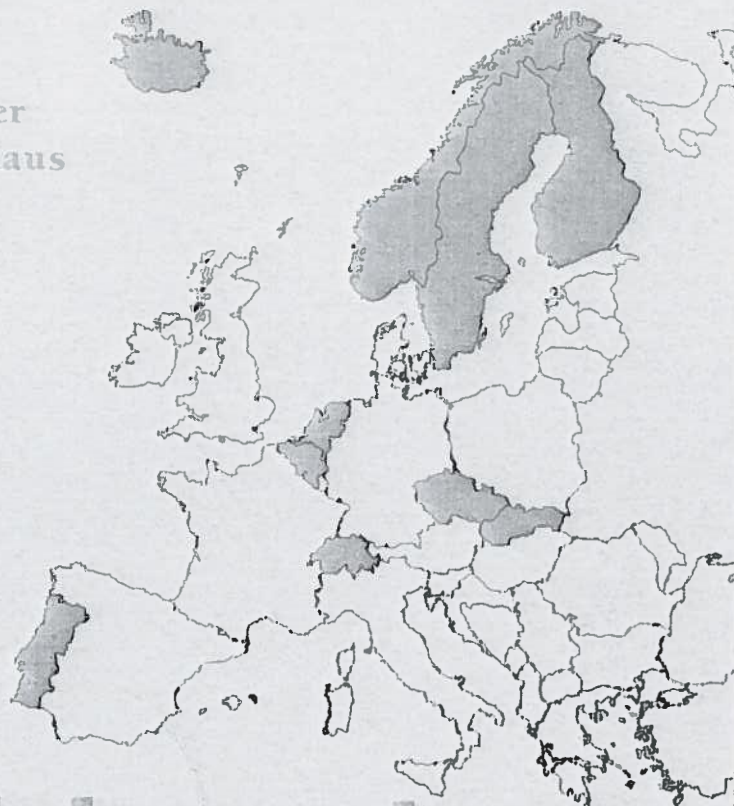


Margrit Müller
Jimo Myllyntaus
(eds.)



Pathbreakers

Small European Countries Responding
to Globalisation and Deglobalisation

Peter Lang

MARIA EUGÉNIA MATA¹

A Forgotten Country in Globalisation? The Role of Foreign Capital in Nineteenth-Century Portugal

Introduction

The word 'Globalisation' is sometimes understood as the recent world integration resulting from contemporary transport and communication facilities, including computers, Internet and mobile telephones. In fact, the debate on globalisation concerns the 1990s, not the preceding decades. Sometimes, too, 'globalisation' is identified with the economic integration that occurred in the decades following the Second World War. From this perspective, economic integration and the rise of international organisations are the main globalisation indicators.

However, this view may be accepted only if we consider the generalised restrictions to free movement from 1914 to the early 1950s. The two World Wars presented not only desperate military struggles but also transport difficulties and economic rivalries. Blockades and other interruptions of the customary flow of international trade became the norm. Domestic consumption dominated markets, giving way to import-substitution mechanisms. The wars also put an end to large international flows of capital, as the economic normalcy prevailing in the nineteenth century disappeared and war needs pressed for the application of capital to military aims.

The interwar period did not see a resumption of nineteenth-century free-trade traditions. Europe experienced recovery during the 1920s but inflation (and in some countries hyperinflation) was the rule for a while, followed very soon by the Great Depression. Generalised unemployment throughout the Western capitalist economies required domestic consumption for national goods and gave

way to tariffs on foreign trade. People's feelings against imports and foreign goods can explain policies aimed at protecting domestic markets. Closed markets and nationalism were widespread. Retaliation was the answer to trading partners' tariffs. In the small country of Portugal, Salazar's regime was no exception. Rural areas, traditionally detached from international markets, went on providing local needs. Portuguese industry enjoyed regulatory protection against free foreign competition.² The Portuguese economy experienced a closure in the interwar years, especially in the 1930s, to escape the effects of the Great World Depression.³

