

Globalization in a Democratic Regime:
The Impact on Business-Government Relations in Brazil

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Globalization in Brazil – and in Latin America generally – is occurring at the same time as the consolidation of democracy. Both of these trends are causing scholars and policymakers to rethink the role of the state in business-government relations. While this rethinking is relevant to Latin America as a whole, in Brazil, because the role of the state has been so pervasive for so long and is changing so rapidly now, it is especially relevant and sure to have a profound influence on future government policies.

As defined here, “globalization” refers broadly to the internationalization of production - i.e., production processes for given products based in more than one nation – and the increasing economic interdependence of nations resulting from the expansion of foreign investment, transnational corporate alliances, and international trade. Because of this increasing economic interdependence between nations, and because transnational corporations, operating in multinational production networks, are the primary agents of this process, national governments – even nation-states themselves – would seem to be increasingly irrelevant.¹ Yet in fact, quite the opposite is true. Studies have shown that those countries – at least, those *democratic* countries – that are most open to trade and investment also have the largest states.²

In small European countries with open economies, where the population is especially vulnerable to the vagaries of the international political economy, the reason for this expansion of the state is that democratic governments tend to compensate for openness by spending more on social welfare programs.³ Yet globalization in the context of democratic regimes in Latin America is creating another reason for a strong state role. Eager to participate in the global production process, and to ensure their own people a place in the production networks driven by transnational corporations, Latin American governments are making concerted efforts to promote direct foreign investment (DFI) in their countries. While many scholars concerned have expressed concern about this trend⁴, this paper argues that, if “harnessed” effectively, DFI offers the opportunity for Latin American countries to achieve a more prominent place in the global process of production.⁵ The

¹ Raymond Vernon had made this prediction even as transnational investment expanded, in the classic *Sovereignty at Bay: The Twilight of the Nation State*.

² See David Cameron, The Expansion of the Public Economy: A Comparative Analysis, " *American Political Science Review* 72, no. 4 (1978); Alejandro Foxley, *New Perspectives Quarterly: NPQ*, Fall, 1997, Vol. 14, No. 4, p. 12. Cameron dealt with European states; Foxley was emphasizing how the role of the government in Chile, famous for the openness of its economy, had grown since the transition to democracy.

³ Cameron (1978). Peter Katzenstein builds on this argument in *Small States in World Markets* (1985).

⁴ There is a growing literature on this topic. Those critical or skeptical about the effects of globalization on prospects for economic development in Latin America include Gary Gereffi and Lynn Hempel, "Latin America in the Global Economy: Running Faster to Stay in Place," *NACLA Report on the Americas*, Vol. 29, No. 4, January/February 1996; and Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995) and "The Eclipse of the State? Reflections on Stateness in an Era of Globalization," *World Politics* 50 (October 1997), pp. 62-87.

⁵ The word "harnessed" is from Gereffi (1996). This paper assumes that "achieving a more prominent place in the global process of production" - adding a larger share of the value to finished products - would benefit a country in numerous ways, including more jobs, opportunities for exports, increased GNP, technology transfer, and even enhanced prospects for indigenous entrepreneurial activities.

central questions of this paper are, can democratic governments in Latin America attract and harness DFI effectively in order to achieve such outcomes - and if so, what factors are most likely to lead to success?

For a variety of reasons, DFI in high technology industries would seem to be especially useful for achieving such ends.⁶ But in order to attract such investment, governments in Latin America need to fulfill a number of conditions. First of all, they need to be “facilitating states.” I use this term to refer to states that are autonomous while at the same time having a market-orientation. In other words, “facilitating states” are governments that are capable of implementing broad policies on behalf of the country as a whole, rather than on behalf of narrow individual interests - yet do this in a way that *facilitates*, rather than interferes with, market forces.⁷ Governments that want to attract DFI in high technology industries also need to be predictable, transparent, and accessible – conditions that, as I will argue, are found to a greater extent in more fully “consolidated” democracies.⁸ By comparing the Brazilian case with DFI promotion programs in Costa Rica, Chile, and Mexico, this paper attempts to show under what circumstances, in the context of a democratic regime, the state can play an effective role in promoting direct foreign investment in high technology industries.⁹

The Focus on a High Technology Exporter: Intel

Brazil, while enormously successful in general at attracting DFI (including high-tech DFI), has not *always* been a “winner” in such efforts. One recent high-profile example is Brazil’s failure to convince Intel to locate its first manufacturing plant in Latin America - a plum \$300-\$500 million dollar project, bringing with it thousands of high technology jobs - in Brazil. Instead of choosing Brazil or one of the other top contenders for this plant (Mexico and Chile), Intel chose Costa Rica.

⁶ Unlike extractive industries or lower-level manufacturing, DFI in high technology manufacturing sectors offers at least the possibility for technology transfer and more advanced development of human resources in the host country.

⁷ Examples of “facilitating state actions” include providing technical training programs in order to enhance a country’s ability to absorb foreign technology, providing matchmaking services for joint ventures between foreign firms and local producers, or providing special technical assistance to small and medium-sized enterprises.

⁸ By “consolidated” democracy, I am referring to democracies that have regular and fair elections, genuine contestation over selection of leaders and choice of policy outcomes, and participation on the part of citizens. It is important to note that, unlike others who discuss democracy, I do *not* exclude from the definition those democracies that still do not have full civilian control of the military. These are the so-called “tutelary” or limited democracies such as Chile with its “appointed” senators and, in Chile as well as in Brazil and Argentina, those democracies in which civilian leaders are limited in their ability to prosecute senior military officers for past human rights abuses.

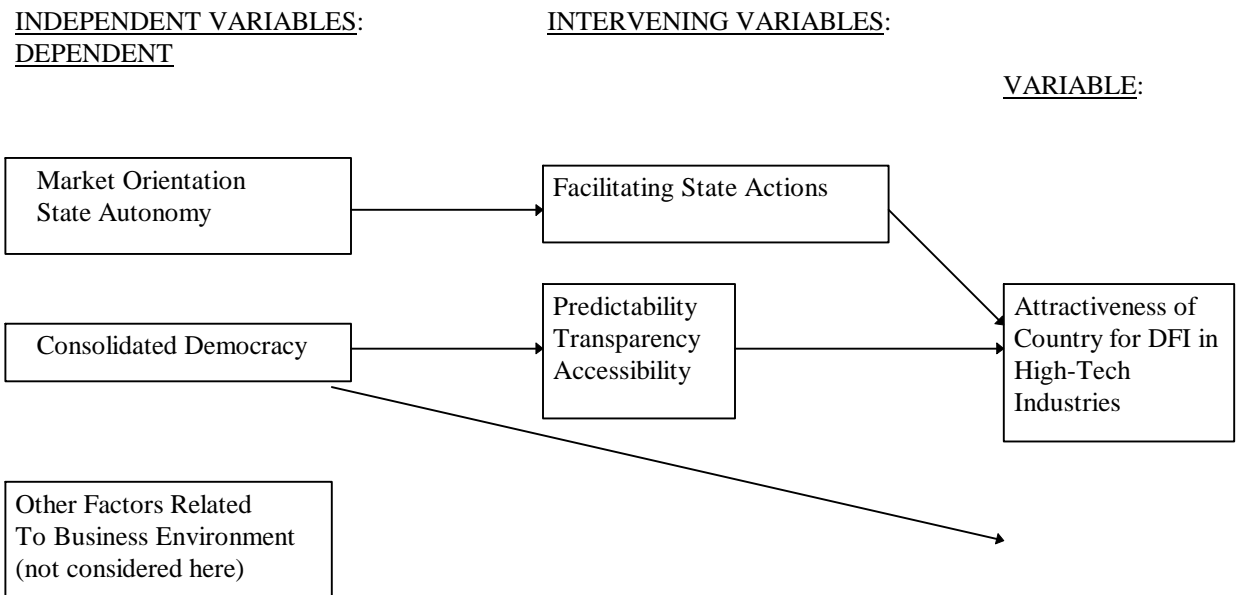
⁹ Certainly, there can be negative consequences to globalization – as the tumult in the financial markets in recent weeks has shown, problems in one part of the world economy (Asia) can spread to the rest of the world relatively quickly. In addition, bankruptcies, unemployment, and other negative social consequences can result. But as this paper emphasizes, there are positive aspects as well. Protectionism solely for political purposes, populism of any kind, or indiscriminate subsidies could never be considered “facilitating state actions.”

