGJ was created in 1897. Later decrees changed IGJ's tasks and the regulations that business corporations had to comply with (Halperín, 1965:386).

As regards notifications, business corporations were subject to a variable regime with two key procedures:

1) Registration for all corporations in the Public Commercial Register (RPC)

[30] Reproduced by Zavala Rodriguez (1956:298, T. 1).

[31] Estoup (s/f) plantea que en la doctrina IRIGOYEN, se descubre que la verdadera razón argumental se encuentra plasmada en la teoría de la ficción de las sociedades.

[32] Este principio fue sostenido en forma constante y sin discrepancias en la cátedra de derecho internacional privado de la Facultad de Derecho de la UBA por los distintos profesores (Halperín, 1965).

[33] Fallos CSJ, T.102, p 13, t 165 p 14, t 166 p 281, t 169 p 5, t 192 p 164.

2) Announcement via legal notice of corporations' complete Articles of Incorporation, with modifications for corporations and limited liability companies. Announcements had to be posted on the official gazette.

Nonetheless, the peculiar wording of the Commercial Code's Article 287 sparked a number of debates. This article established: "*las sociedades legalmente constituidas en país extranjero que establecieren en la República sucursal o cualquier especie de representación social, quedan sujetas, como las nacionales, a las disposiciones de este código, en cuanto al registro y publicación de los actos sociales y de los mandatos de los respectivos representantes, y en ese caso de quiebra a lo estatuido en el art. 1385. Los representantes de dichas sociedades tienen para con los terceros, la misma responsabilidad que los administradores de sociedades nacionales*".

An ongoing interpretation disagreement had forced corporations incorporated abroad to follow all current procedures. As a result, a bill was drafted and sanctioned as Act Number 8,867 in 1912 to "attract foreign capitals." Its arguments indicated that "corporations authorized by a foreign government can operate in Argentina without having to request a special government authorization to be acknowledged as such."[34]

This Act tried to further clarify this article, indicating "*Las sociedades anónimas a que se refiere el art. 287 del Código de Comercio, funcionarán en la Nación sin necesidad de autorización previa del Poder Ejecutivo, a condición de que comprueben ante los jueces competentes, que se han constituido de acuerdo con las leyes de sus países respectivos, e inscriban sus estatutos y documentos habilitantes en el Registro Público de Comercio*". Later, some jurists argued that this law had created a disparity with corporations based in Argentina, which had to abide by a larger number of formal requirements with the IGJ. In 1940, amidst a new economic cycle, Argentina's Chamber of Commerce established that Act Number 8,867 had not conferred any exceptional prerogatives or privileges to foreign corporations, and that, therefore, foreign companies should comply with all legal requirements and current regulations, except for the Executive Branch authorization.[35]

The size and number of foreign companies operating in Argentina made these dispositions very significant, with multiple rulings on interpretations of Commercial Code articles. In the interest of clarity, Zavala Rodríguez reckoned that Argentina's Commercial Code encompassed three distinctive cases:

1) Corporations incorporated abroad with no representation and conducting isolated or sporadic operations in the country (article 285);
2) Corporations incorporated abroad to conduct their core business operations in Argentina. According to the reform introduced by Act Number 3,582, in order for these companies to be deemed domestic, they had to raise most of their capital in Argentina and have a Board or Shareholder meeting in the country. Thus, these companies had to register and issue the necessary public notices in Argentina. Also, in the case of corporations, they had to request the Executive Branch's authorization to claim legal status (in order to avoid frauds with headquarters).
3) Corporations incorporated abroad that established a subsidiary or representation in the country had to request the Executive Branch's authorization. All other companies in this situation only needed to prove that they had been incorporated according to their homeland's laws and to register their by-laws and permits at the RPC.

[34] *Diario de Sesiones Cámara de Diputados 1910* T. II, p 609.
[35] Ruling issued on March 13, 1940, *Jurisprudencia Argentina*, Volume 69, p 973.

These issues are relevant on account of the multiple and significant implications of a corporation's "nationality" (which not only determines a number of obligations but also some important rights, including diplomatic protection and applicable laws). This discussion evolved later, with rulings from international agencies and laws passed in every nation. In Argentina, first the Law 20,557 (1973) and later the 2003 Act Number 25,750 explicitly established the nationality allocation based on the control criterion and created the status of Argentine companies and corporations, on the one hand, and foreign companies, on the other.

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