From this twentieth-century perspective, globalisation reached Portugal only after the end of the Second World War. Reconstruction was a shared aim across Europe. Portugal had maintained a neutral position during the war, although the Portuguese government ceded military bases to the Allies in the Portuguese islands of the Azores. Although there was no physical rebuilding necessary within Portuguese territory, when the United States of America offered funds through the Marshall Plan, Portugal accepted. An initial hesitation in 1947, fearing American hegemony over the world, gave way to a new government attitude in 1948. The threat of inflation and domestic difficulties in supplying urban markets with subsistence goods were responsible for this political repositioning.⁴ Marshall foreign aid meant Portugal's participation in the OEEC, and is usually referred to as the beginning of Portuguese participation in international globalising institutions; but some studies prefer to stress the Portuguese decision to join the European Free Trade Association in 1959 and the European Economic Community in 1986 as her two main steps towards globalisation.

This, however, is a short-term perspective from a historical point of view. Portugal's participation in today's globalisation, which follows the government's decision to join the OEEC, EFTA and EC, has its roots in the pre-First World War period.

Portugal was a host country to European savings and businesses before 1914. Available data on foreign joint-stock companies suggest that the inflow of foreign investment in the second half of the nineteenth century cannot be neglected. Portugal, a small underdeveloped country, was no exception in hosting capital from the core European financial markets when nineteenth-century foreign

capital movements dominated international economic relationships: poorer countries offered higher rates of return, and thus provided an attractive home for spare capital from their wealthier neighbours. Capital flows moved particularly 'to sparsely peopled areas where conditions for rapid growth along familiar Western lines were exceptionally favourable'.⁵ Intensifying international trade, such investments could profit from the more favourable opportunities that existed in many economic sectors of the receiving countries, particularly in less industrialised countries around the world.

Helping to form the world market, they promoted the emergence of larger international financial markets. At the same time, the incentives to invest in public goods depended upon the new opportunities arising from the needs to finance local central State expenditures. Foreign loans supported public debts. The hope of small risks because of the pre-announced fixed interest rates on bonds may explain the preference for investing in public loans.

International analysis of foreign investment in the half century before 1914 ignores Portugal as a receiving country in the nineteenth-century network of capital outflows. Most studies consider the role of portfolio investment in Eastern Europe and the New World: few have considered the role of foreign investment in small countries. Portugal is supposed to have participated heavily in globalisation only through emigration flows, particularly to Brazil, an ex-Portuguese colony, and to the USA. Because of its smallness Portugal is a forgotten country in capital-flow studies.⁶

Portuguese historians assess the role of foreign capital in the Portuguese economy in a variety of ways. The dominant perspective views government bonds and railroad securities as the only two channels for foreign investment and the resulting picture is of high speculative flows, business failure and financial corruption. Other Portuguese historians ignore international funding initiatives entirely.

This chapter asserts the presence of foreign private capital in economic activities under normal business performance. It focuses on the role of foreign joint-stock companies working in Portugal in normal economic activities during the nineteenth century.

Available data on these foreign joint-stock companies suggests that the inflow of foreign investment may have been small. However, its role cannot be neglected by globalisation research, because

the phenomenon of outsider investment in so small a country can illustrate how crucial getting new opportunities in peripheral areas was for maintaining the development of what turned out to be key modern economic sectors. In an underdeveloped society such as nineteenth-century Portugal the ideal of achievement was surely a decisive driving factor in the context of material progress. Corporations offered an institutional framework within which to propel business into modernity and progress.

One of the most important attractions to foreign capital in nineteenth-century Portugal was investment in the public debt.⁷ Besides public bonds, foreign capital also arrived in the form of private foreign investment.