In order to focus the discussion of the factors that lead to a government’s successful promotion of DFI in high technology industries, this paper gives special attention to government efforts in Brazil, Mexico, Chile and Costa Rica to attract this particular investment by Intel. This specific focus is useful because in this case, Intel had no intentions to sell the chips it manufactured at the new plant to the country’s domestic market. All of the product would be exported. Hence, this case allowed Intel (and us) to “factor out” market size – the element that traditionally creates a strong bias for investing in Brazil. Of course, external factors such as labor costs, security issues, etc. were still important, and always are in investment decisions of this kind. But factoring out the influence of Brazil’s large market allows us to compare otherwise very disparate countries on a more equal basis. Using this case, we can focus more specifically on the role of the government in each country in attempting to attract this particular high technology investment.

A Preliminary Look At The Model: Independent, Intervening, and Dependent Variables

The model to be examined here can be represented in a diagram as follows:

FIGURE 1



While this paper explains all of variables in considerable detail in the sections that follow, a preliminary explanation of the interrelationship between variables is useful here in order to provide a framework for discussion. Clearly, many factors related generally to the business environment of a country - distance from export markets, security, quality of physical infrastructure, etc.- can influence a TNC's investment decision. While acknowledging the

importance of such factors (see the category in Figure 1 labeled "other factors related to business environment"), this model focuses instead on variables that are more specifically related to government and state-market relations. The justification for this focus is that once managers of TNCs eliminate some of the countries that obviously would not qualify for investment on the basis of the more general business environment criteria, factors related to government-business relations tend to become especially important.

One hypothesis advanced in this model is that a government with a high degree of state autonomy and market orientation (independent variables) is more likely to undertake "facilitating state actions" (an intervening variable). Facilitating state actions are policies or actions that benefit the country as a whole rather than narrow sectoral interests, yet do this in a way that enhances or "facilitates" market forces rather than impeding them. (For example, one measure for this variable is government provision of specialized training programs to enhance the capabilities of a country's workforce.) Because facilitating state actions tend to improve the environment for business in a country that undertakes them, the model hypothesizes further that such actions will increase the country's attractiveness for direct foreign investment in high technology industries (dependent variable).

Another hypothesis advanced in this model is that "consolidated democracy" - as measured by the extent to which a country has regular and fair elections, genuine contestation over selection of leaders and choice of policy outcomes, and participation on the part of its citizens - is also an important independent variable. Countries with more "consolidated" democracies (independent variable) will have governments with greater degrees of predictability, transparency, and accessibility (intervening variables). Because these qualities are considered of vital importance to investment decisions of TNCs in high technology industries, countries with governments that possess these qualities in greater degrees will be more attractive sites for high technology DFI (dependent variable).

The model and hypotheses presented here represent a preliminary attempt - in the form of a "plausibility probe" - to suggest some factors that are likely to lead to increased DFI in high technology industries, or at the very least make countries more attractive locations for this sort of DFI. Because this paper uses one particular case, Intel, to make this preliminary assessment, the results can only be suggestive. Nevertheless, they can at least serve to test the plausibility of the hypotheses examined here.

The Model in Theoretical Context

The Key Components of Facilitating States: Market Orientation and State Autonomy

"Facilitating state actions" are important in a government's efforts to increase a country's attractiveness as a location for high technology DFI. But a government's ability to carry out facilitating state actions - i.e., its ability to act as a "facilitating state" - depends on two key independent variables: the extent of the government's "market orientation" and the degree to which it possesses "state autonomy."

Some recent literature about the proper role of the state in Latin America sheds light on these two aspects of the state's role in business-government relations. Two themes in this literature, the controversy over the "Washington Consensus" and the debate about how Latin American governments should respond to the challenges of globalization, are relevant to the "market orientation" variable. The literature on these topics deals largely with the extent to which - and how - the state should intervene in the economy. Still another major theme is directly relevant to the "state autonomy" variable. This is the discussion about how democratization and globalization will affect state autonomy in Latin America. Together, all of these issues are relevant to Latin American governments' ability to carry out effective "facilitating state actions" that will make a country more attractive for high technology direct foreign investment.

Market Orientation: What Should Be The Extent of State Involvement? The Debates Over the "Washington Consensus" and The Proper Response to Globalization

The "Washington Consensus" vs. The "Latin American Consensus"

John Williamson, in a 1990 paper, coined the phrase "the Washington consensus" to refer to the economic policies the IIMF, the World Bank, and U.S. government officials believed to be appropriate for Latin American countries to adopt. As summarized by Williamson, the Washington consensus called, among other things, for privatization of state-owned enterprises, the elimination of subsidies, and the reduction of tariff barriers. According to the Washington consensus, the role of the state should be minimal, although Williamson did acknowledge that there should be some government expenditure on infrastructure, education, and public health.¹⁰

Williamson's use of the phrase "Washington consensus" to describe such policies provoked considerable controversy, since many Latin American policymakers argued that they, too, had come to a consensus – as noted above, a new "Latin American consensus" – that called for essentially the same policies. It was arrogant, some Latin American observers felt, for Williamson to use the term "Washington consensus" to describe a set of policies that Latin American policymakers themselves had come to agree upon as the best course for economic stability.¹¹

Certainly, Washington and Latin American policymakers agreed that the excessively meddling and heavy-handed role of the state in the past was wrong. They also agreed, for the most part, on the specific neoliberal reforms needed to rectify this situation. Where many policymakers diverged from the Washington consensus, however, seemed to be with regard to the extent to which the state – while more limited in its actions than in the past - could have a positive, useful role. The Washington consensus seemed to say, if anything, that the state should only be involved in a very minimal way by providing some basic

¹⁰ John Williamson, "What Washington Means By Policy Reform," in John Williamson (ed.), *Latin American Adjustment: How Much Has Happened?*, 1990.

¹¹ Stephanie Flanders, "Recipe for Reform Has Been Refined," *Financial Times*, March 14, 1997, p. II.

educational services and public infrastructure. Many Latin American policymakers, however, saw a more active role for the state.

Sebastian Edwards argued that the Latin American consensus, unlike the Washington consensus, maintained that the state should have an active role in “poverty alleviation.”¹² Without doing something to deal with the inevitable consequences of neoliberal reforms (e.g., increased unemployment resulting from privatizations or changes in labor laws), a backlash of protest might result among the poor and disenfranchised that could potentially overturn the entire reform program.

Luiz Carlos Bresser Pereira, a Brazilian economist, former Finance Minister, and currently Minister of Public Administration, went considerably beyond this.¹³ Bresser Pereira argued that the problem with the Washington consensus was that it held that in the past, the state had created economic problems in Latin America because it was too *powerful*. The solution, then, was to reduce or eliminate the state to the greatest extent possible. Bresser Pereira argued, in contrast, argued that the state was too *weak*. The problem was not state intervention in the economy *per se*, but intervention *of the wrong kind*.