What do we know about foreign loans for Portuguese foreign public debt and private foreign investment? This is a vexed question in Portuguese historiography, as there are different opinions about the role of foreign investment in the Portuguese economy and its contribution to economic growth and modernisation. According to Vieira,⁸ 'the role of British capital in the Portuguese economy during the second half of the last century was very relevant, whatever the perspective under which we would analyse it.' Besides discussing speculation and corruption as current features in foreign investment, Vieira argues that the capital inflow would have had a positive effect for Portuguese economic growth and modernisation.

On the other hand, Reis⁹ argues that: 'capital inflows [in Portugal] played only a minor role in building up productive capacity, with the exception of certain special activities.' Although pessimistic, this idea runs contrary to traditional Portuguese history, which has often emphasised the dependence argument for Portuguese economic underdevelopment. Believing in the mechanics of foreign trade and foreign investment dependence, earlier dominant critical frameworks have pointed to exploitation, repatriation of profits and international dependence, particularly on England.

This chapter will regard the presence of foreign private capital in Portuguese economic activities and the British dominance there as not dissimilar to that of European foreign joint-stock companies wanting to operate in the country within the realms of insurance, mining, shipping, banks, telegraphs and telephones, water and gas provision, colonial business or even industrial activities. The his-

tory of international capital movements in the nineteenth century has a long tradition and has experienced a marked renewal and revision in recent years thanks to the growing interest in the question of globalisation. Socio-economic reasons justify the choice of the period studied. The 1860s opened a new era of business in Europe, with joint-stock companies in France, Spain, Italy or Belgium under a new juridical background: in Portugal the law changed in 1867. Moreover for earlier periods the basic sources are almost completely lacking (the first census in Portugal was organised in 1864 and the regular publication of foreign trade statistics began in 1865).

This chapter will examine a few important aspects of the socio-economic life of small countries in the nineteenth and early twentieth centuries as they endeavoured to attract foreign capital. New questions have been asked in this area, new methodologies have been followed and considerable amount of new data have been produced on many aspects. The context to which this chapter belongs is therefore highly dynamic and innovative. Potentially, it may help us to understand how capital movements did not reinforce divergence because they did not flow towards faster-growing economies but instead contributed to long-term convergence by flowing more toward the poorer economies.¹⁰ Later in this chapter we will find an assessment of the impact of foreign direct investment upon business attitudes in Portugal. Perhaps the long-term value of this chapter will lie in the presentation and discussion of a relatively little known case as a piece, albeit a small one, of a far broader puzzle.

The dominance of investment in railways and foreign lending to Government

As is the case with other small countries, there is much historical evidence of foreign private investments in the nineteenth-century Portuguese economy. Individual foreign merchants or family businesses dominated the wine-production and export sectors. British families exported port and Madeira wines to European markets, particularly to England. Vieira¹¹ has described how British invest-

ments came to Portugal to fund the urban and suburban transport systems: but it was the Portuguese railway-building sector that achieved international prominence in foreign capital investment attraction, particularly from Great Britain.¹² In 1853 the Portugal Central Peninsular Railway Company was formed to build and run the Portuguese section of a Lisbon-Madrid line. As only 68 km of track had been laid and opened to traffic by 1857 the company failed, and the government purchased the line. In the same year Sir Morton Peto signed a new contract to build a line between Lisbon and Oporto; but no company was formed and no track was laid. In 1854 the *Companhia Nacional dos Caminhos-de-Ferro do Sul do Tejo* was formed to build a railway in the south to the Algarve. As only 70 km had been built and opened to traffic by 1861, the company failed and the government bought this line also. In 1864 a new South Eastern Portugal Railway Company was formed. It added 150 km of track, which were opened to traffic. The company failed in 1866, and the government built the rest of the line south to the Algarve (225 km). This picture of unsuccessful companies promulgated an image of business failure and corruption among Portuguese historians in the 1980s.

However, the Spanish entrepreneur José de Salamanca successfully formed the Royal Portuguese Railway Company in 1860. He bought the built line and extended it east to the Spanish frontier and north to the left bank of the Douro opposite Oporto. A total of 438 km track had been built and opened to traffic by 1864, and both lines were linked to Madrid in 1866.

During the 1870s and 1880s a new company, the Beira Alta Railway Company, built a 252-km line between the Atlantic coast and Spain: it crossed the north line and was linked to the Spanish network (and indirectly to the French and European network) in 1882. At the same time the Royal Portuguese Railway Company built two new lines. One was 212 km long: the other was the western line, which was 242 km long. Additionally a bridge over the Douro linked the northern line with Oporto in 1877, and a short cut in the Lisbon-Madrid line was ready in 1880.

The period from the 1890s and early twentieth century until the First World War witnessed a slowdown in railway building, with only regional lines being added to these main trunk lines.

The amount of capital invested in railways between the 1850s and the 1880s totalled £23.5 million, of which £10.6 million were public monies and £12.9 million came from private investment.¹³ The sources of the latter were almost exclusively foreign, with the overwhelming majority coming from the core European economies. As a matter of fact, only £200,000 of investments in the *Companhia Nacional dos Caminhos-de-Ferro do Sul do Tejo* is clearly of Brazilian origin, and comes from the slave trade, as most contemporary scholarship suggests.

This effort to build railways and other public-service projects led the government to subsidise private builders or contractors and to buy out failed companies. The Portuguese government has a long-standing policy of large-scale borrowing in foreign markets due to persistent public deficits. London was a global financial market (as were Paris and Frankfurt). Available capital in European financial centres preferred stable returns, and Portuguese government bonds suited this purpose.

Portuguese government borrowing began with the securities of the 3% interest-rate loan of 1852. The government decided to lump all the previous foreign public loans into a single consolidated loan and to combine future foreign borrowing into this same loan through successive bond issues. This loan attained huge nominal amounts, although the securities' low market prices in the European financial markets brought much smaller amounts into the Portuguese exchequer. Available sources show that the market price of the Portuguese bonds in the London Stock Exchange was sometimes very low.¹⁴ According to most historians, this fact spread in the markets an image of highly speculative opportunities for foreign investment in Portuguese bonds. Moreover, in the 1870s the government decided to borrow by soliciting redeemable loans. By the 1890s, six loans of this kind had been floated on foreign markets.

In 1892 the Portuguese government could not pay these loans' amortisation amounts, and paid only a third of total agreed interests. In response a partial bankruptcy was declared, and European markets suspended their lending to Portugal: it was necessary to renegotiate all the previously referred loans with the lenders. This was a difficult task which was only accomplished in the beginning of the twentieth century through a conversion in 1902 of all of them

into a loan with a 3% interest rate. Meanwhile, only one new small 4.5% interest-rate loan was obtained in 1896 through the use of the monopoly tobacco rent to guarantee interest payments.

The Portuguese government also took out short-term loans throughout the second half of the nineteenth century from several foreign banks in Europe. This floating debt, owed in British pounds, French francs and Deutschmarks, enlarged the overall public debt.

Estimates of the inflows into Portugal¹⁵ in Table 1 were based on the annual market values of the Portuguese bonds in London, at that time the world's main financial centre, and are unlikely to diverge significantly from what the government in fact received.

Table 1: Portuguese Net Government Borrowing.

1855-1859	1,575	1885-1889	9,893
1860-1864	4,768	1890-1894	4,722
1865-1869	1,758	1895-1899	1,620
1870-1874	3,900	1900-1904	0
1875-1879	3,504	1905-1909	0
1880-1884	9,029	1910-1913	0
Total			40,769

Source: Mata, *As finanças públicas*, p. 261.

Unity: amounts are in thousands of pounds.