In Bresser Pereira’s view, the state should play a “coordinating role.” That is, the state should work actively to create conditions that would foster viable, long term economic development. This did not mean providing subsidies to inefficient industries purely for political purposes. It did not mean creating poorly run state-owned enterprises and then using government employment as a source of patronage for thousands, or in some cases millions, of workers beyond what is needed to maintain the government operating efficiently. And it did not mean imposing trade barriers to protect inefficient industries only because they are well connected politically.

What a “coordinating role” for the state did mean was that governments actively should promote development of indigenous technological capabilities in their workers – even if this meant significantly increased government expenditures in specialized training centers, technology research and development, etc. Governments might even provide short-term subsidies (perhaps in the form of tax incentives) for selected industries, not based on political considerations but rather on the basis of which industry would promote exports and economic growth.

Clearly, the Latin American consensus calls for limited but effective government intervention that enables countries to overcome obstacles to greater competitiveness. In order to do this effectively, however, the state requires sufficient “autonomy” to carry out policies such as specialized training for workers of technical assistance to small businesses - but without becoming captive to special interests. State autonomy, of course, is the other

¹² Sebastian Edwards, *Crisis and Reform in Latin America* (Oxford: Oxford University Press, 1995), chapter 3.

¹³ Luiz Carlos Bresser Pereira, “The Crisis of the State Approach to Latin America,” LASA Conference Paper, 1992.

crucial factor to "facilitating state action," which the "Latin American consensus" often fails to address - but which this paper will discuss in more detail in a later section.

The Debate Over Strategies for Dealing With Globalization

Bresser Pereira's phrase, the "coordinating role of the state," was good as far as it went. It emphasized that the state should not be involved directly in business activity, but should play a less direct role: that of creating the conditions that encourage businesses to invest in areas that would promote long term economic development. But Bresser Pereira, and others looking at the role of the state in business-government relations in Latin America, tend to overlook the role of the globalization of production. A market orientation domestically and with regard to foreign trade is important. But to what extent is the globalization of production beneficial or harmful? Is there anything that states can do, to quote Gary Gereffi, to "harness the productive potential of transnational corporations, and to carve out more profitable positions in the global production chains of these companies"¹⁴? On these issues, there is something less than a consensus. Some scholars, while acknowledging the importance of exposure to international market forces in fostering innovation and competitiveness, express great concern with the potential effects of globalization.

As laid out by Gereffi, there are three main alternative responses to globalization. They are: "internationalization of national industries" (more typical of the East Asian developmental states); "integrated international production" (more typical of Latin America); and "autarchy." Of these, he argues, "autarchy" ignores market forces, leads to economic "marginalization," and is not realistic. "Integrated international production," on the other hand, also has shortcomings.

According to Gereffi, the main problem with this approach is that it creates "uneven development," benefiting only certain countries with advanced manufacturing sectors (Brazil and Mexico), and only certain groups within those countries. Those groups benefiting from this integrated international production include large firms that can absorb the new technologies; smaller firms that can become suppliers to the transnational corporations; and workers in certain areas of the economy (high technology sectors such as computers or automobiles) who obtain the advanced skills and training to be in demand in the new transnational production networks). Peasants, lower-skilled workers, and smaller countries with less advanced manufacturing sectors – the majority in Latin America – are excluded from the benefits of globalization.¹⁵ Government attempts to use export processing zones (EPZs), which offer special incentives to firms that export their production, can enhance a nation's participation in the global production process and improve job prospects for lower-skilled workers. But EPZs alone do not encourage local supply networks (components must be sourced from the country receiving the exported

¹⁴ Gary Gereffi, "Latin America in the Global Economy: Running Faster to Stay in Place," *NACLA Report on the Americas*, Volume XXIX, No. 4, January/February 1996, p. 27.

¹⁵ *Ibid.*

products in order to qualify for duty-free entry). Furthermore, competition between countries offering EPZ's creates downward pressure on wages.¹⁶

Costa Rica's move to become a center for high-technology exports belies the argument that integrated international production benefits only large countries with advanced manufacturing sectors like Brazil and Mexico. While Costa Rica did use EPZs as part of its strategy to attract high technology investment, as much as 30% of the value of Intel's exports are to be produced in Costa Rica. Furthermore, as the process of Free Trade Area of the Americas makes the entire western hemisphere one free trade zone, content sourced *anywhere* will be able to be traded anywhere within the region at zero tariffs – thereby eliminating any disincentive for using local suppliers.

Finally, while it is true that benefits will flow disproportionately to those workers with the greatest technical training and skills, this is true for workers anywhere in the world, including the advanced industrialized countries. In *The Work of Nations*, a book focused primarily on how globalization is affecting the United States, Robert Reich points out that TNCs themselves are now so globalized that they have no particular loyalty even to their nation of origin. The best way for nations to obtain the most benefit from the transnationalized production process is to make sure that their workers have sufficient skills and capabilities to provide value in the production process. Formal ownership of the production process itself is less important than having a participation in the higher value added elements within it. As Reich argues, “. . . a nation's economic role is to improve its citizens' standard of living by enhancing the value of what they contribute to the world economy.”¹⁷ Inevitably, the gap within nations between the workers who can contribute the most value to this process – analytical problem solvers or, in Reich's term, “symbolic analysts”¹⁸ – and the rest of the population will increase. This is an inevitable problem everywhere and some solution will need to be found, in developed and developing nations alike, to address it.

Reich's argument has the merit of emphasizing that states should do everything they can – mainly by providing increased education and specialized training for the workforce - to ensure that their populations can maximize the benefits of globalization, and to maximize their number who share in those benefits. Most scholars, however – in fact, a vast literature on industrial policy in developing countries – would argue that local ownership is in fact quite important. Local entrepreneurs are more likely to reinvest in local production, and to find market niches best served by companies making effective use of local comparative advantages.¹⁹

It is reasonable to assume that those working for a subsidiary of a foreign firm may be less inclined than local entrepreneurs to perceive and develop new, untapped, business

¹⁶ *Ibid.*, p. 23.

¹⁷ Robert Reich, *The Work of Nations* (Vintage Books: 1992), p. 301.

¹⁸ *Ibid.*, p. 176.

¹⁹ Michael Porter, *Competitive Advantage of Nations*, 1990, pp. 679-680; and Evans, *Embedded Autonomy*, pp. 204-205.

opportunities in which a local region or country may have a unique, specialized advantage. For example, local companies in Brazil, with knowledge of Brazil's nationally unified banking system and the need for Brazilian banks to enable consumers to move money quickly between their accounts in times of high inflation, became leaders in banking automation technology.²⁰ Even with the fall of the market reserve, at least one, Sistema, prospered to such an extent in another, related market niche, industrial automation systems, that it was able to form a joint venture with a partner in Germany for exports to the European market.²¹

Some argue that the best way to promote this kind of entrepreneurial activity is by means of policies of "assertive industrialization" – that is, limiting contact with the TNCs in order to foster a local industry. The rationale behind this strategy, basically the same as the classic approach of protecting "infant industries," is that faced with severe international competition from already established foreign firms, domestic entrepreneurs will never be able to emerge. Giving them time, at least temporarily, to flourish behind protectionist tariff barriers will allow them to develop sufficiently so that eventually, they will be able to compete internationally.²²

Yet in Latin America, this approach has met with questionable success. An important recent example, of course, is the market reserve policy in the Brazilian computer industry. In that case, domestic Brazilian firms producing behind protectionist tariff barriers were, for the most part, never able to move beyond high-priced computers of inferior quality that were not competitive in world markets. Peter Evans argues that without the prior protection the market reserve policy had provided, foreign firms would not have formed joint ventures with local firms at all when the market reserve policy was finally eliminated in the early 1990s – because the local firms would not even have existed. But the point is that the companies that succeeded at developing in a self-sustaining way, even after the fall of the market reserve policy – such as Sistema – were companies that responded most effectively to market forces.

Sistema, for example, succeeded not because of protectionism, but because it devised a strategy to exploit Brazil's unique comparative advantage in a particular market niche. Sistema's managers seized an opportunity that foreign TNCs were unable to fill effectively, and thus had a better chance to succeed in the long run. If the company had relied only the protection afforded by the market reserve, it might have attempted to duplicate products that TNCs could supply more efficiently. Following such a strategy, it too would have gone bankrupt like so many other domestic Brazilian computer firms did in the early 1990s.

To the extent that governments limit exposure to the international market and global production networks, they lose opportunities to develop creative, sustainable ways to take

²⁰ H. Schmitz and T. Hewitt, "An Assessment of the Market Reserve for the Brazilian Computer Industry," in Schmitz and Cassiolato (eds.), *Hi-Tech for Industrial Development* (Routledge, 1992).

²¹ Evans, *Embedded Autonomy*, p. 204.

²² Peter Evans, "Assertive Industrialization," *International Organization*, 1989.

part in and add value to these processes. Michael Porter's advice to Latin American (or any other) governments attempting to undertake this process is that such governments should seek to attract foreign TNCs that would be likely to source components or other inputs from local firms in supporting industries. But foreign TNCs will only do this, he warns, if governments undertake ". . . parallel development of human resource skills, a scientific base, and infrastructure in those fields to support higher-order comparative advantages."²³ Although Micheal Porter never used the terms, all of these are clearly the kinds of policies that fall into the category of "facilitating state actions."

Accomplishing successful "facilitating state action" such as these, however, requires a highly capable government. Such a government must go beyond providing benefits to specific company or one specific group, and beyond serving more than just the short-term electoral interests of individual politicians. It must implement broad policies that can be beneficial to the nation as a whole – yet at the same time responsive to the needs of the TNCs it seeks to attract. Clearly, such a government needs more than a "market orientation." It needs to possess, as well, the other key component of a facilitating state: "state autonomy."

State Autonomy: The Impact of Democratization and Globalization

State autonomy can be defined as the state's ability to implement change independently of pressure from societal groups. If Latin American governments are to be effective facilitating states, they must have a measure of independence from societal groups, both at the domestic and international levels. Without such autonomy at the domestic level, short-term political considerations, rather than any broad rationale for national economic development, may decide policy. And lacking at least some autonomy at the international level – autonomy from the interests of TNCs, for example – governments risk becoming mere handmaidens of international capital. State autonomy does not mean that governments must be completely unresponsive to domestic or international interests. However, it does mean that governments must be capable of resisting narrow domestic and international demands that state officials perceive to be in opposition to the broader interests of the nation as a whole.

Clearly, the perception of what is in the "broad national interest" can change over time. It is largely determined by the prevailing ideology of the day. In Latin America in the 1960s and 1970s, the prevailing *dependencia* and economic nationalist ideologies led state officials of both the right and left²⁴ to implement policies that were opposed, in various degrees, to foreign investment and trade. Although policies during this time may have been designed originally with comprehensive plans in mind, such policies evolved, over

²³ Porter, *Competitive Advantage*, pp. 679-681.

²⁴ For example, these ranged from the anti-Communist military regime in Brazil (1964-85) to Allende's democratically elected socialist government in Chile (1970-73). The exception, of course, was Pinochet's post-Allende government in Chile (1973-1988), which was decidedly market-oriented – yet one can argue convincingly that Pinochet's adoption of the Chicago Boys' market-oriented policies was largely the result of their ability to convince him that it was in the national interest.

time, into merely populist programs to benefit special interests or particular groups, without any overall coherent strategy or program. This occurred even though these policies were often devised in the context of supposedly “strong,” cohesive, and autonomous military governments.

Currently, the prevailing ideology is that of the “Latin American consensus.” This ideology calls for a smaller role for the state. Yet even in this case broad, comprehensive policies with a clear developmental rationale behind them – e.g., enhancing technical training in order to promote DFI in particular sectors – could also devolve into policies that reflect narrower individual interests, without regard to larger national objectives. If this problem occurred even in the context of military governments operating in the context of a less interdependent world than exists today, the question arises – to what extent can state autonomy exist in the context of democratic regimes undergoing globalization?

How Will Democratization Affect State Autonomy?

In a recent article Kurt Weyland summarizes the debate.²⁵ Some argue that democratization in Latin America allows powerful interest groups to determine state policy in their favor, and makes increased numbers of politicians even more eager to distribute patronage and do favors for one another. Others argue that democratization reduces politicians’ reliance on such tactics, as they increasingly appeal to public’s concerns about broad issues, and become more accountable to a broader base of people for their actions.

Kurt Weyland’s own analysis of Brazil is that state autonomy, while actually reduced in the initial years of democracy by increasing clientelism and demands by powerful interest groups, seems slowly to be increasing under current President Fernando Henrique Cardoso. The public’s disgust with corruption scandals in the early years of Brazil’s new democracy, and Cardoso’s success at stabilizing Brazilian inflation by means of his economic plan, the *Plano Real*, enhanced his efforts to increase state autonomy (improving tax collections, for example). To the extent that democracy “works” - i.e., that politicians become increasingly accountable to broad programmatic concerns rather than just narrow clientelist interests - such efforts will succeed, and the results will endure. But Weyland worries that Cardoso’s approach to such reforms - using clientelism to maintain the support of powerful politicians, even as he attempts to make reforms in other areas – could backfire. As Weyland puts it, this approach has created “an ambiguous outcome . . . the state will remain an agglomeration of incongruent parts, ranging from competent bureaucracies to agencies captured by business groups and politicians”.²⁶

Even where some state autonomy exists, however, governments can achieve remarkable results. In his study of the computer industry in several newly industrializing countries,²⁷

²⁵ Kurt Weyland, “The Brazilian State in The New Democracy,” *Journal of Interamerican Studies and World Affairs*, 1997, pp. 64-65.

²⁶ Weyland,” p. 86.

²⁷ Evans, *Embedded Autonomy*.

Peter Evans classified states according to their relative autonomy – essentially, his term for state autonomy. (Significantly, “relative autonomy” also included ability to implement policies without being subject to corruption.) States with a high degree of relative autonomy Evans classified as “developmental” states; those with intermediate level of autonomy were “intermediary” states, and those with low autonomy were called “predatory” states. According to Evans, the South Korean state was developmental, Brazil intermediary, and Nigeria (because of its extreme degree of corruption) was predatory.

Although Evans placed Brazil in the “intermediary” category, he did agree that it had have some “pockets of efficiency.” By this Evans was referring to highly autonomous state organizations, such as *Banco Nacional de Desenvolvimento e Social* (BNDES), Brazil’s National Development Bank. This institution is highly professional, has a clearly mandated mission to which it adheres, and is not very susceptible to corruption or “intervention” on the part of shortsighted politicians, thinking only of their own narrow interests. This explains how even a government with an “intermediate” level of autonomy like Brazil’s could formulate the market reserve policy, implement policies leading to the formation of a commuter aircraft industry, etc. Therefore, even assuming that only some of Brazil’s institutions remain autonomous in a democratic context, pockets of state autonomy will prevail.