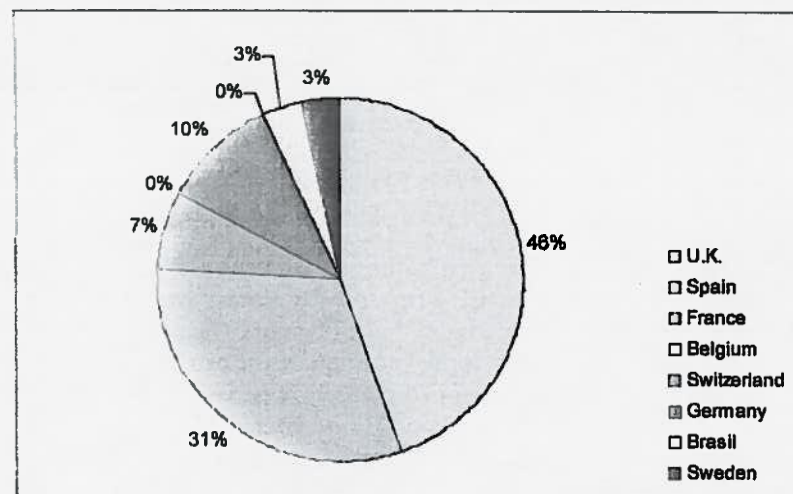
The main conclusion of this essentially narrative accounting is that railways and public debt sought a huge amount of foreign capital. However, total gross flow investment also included a variety of other sectors.

The preference of foreign joint stock companies for insurance, mining, railways and banking before the 1880s

Individual foreign merchants or families may be found doing several kinds of business in Portuguese cities, particularly in Lisbon, the Portuguese capital and main economic centre in the country. On the eve of the First World War, Lisbon had 114 foreign firms.¹⁶ Oporto and Funchal were two leading urban centres exporting Port and Madeira wines.¹⁷ Foreign firms, mostly run by British families, dominated this export business.¹⁸ As Hennart¹⁹ explains, export-oriented business attracts foreign capital, with promoters usually belonging to the more developed country. The family character of the businesses may be understood if one considers the wish to allow relatives or close friends to share in a profitable opportunity.

During the decade following the law on joint-stock companies which was passed in 1867, the Portuguese economy attracted a large number of limited-liability companies: many more firms would come in the decades leading up to the First World War. This means that the definition of the juridical conditions for business regulation was a determining factor for private foreign investment in Portugal.²⁰ The law passed by the Portuguese Parliament on 22 June 1867 was based on liberal principles and brought freedom to the constitution of Portuguese joint-stock companies. In most European countries as well, mid-century laws removed many obstacles to company formation. This is what Timothy L. Alborn called 'a new "joint-stock politics" outside the pall of state intervention'.²¹ Even so, the law retained the need for foreign joint-stock companies to gain authorisation from the Portuguese government to carry on business in Portugal. The law also obliged foreign companies already working in Portugal to obtain the same business licence. After selecting a Portuguese representative, the applicant company had to disclose its legal statutes in its country of origin. The applicant was required to agree to abide by the laws of Portugal – especially those of a fiscal nature – and to accept the decision of Portuguese courts in all legal matters. Applications for business licences preserved in the

Figure 1: Distribution of the number of Companies by countries of origin (1867–1875)



archives of the Portuguese Ministry of Public Works are a reliable source for data regarding the enterprises seeking authorisation from 1867 onwards. This paper explores this source for assessing the role of portfolio investment. Most was of British origin, as Figure 1 shows.

Some of these companies were multinational firms registered abroad that decided to open a branch in Portugal. Others were what Mira Wilkins calls 'free-standing companies'.²² They were founded as joint-stock limited-liability companies purposely registered abroad to conduct business in Portugal, were legally independent and ruled by a board of directors. The stockholders purchased shares because the companies were presented as very attractive and generated confidence. Free-standing companies operated directly in the country, usually in a single economic sector. Vieira describes how British companies of this kind came to Portugal to operate in urban and suburban transport and to build railways during the second half of the nineteenth century.²³ There is no other available study comparable to Vieira²⁴ related to railway businesses during the 1890s and the early twentieth century up to the First World War, but the rea-