Indeed, democracy can even enable certain groups to ally with the state in implementing broad, comprehensive policies to promote national development. The prolonged existence of the market reserve policy itself, even though it was implemented while the prevailing ideology within Brazil was economic nationalism, and even though in retrospect many analysts would say it was misguided and counterproductive, is an example of this. Despite its origins in the military regime and the original hostility of civilian politicians to any policy associated with that regime, the policy persisted for many years beyond the democratic transition to the “New Republic.” It was even expanded and codified into law with the passage of the *Lei de Informatica* in 1984 – largely because industrialists in the domestic computer industry were able to convince the new civilian politicians that continuing the policy was in the interests of national economic development.²⁸

Although that particular policy may have been a mistake, and was later withdrawn by another democratically elected government (Collor), the implications are powerful. Currently, the Cardoso government is implementing a policy to promote basic education – certainly something that is in the broad national interest, and certainly one that can attract its share of domestic allies in a democratic context. But a policy to promote specialized technical training could also be promoted in this way. In this way, in a democratic regime, domestic groups supporting a broad – based policy such as this could become powerful allies in any government effort to implement a “facilitating state action” that has a broad, comprehensive, developmental rationale. In cases like this, democracy, rather than weakening the state’s ability to implement broad developmental policies, could actually enhance it.

²⁸ Roy C. Nelson, *Industrialization and Political Affinity: Industrial Policy in Brazil* (London: Routledge Press, 1995).

The Impact of Globalization on State Autonomy

On the surface, globalization would seem to have eroded autonomy of Latin American governments. As one scholar laments, ". . . the globalization of economic relationships has altered the possibility of deploying whole ranges of economic policy . . . there has been an erosion of the capacity of individual states to control their own economic future."²⁹ In fact, however, where the national interest and the interests of TNCs or other transnational actors coincide, transnational actors can form "transnational coalitions" with domestic actors, using democratic methods to bolster the state's ability to implement developmental policies.

Clark shows how this happened in the case of Costa Rica's efforts to promote nontraditional export industries.³⁰ Previous government efforts in this area had been ineffective. Among other problems, politicians were either unaware of the benefits or simply unwilling to enact legislation that would support this kind of effort. But when USAID worked with local Costa Rican industrialists to create an export promotion agency, *Coalición Costarricense de Iniciativas para el Desarrollo* (CINDE), that was independent of the government, the approach changed. With funding from USAID, and a board of directors representing a broad coalition of Costa Ricans concerned about the need for expansion of nontraditional exports (including industrialists from a diverse set of industries and even social scientists), CINDE was a collaborative effort between transnational and domestic interests. It succeeded in accomplishing a goal that the government, acting alone, had been unable to achieve.

Similar in some ways to the manner in which the domestic computer industry lobbied civilian politicians for passage of the *Lei de Informatica* in Brazil, CINDE was able to launch a massive public relations campaign to persuade the public that promoting nontraditional exports was a good idea for the country. The campaign called for politicians to support nontraditional exports by passing legislation to create export processing zones (EPZs). After months of advertising and promotional efforts, the result was that the necessary legislation was enacted, and Costa Rica's nontraditional exports boomed – to the country's lasting benefit.

Clearly, the influence of powerful, well-funded organizations could also be dangerous to a country's national interests. But where national and transnational interests coincide – and in many instances, such as specialized technical education, they do – this "transnational coalition model"³¹ is one way that such interests can serve to enhance a country's efforts to improve its status in the world economy. Neither democracy nor globalization, therefore, need necessarily be an obstacle to implementing effective "facilitating state actions" to help a country attract high technology DFI.

²⁹ David Held, "Globalization and Democracy," *Dissent*, 1991, p. 203.

³⁰ Mary Clark, "Transnational Alliances and Development Policy in Latin America," *Latin American Research Review*, vol. 32, no. 2, 1997.

³¹ This term is from Clark (1997).

"Consolidated democracy," in fact, can provide a definite advantage to governments attempting to do this for other reasons as well. The next section discusses this point in more detail.

Byproducts of Consolidated Democracy: Predictability, Transparency, Accessibility

As defined earlier, in this paper "consolidated democracies" refer to those democracies that have regular and fair elections, genuine contestation over selection of leaders and choice of policy outcomes, and participation on the part of their citizens. Almost all Latin American governments come close, in varying degrees, to possessing most or all of these characteristics.

This model developed in this paper hypothesizes that the more consolidated the democracy in a particular country - i.e., the more it possesses those characteristics defined above - the more predictable, transparent, and accessible that country's government will be. The model hypothesizes further that these qualities, in turn, make a country more likely to attract high technology direct foreign investment. The next sections examine each one of these "intervening variables" in more detail.

Predictability

Predictability means, fundamentally, stable adherence to the "rules of the game." Predictability means that investors know that the rules, laws and procedures under which they are operating in a given country are likely to remain the same over time or at least not change suddenly, without warning.

Overall political stability, and the credibility and legitimacy of any government with respect to its own people, are important aspects of this sort of predictability. If a regime collapses, the "rules of the game" are likely to change. In this regard, Sebastian Edwards' points about the importance of addressing social issues in order to ensure the viability of economic reforms are very relevant. This underscores the importance for stability of a state's ability and willingness to implement these kinds of policies. While dealing with social issues is not an easy task for any government, consolidated democracies would seem to have more of a propensity to fulfill this sort of objective.

With regard to the changes not in regime itself but just in the rules by which a government operates, Leigh Payne's research on Brazilian industrialists showed that stable adherence to set rules and policies was the most important factor determining support for a government.³² Without some stability in the "rules of the game," business people find it just too difficult and risky to make plans or invest for the future. For managers of transnational corporations, who are likely to be operating in multiple countries and lacking

³² Leigh Payne (1994).

the time to form close working relationships with various governments, predictability and stability of this kind is even more crucial. As Evans puts it,

transnational investors trying to integrate operations across a shifting variety of national contexts need competent, predictable public sector counterparts even more than do old-fashioned domestic investors who can concentrate their time and energy on building relations with a particular individual government apparatus.³³

Surprisingly, Payne's research indicated that domestic industrialists in Brazil cared more about stable adherence to the rules of the game than they did about the nature of the regime itself - specifically, whether it was a democracy or military regime. In this regard, the industrialists were shortsighted. For in fact, there are many reasons why a consolidated democracy would be more predictable than a less consolidated democracy or a military regime. Most important, the more fully consolidated the democracy, the more likely it is to function on the basis of rule of law. Unlike military dictatorships, such democracies cannot arbitrarily decide to change policies on the basis of a decision by top members of a military junta or the capricious whim of a single dictator. They must follow established rules and procedures.

Transparency

Closely related to predictability is "transparency." Transparency refers to the ability of those who are not involved with actually making policies or laws to see how these policies are made - to know how the policymaking process works and be able to monitor that process. Because the extreme end of the spectrum away from "consolidated democracies" - military juntas or dictatorships - are less inclined to follow set, established rules, they tend to make their decisions behind closed doors, without media or public access to the policymaking process. It is reasonable to assume, then, that the more consolidated the democracy, the more transparent that democracy will be.

Because a lack of transparency leads to a lack of accountability, it tends to foster corruption. It is significant that the international organization that monitors levels of corruption in countries throughout the world is known as "Transparency International." Contrary to what many critics might think, many transnational corporations find corruption to be a strong factor in deciding where *not* to invest - precisely because it increases the overall uncertainty inherent in operating in a foreign country.³⁴ For this reason, more transparent regimes are more likely to attract direct foreign investment in high technology industries.

³³ Evans, "Eclipse," p. 72.

³⁴ Of course, this is especially true of U.S.-based TNCs, since the Foreign Corrupt Practices Act makes it illegal for them to pay bribes to foreign government officials.