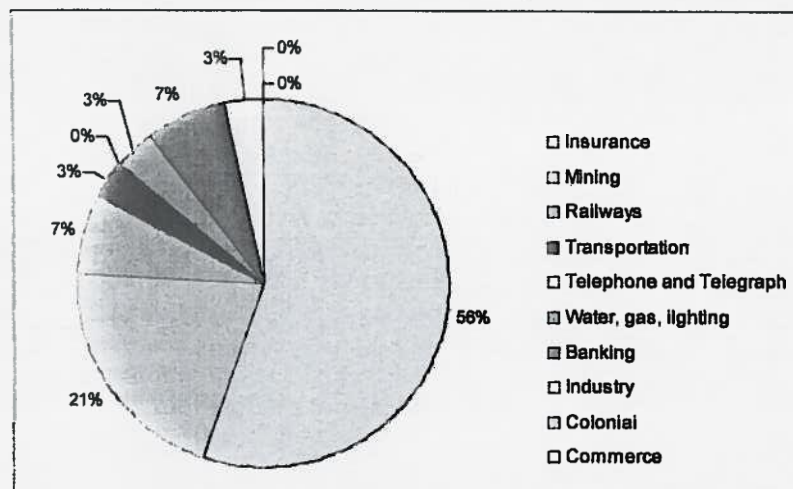
son why these companies had this free-standing profile is because they needed capital to bring together profitable or potentially profitable businesses, although very often the prospectus of the companies might cloak this reality and the expected returns did not materialise. Most of the free-standing companies were short-lived. European investors looked for good investment opportunities, and few really appreciated the huge difficulties in managing distant businesses. Failures were very frequent in free-standing companies everywhere, and Portuguese railway building was no exception.

The following sections describe the presence of foreign private-portfolio investment in the Portuguese realms of insurance, mining, shipping, banks, telegraphs and telephones, water and gas provision, colonial business and other industrial activities. A difficult question is the possible doubt as to whether the announced capital was actually realized, but no information is available case by case. The approval of the application and granting of the licence to a company usually took a calendar year.

Some joint-stock companies were devoted to mining, a very risky sector. Their headquarters were abroad as well as their boards of directors. The Iron and Coal Company Limited had its home office in London and came to Portugal to operate ten mines for iron and coal in the Portuguese region of Leiria, which had been granted to George Croft. The Oporto Mining Company Limited was founded in London and was authorised in 1865 to run a lead mine near Oporto.

Some of the banks were binational, such as the London and Brazilian Bank Limited (or London, Brazilian & Maná Bank, the name prevailing at least until 1866). Its seat was in London and it was authorised to open local branches in 1863; it was renamed the New London and Brazilian Bank Limited in 1872. The Brazilian and Portuguese Bank Limited in London was also doing business in Lisbon and Oporto. Although foreign banking had no role comparable to that described by Lennart Schön for foreign banking in Sweden, capital applied in banking was much more substantial than that in mining (equity amounted to about £100,000 in mining companies and to £1 million in banks).²⁵ From the 1890s the most successful was the Crédit Franco-Portugais, which was linked to the French Crédit Lyonnais and still exists today under the name of Crédit Lyonnais Portugal.

Figure 2: Distribution of the number of Companies by sectors of activity (1867–1875)



Shipping was another sector with bi-national companies. Evidence shows that during the 1850s and 1860s foreign capital was gaining an increasingly significant role in the Portuguese market. Compared with the long-established business traditions of British families in the port-wine export business since the eighteenth century, association of capital into formalised joint-stock limited-liability companies represented a higher sophistication of foreign capital for business in Portugal and strengthened relationships between Portuguese markets and foreign countries.

Until the 1870s insurance and mining were the preferred sectors, as Figure 2 highlights by indicating the number of companies in each sector: from the 1890s to the First World War favoured sectors also included water, gas or electricity provision, cork products, metallurgy and colonial business. Most insurance firms were branches of multinational companies. It is fair to say that insurance was a well-established corporate sector in most developed European countries. The search for larger international markets for their activities in order to profit from economies of scale was the main motive in bringing these companies to a small and less developed

country such as Portugal. They could profit from the particularly privileged geographical position of the country on the sea routes from northern Europe to the Mediterranean countries, between the New World and Europe and between Africa or Asia and the old continent.

The first insurance companies to ask permission to come to Portugal were Spanish, going into business very early (1868). The *Companhia el Fenix Español*, based in Madrid for life, maritime and fire insurance, began business in Lisbon under the management of a wealthy Portuguese merchant Adolpho de Lima Mayer, and continued from the mid-1870s under the title *Lima Mayer & Filhos*. The *Companhia de Seguros La Española* from Madrid operated in Lisbon and *Krus & Company* was their representative; they had an office in Tenerife and say in their application to the Portuguese Ministry of Public Works that 'this company already has a lengthy history of operations in Portugal'. *Krus* was also the agent in Lisbon for the *Companhia la Aseguradora* which was based in Barcelona and operated only in maritime insurance. Two more Spanish maritime insurance companies began their business in Lisbon. *La Companhia Catalana General de Seguros* from Barcelona was from 1868 represented by *Julio Possolo Hogan & Company*. It was a short-lived company, as it was liquidated in 1879. Another short-lived insurance company from Barcelona, *El Cabotage* represented by *João Baptista*, also came to Portugal in 1868, but finished its activity in the country at the end of 1870.²⁶

The British insurance companies arrived soon thereafter, choosing British firms with business in Lisbon as their agents in Portugal. The British and Foreign Marine Insurance Company Limited, the largest of all (with equity amounting to £1 million) was based in Liverpool and operated in Lisbon: *Garland Laidley & Co.* was their representative in Portugal. The *Queen* (with equity amounting to £500,000) was based in Liverpool, and *Custance Son & Kendall* ran their business in Lisbon. From 1874 on another £1-million equity company, the *London and Lancashire Fire Insurance Company*, also came to Portugal; *Thomas Creswell* represented it in Lisbon. In 1878 the *Marine Insurance Company* opened an office in Oporto, and in the same year the *London and Southwark Insurance Company Limited* opened an office in the Portuguese capital.

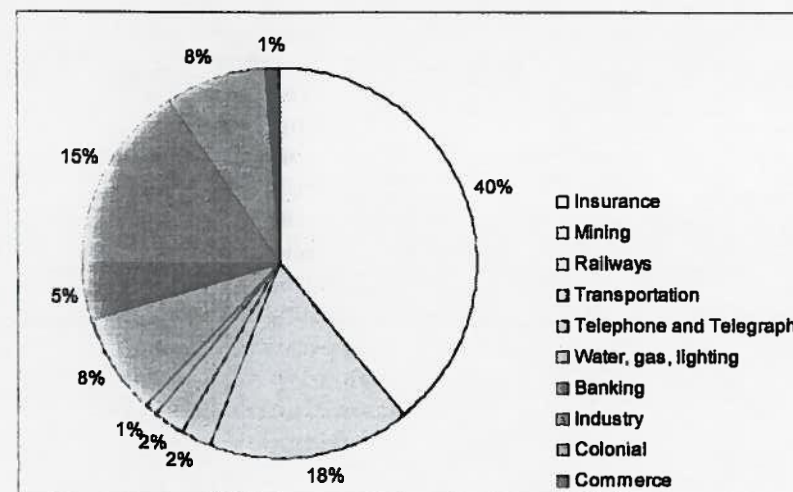
From England the Norwich Union fire office, administered in Lisbon by Abel Dagge & Company, had its home office in Norwich. The French L'Atlantique, from the Havre, with fr.1 million equity, operated in Lisbon and Oporto. Lima Mayer and Domingos Ribeiro dos Santos Junior were their agents, respectively.