Accessibility

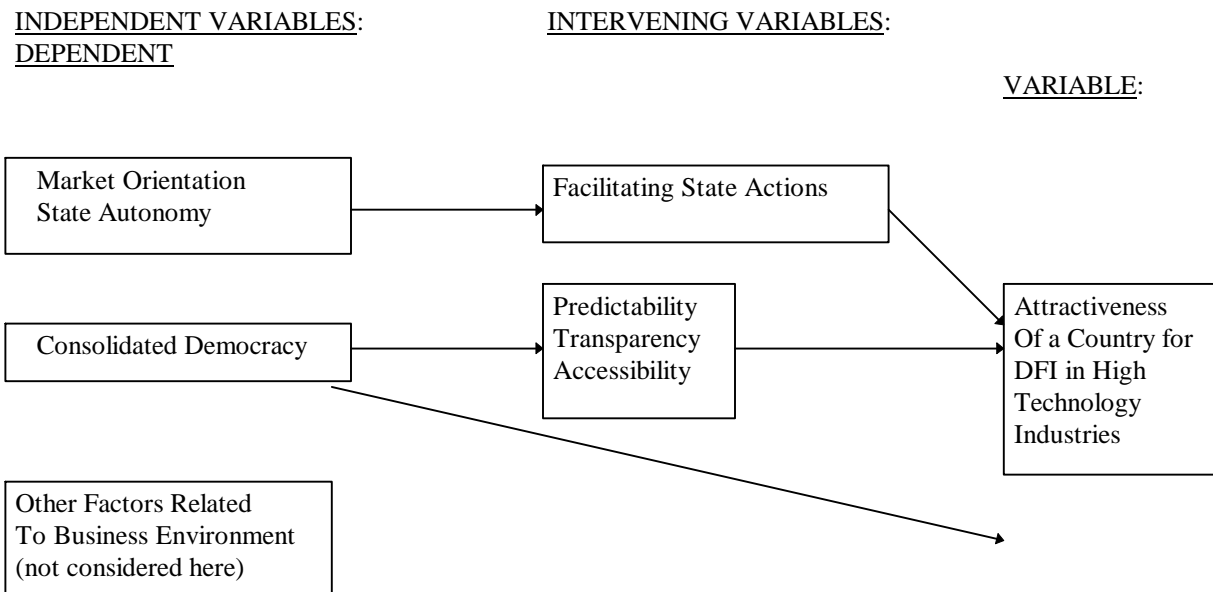
Related to the other two factors is accessibility. Transnational corporations operating in a foreign environment need to know that, should their needs change or a change in the overall business environment occur, policymakers can be made aware of their concerns easily and will respond to them, either positively or negatively, within a reasonable period of time. This factor is especially crucial for corporations in high technology industries, because their needs can change so quickly in response to competitive threats. As Andy Grove, former CEO of Intel says frequently, in his industry "only the paranoid survive."³⁵

Testing The Model

Operationalizing the Variables

For the sake of convenience, the model - as represented in Figure 1 - is duplicated below.

FIGURE 1



Hypothesis 1: *the more “market orientation” and “state autonomy” a country’s government possesses, the more likely that government is to implement “facilitating state actions.” These actions, in turn, will tend to increase a country’s attractiveness as a location for high technology DFI.*

³⁵ Andrew S. Grove, *Only The Paranoid Survive* (New York: Doublday, 1996).

Measures for “market orientation” are fairly straightforward, and have already been discussed at some length in an earlier section of this paper. A government possesses a market orientation to the extent that it eliminates indiscriminate subsidies; reduces tariff barriers whose purpose is to protect inefficient industries for prolonged time periods for political reasons, rather than for any economic rationale;³⁶ treats foreign investors on the same basis as domestic firms, and imposes minimal or no capital controls.

“State autonomy” exists where government agencies are able to implement programmatic policies that reflect some broader national interest rather than narrow clientelistic concerns. Using criteria developed from Weber’s insights on bureaucracies, East Asian scholars’ analyses of “developmental states,” and Peter Evans’s discussions of developmental, predatory, and intermediate states, certain criteria for “state autonomy” seem evident. State autonomy exists where there are government agencies that follow established procedures, employ officials who perceive themselves to have a special rank or standing as a result of their association with the agency, and have a predetermined, established process for advancement in the agency – with advancement based on merit rather than on connections or politicking. In sectors or policy areas where such agencies exist, even if other agencies in the same government do not possess these characteristics and the agency represents only a “pocket of efficiency,” state autonomy (at least in that one area) is high.

To the extent that both of these independent variables are present, the intervening variable, “facilitating state action,” is more likely to be present to a greater degree as well. As defined earlier, facilitating state actions can include government programs to provide technical assistance to small and medium-sized enterprises; government efforts to provide matchmaking services for joint ventures between foreign firms and local producers; and government programs to provide technical training to enhance the capabilities of a nation’s workforce.

Facilitating state actions tend to enhance a country’s business environment and suitability for investment – and for these reasons tend also to increase the the dependent variable, a country’s attractiveness for high technology DFI. Everything else being equal, a good measure for this variable would be simply to examine the levels of aggregate high technology DFI different countries manage to attract. Unfortunately, in a comparison including giant Brazil (population 160 million) and tiny Costa Rica (population about 3.5 million) everything else is definitely *not* equal. As explained earlier, the Intel’s decision about where to locate its first Latin American manufacturing plant, which would export all of its production, allows us to “factor out” the attractiveness of Brazil’s large domestic market – and Mexico’s, too, for that matter. It allows us to compare these otherwise incomparable cases on a more equal basis. Therefore, Intel’s own ranking and evaluation

³⁶ Even short term “infant industry” protection could be consistent with a market orientation, if the purpose is to overcome market flaws – to find out if a country has a hidden comparative advantage in a product that would not otherwise be discovered. Even the WTO has provisions for this kind of protectionism. If a government imposes tariffs for purely political reasons, however, or with no long term economic rationale, that would not be consistent with a “market orientation.”

and ranking of the four countries it considered as a site for its Latin American manufacturing plant can serve as a proxy measure for this variable – albeit a very rough and clearly only suggestive one.

Hypothesis 2: *The more “consolidated” a country’s democracy, the more “predictable,” “transparent,” and “accessible” the country’s government. These factors in turn make a country more attractive for high technology DFI.*

As discussed earlier, democracies can be considered “consolidated” to the extent that they have regular and fair elections, genuine contestation over selection of leaders and choice of policy outcomes, and participation on the part of the country’s citizens.

The measure for “predictability” is a government’s adherence to pre-established rules and procedures in policymaking. A measure for “transparency” is the degree of corruption in a country; the more corruption, the less transparent the government’s policymaking process. (As a specific indicator for this, this paper uses Transparency International’s ranking of countries by level of corruption.) Finally, the measure for “accessibility” is the extent to which high-level policymakers are willing to listen to the specific concerns of potential investors, and respond to these concerns in specific, customized ways.

The dependent variable for Hypothesis 2 is “the country’s attractiveness for high technology DFI,” the same as for Hypothesis 1, and it is operationalized in the same way.

Intel’s Site Selection Process and The Country Cases: Brazil, Chile, Mexico, and Costa Rica

In the early 1990s, managers at Intel realized that they would need to construct a new semiconductor assembly and testing plant. With already existing plants in Ireland, Israel, and Asia, they wanted to diversify their geographic risk and made a conscious decision to focus their search on Latin America. After narrowing down the country candidates to just four – Brazil, Chile, Mexico, and Costa Rica – a group of three managers in charge of site selection studied various aspects of all four of these countries in detail and then visited each one. During this time, the site selection team met with government officials and business people in each of these countries, received extensive feedback from TNCs already operating in the region, and came to a surprising conclusion: they would build the plant in Costa Rica.

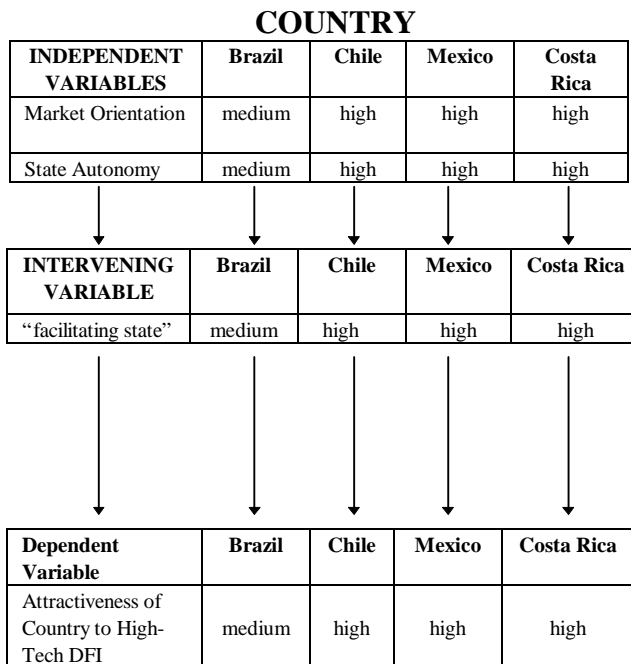
The choice surprised many, especially government officials in charge of investment promotion in Brazil, Chile and Mexico. Brazilian officials, in particular, accustomed to managers of TNCs falling over themselves to invest and thereby gain unimpeded access to the huge Brazilian market, were shocked, even though they had known full well that the size of a country’s domestic market was not a relevant factor for this project. In fact, among the four main countries considered, Intel ranked Brazil last. The final ranking was: 1) Costa Rica; 2) Mexico; 3) Chile; and 4) Brazil.

We can now test the hypotheses to see if they would have predicted these same rankings. Of course, in the actual decision itself other factors, not considered here, entered into the process of selecting the country. For example, while the Intel executives believed that Chile would have been an excellent choice in many respects, one drawback the country had was that it was simply too far away in geographic location to make it feasible in terms of added costs of transportation and other logistics. Because this paper's evaluation did not take such factors into consideration, some countries which score "high" in our assessment (such as Chile) *may* have scored high in the assessment of the Intel executives as well - but ultimately had to be excluded after these other factors, separate from the issues of governance and the nature of state-market relations, were taken into account.

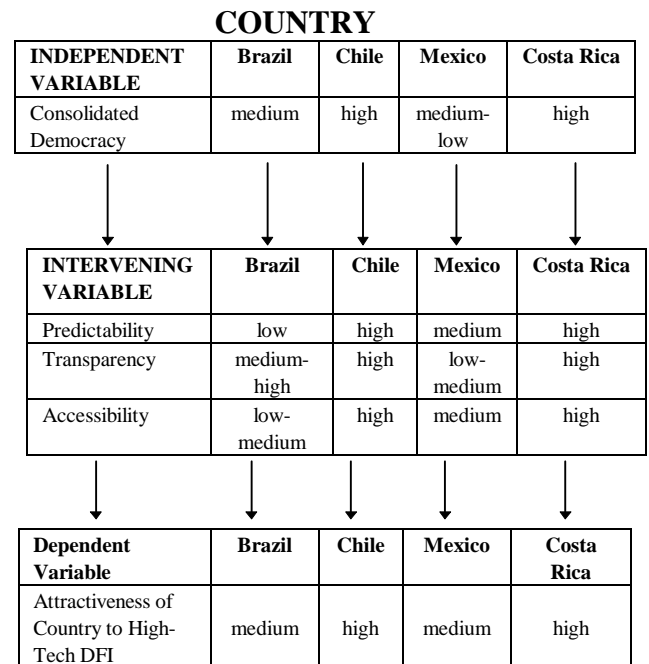
How the two hypotheses assessed the prospects of each of the four countries – and how well those hypotheses “predict” or account for the ultimate outcome – can be seen in Figure 2, below:

FIGURE 2: ASSESSEMENTS/“PREDICTIONS” OF THE HYPOTHESES

HYPOTHESIS 1:



HYPOTHESIS 2:



As Figure 2 shows, the only two countries that consistently received “high” scores on the dependent variable were Chile and Costa Rica. And in fact, as anticipated, in interviews, Intel executives emphasized that they were impressed with every aspect of Chile except for two factors that this paper doesn’t examine: Chile’s distance from the U.S. and from other export markets, as already noted, and also the relatively high wages in Chile for

technically skilled personnel.³⁷ Therefore, the Intel executives' number three ranking of Chile in no way reflected a negative assessment of Chile on any of the government-related factors assessed in this paper. In addition, the Intel executives explained that they ranked Mexico higher than Chile despite some misgivings about government factors there, largely because of Mexico's proximity to the U.S. and its lower salaries for high technology workers.

We can now examine each of the countries in turn with regard to the factors considered here.

Hypothesis 1:

Independent Variables:

Market-Orientation: In this paper's assessment, following the measures explained above, all of the countries except Brazil receive a "high" score in this category. In part because of its fragmented party system and other factors, Brazil has been slow to move toward market reforms. Although it is catching up quickly now, in many areas Brazil still has "exceptions" to this trend. Examples are numerous: the still high tariffs on imported personal computers, despite the much discussed fall of the market reserve policy in the 1990s is just one. High tariffs on capital goods, automobiles, toys, and policies such as the one enacted in 1996 which require importers to pay up front for any shipments of products worth more than \$10,000 are all reasons why Brazil scores only a "medium" on this category, despite all of the progress made under Cardoso.

State Autonomy: Again, every country except Brazil receives a "high" score. The specific agency in question in each case is the investment promotion agency in each country. Chile has CORFO (state development agency) and PROCHILE (export promotion agency) which score well on the criteria for "autonomous" agencies and actively promote foreign direct investment and exports in nontraditional sectors.

Mexico has the Mexican Investment Board and state-level development agencies such as the Jalisco State Development Agency. With promotional videos, glossy brochures, and authority to offer incentives such as paying the salary of employees during their initial training period, the Jalisco State Development agency has a strategy to focus on the electronics industry and has succeeded in attracting numerous high technology firms (Motorola, Lucent, SCI, etc.) to the capital of Jalisco, Guadalajara. Guadalajara is fast becoming "the Silicon Valley" of Mexico."

Costa Rica's CINDE (discussed earlier), of course, is vying to have San Jose, Costa Rica claim that same title. It specifically targeted Intel as a way to jump start this process. Its

³⁷ As one Intel executive noted, starting salaries for Chilean engineers, at \$30,000-\$40,000 per year, were not that different from those in the United States. In Costa Rica, Intel could hire an engineer with similar skills for at least half that amount

technique of carefully researching a company it is seeking to attract, anticipating in advance any questions or special concerns that company might have, seems to have paid off well.

Brazil was slower to focus on investment promotion to this extent and in fact in 1995, when the Intel executives were visiting the four countries on their short list, still did not have one national agency with a coordinated program of investment promotion. Since then, however, Brazil has moved very quickly to establish an system for promoting foreign direct investment under the auspices of the Trade Promotion Division of the Ministry of Foreign Relations.

The new system is called *Sistema de Promocao de Investimentos e Transferencia de Tecnologia para Empresas* (SIPRI). SIPRI promotes foreign direct investment and technology transfer in Brazil by means of approximately 30 “focal points” operating at the state level, in addition to Trade Promotion Sections in embassies and consulate overseas. The objective is to provide matchmaking services for foreign and local firms interested in forming strategic alliances. The state-level “focal points” in the SIPRI system can also inform foreign investors of any special incentives specific to their states. The established rules and procedures for all of this indicate that the Trade Promotion Division of the Ministry of Foreign Relations is increasingly operating in this area in a way consistent with an “autonomous” state agency. Brazil may be at a medium level now for “state autonomy” the Trade Promotion Division of the Ministry of Foreign Relations seems to be well on the way to establishing the SIPRI system as one of Brazil’s “pockets of efficiency.”

Nevertheless, the Brazilian government still does not appear to have any specific, explicit priority for the kind of investment it seeks. There does not seem to be a broader rationale other than to try to lure investment to less developed parts of the country. This is in contrast to the specific focus in Mexico and Costa Rica.

Intervening Variable:

Facilitating State Actions: All of the countries implemented “facilitating state actions” as defined by technical assistance for small and medium-sized enterprises, matchmaking services to facilitate linkages between local and foreign firms, and even special training programs for enhancing the technological qualifications of the local workforce. Some did this latter facilitating action to a greater degree than others.

CINDE and the Costa Rican government went to far as to work with Intel and local universities in order to make some of the curriculum more relevant and useful for those who wanted to try to get jobs at the Intel plant. Of course, the governments emphasis on education as a whole for decades prior to Intel’s arrival was a “facilitating state action” in itself, and one of the factors that had made the country so attractive to Intel in the first place. In fact, looking at per capita spending on education in 1994/95 period, Costa Rica

spent the most at \$100.9 per capita, while Mexico spent \$US 76.5, Chile \$67.4, and Brazil only \$27.3.³⁸

After Costa Rica, Mexico went the furthest with specialized training – but more so at the state level than at the national level. The Jalisco State Development Agency and the business community of Guadalajara, the capitol of Jalisco, teamed together to study ways in which they could ensure a steady supply of labor for the high technology electronics firms moving into the area in increasing numbers. One result was that the business community and the local state government both agreed to contribute financially to support education and universities in technical areas. In part because of "facilitating state actions such as this, Guadalajara has numerous universities and specialized training centers devoted to enhancing the qualifications of its workers.

Like Mexico, Brazil's political system is federal, with the states having considerable independence (in fact, far more than in Mexico) from the national government. Therefore, some states such as Rio Grande do Sul offered special tax incentives "for the establishment and expansion of industries introducing technological innovation into the product mix."³⁹ Although the *Servicio Nacional de Aprendizaje Industrial* (SENAI) exists at the national level to promote training for workers in industrial activities, some Brazilian scholars complain that the government is not doing enough to provide "any hierarchy whatsoever as to which sectors are important"⁴⁰ This is a mistake, these authors say, because the electronic complex is clearly important and could even serve as a motor for further development. As Brazilian scholars Erber and Cassiolato write, "computer chips aren't equivalent to potato chips."

Dependent Variable

Of all four countries, Guadalajara's uniquely qualified, yet still inexpensive workforce especially attracted the attention of Intel – clearly, the state government's "facilitating state actions" in that area had produced excellent results. This alone might have been enough to tip the balance in favor of Mexico had it not been for other concerns, addressed in the second hypothesis.

Hypothesis 2:

Independent Variable:

Consolidated Democracy: While all countries have "consolidated democracies," Mexico and to a lesser extent Brazil are less "consolidated" in some respects than Chile and Costa Rica. Until recently, contestation over leaders and policy choices was not really possible in Mexico, and participation in elections, even if mandatory, was not really significant in a

³⁸ Joachim Bamrud, "The Other Face of Business in Latin America," *Latin Trade*, 1997, p. 5.

³⁹ Rio Grande Do Sul State Development Agency, "Paths Toward Development," 1998, p. 16.

⁴⁰ Fabio S. Erber and Jose Eduardo Cassiolato, "Politica Industrial: Teoria e Practica no Brasil e na OCDE," *Revista de Economia Politica*, vol. 17, no. 2, abril-junho 1997, p. 41.

regime where manipulation of elections by the ruling PRI party was common. Although under Zedillo all of this is changing, Mexico's democracy is still less "consolidated" than that of any of the other three countries Intel was considering as a location for its investment.

While Brazil's democracy was far more "consolidated" than Mexico's, the tendency of the president to issue executive decrees persisted – in part a function of Brazil's fragmented party system and the difficulty of getting reforms passed through the fractious National Congress.

Intervening Variables:

Predictability: As noted, the lack of meaningful participation contributes to the lack of predictability in Brazil's policymaking process. Despite the even less consolidated democracy of Mexico, the Mexican governments seems to be more predictable in its style than Brazil. This may have to do with the greater constraints imposed upon Mexico due to the greater importance of its trade relationship with the United States. Still, both Chile and Costa Rica score higher on the predictability variable than either Brazil or Mexico.

Transparency: In a recent "Corruption Index" ranking of 54 countries by Transparency International, the organization ranked Chile least corrupt of the four cases considered here, at rank number 21 out of 54 (54 was most corrupt). Mexico was considered more corrupt than Chile with a rank of 38, and Brazil was most corrupt at all at number 40.⁴¹ Although Costa Rica was not included in this particular ranking, it would no doubt be ranked somewhere near Chile – if not below (less corrupt) in the rankings.

Despite what the site selection team considered to be the many factors in Mexico's favor, the country's relative lack of transparency was the primary reasons the Intel executives decided against investing there. As noted earlier, transnational firms prefer to have stable "rules of the game" – with policymaking processes that they can observe and monitor because the rules are well established. But the Mexican government, in its eagerness to woo Intel into investing in Jalisco state, committed a major mistake: it offered Intel special incentives that it would not offer to anyone else.

While this "special deal" might seem to have been a point in Mexico's favor, in fact it alarmed the Intel executives greatly. If the Mexican government were to do this for them, what other special deals was it giving to others? And why would a new government - should one be elected in the increasingly democratic Mexico - honor a commitment to a special deal made by a previous administration? Rather than making Intel more likely to invest as a result of the offer of a special deal, it actually was one of the key factors that made Intel decide *not* to invest there.

Accessibility: Surprisingly, one advantage Costa Rica possessed – in this project that did not require a large domestic market – was something that in other circumstances might

⁴¹ Bamrud, "The Other Face," p. 39.

have been a negative characteristic. This was its small size. The country's very smallness contributed to the accessibility of its top policymakers. Indeed, the then-President of the Republic, Jose Figueres, made it almost his personal mission to convince Intel to invest in the country. He visited Intel's headquarters in Santa Clara, California; he turned its plant in Chandler, Arizona. In Costa Rica he met with and attempted to answer all of the questions Intel's site selection team put before him. At one point, he even flew them around the country in his helicopter so that they could see possible locations for the proposed plant at first hand.

In larger countries like Brazil and Mexico, such personal attention was clearly not forthcoming. There was some concern among the executives that should the company's needs change or should something additional be required for the plant, it might be very difficult to get bureaucrats in large state agencies to respond quickly to their requests or concerns.⁴² Yet, in high technology industries, time is of the essence. Delays of weeks or months could mean the difference between great success great failure. For this reason, then, Costa Rica's small size – which could have been a drawback in a number of ways - became one of its great strengths. This too, contributed to Intel's decision to invest there rather than in one of the other three countries.

Conclusion

One of the conclusions that emerges from this study is the extent to which factors related to effective, predictable, transparent government are important in determining investment decisions by TNCs in high technology industries. Clearly, if Latin American countries are serious about attracting more DFI in such industries as a means to enhance their contribution to the global production process, this is something to keep this in mind. The good news is that at least some of these factors – predictability, "facilitating state actions" such as government investment in technical training programs, and transparency in policymaking – are potentially quite attainable. Certainly they are easier for a government to change than other factors such as the size of the country's market, or whether or not it possesses certain valuable raw materials. The hope is that a more systematic, detailed comparison on these issues - beyond what was possible to do in this paper alone - could contribute toward identifying those factors that are worth emulating, and those that are not.

⁴² Interviews with Intel Site Selection team.