The Schweiz, for transport insurance, from Zurich, had equity amounting to 5 million francs: Ernesto George was its operator in Lisbon. With a similar equity and role, Jeronymo Bobone ran the Swiss Neuchateloise from Neuchatel, while Lloyd from Winterthur was offering transport insurance under Wilhelm Dalheuer's management in Lisbon from 1873 on, with similar equity. Whise Dahl & Company represented the Swedish Neptunus from Stockholm for shipping insurance.

The German Magdeburger Allgemeine Versicherungs-Actien-Gesellschaft came in 1879, as well as the British Maritime Insurance Company Limited from Liverpool. In the next year Lisbon received an office of The Lion Fire Insurance Company Limited which had offices in London and Paris. Later on, the French La France Maritime also obtained authorisation to come to Portugal. For the insurance sector's share of total Portuguese business see Figure 3.

In mining corporate capital was entirely devoted to the activity in Portugal. A legal constraint of the law of 22 June 1867 required proof that applicant companies were operational before coming to work in Portugal, in order to avoid fictitious firms. However, though each company was founded precisely to do business only in Portugal, the Portuguese Ministry of Public Works considered the authorisation necessary because 'after having been organised, it asks authorisation to work in this country where most of its operations are, according to its statutes'.²⁷ Drawing on its extensive experience in mineral exploitation since the beginning of the industrial revolution and resultant advanced technological knowledge and high engineering profile (as Figure 3 shows) a well-developed Europe could afford the move into a small and underdeveloped country such as Portugal. The Serrinha Tin Company Limited from London was established in Oporto under Maximiliano Shreck's direction. The British Marinha Grande Charcoal Ironworks Mining Company Limited opened an office in Lisbon in 1874 under William

Figure 3: Distribution of the number of Companies by sectors of activity (1867-1914)



Medlicot's direction to work the Marinha Grande mine in the centre of the country. The Spanish Sociedade Mineira La Sabina preferred to work the mine of S. Domingos near Mértola from 1874 on, which was close to its headquarters in Huelva, but by 1880 the mine belonged to Mason & Barry Limited from London. The French Sociedade de Exploração de Minas em Portugal founded in Paris in 1874, was run by João Baptista Scola and Ferdinand Dietzch. The British Guadiana Company Limited opened an office at Lisbon in 1875 to work the Caveira mines (as well as some other Spanish mines near Huelva), bringing Francis George Claudet as administrator from London to Portugal. The San Thiago Iron Company Limited was founded in London in 1877 to work the iron mines of the southern Portuguese region of Alentejo. The Lusitanian Mining Company Limited came from London to work the mine of Palhal from 1879 on.

The only industrial company coming to Portugal about this period (1877) was the Spanish Sociedade Anonima Espanhola da Pólvora e Dinamite from Bilbao. A Brazilian company, the Companhia de Carris de Ferro de Lisboa, preferred urban transport business,

operating the Lisbon tramways with a £45,000 capital base up to 1890, increasing to £200,000 due to electrification and company expansion. Brazil maintained strong relationships with Portugal: the ex-Portuguese colony had been independent since 1822 but cultural links remained very strong, including the use of the same language. Economic links were also very strong, including trade, emigration and regular capital transfers. This company is an example of successful diversification: founded in Rio de Janeiro in 1872 to institute a horse-drawn service in Lisbon in 1873, it was reorganised and re-founded in Lisbon in 1888 and obtained the monopoly of urban transport in the Portuguese capital in 1892 through a contract with the Municipality on very favourable terms. Before the end of the century the company was operating a 64-km network, and introduced electrical tramways from 1901.²⁸

At this time, water provision was the business chosen by only one small British firm, the Oporto Waterworks Company Limited (represented in that city by A.M. Kopke de Carvalho). It is very interesting to remark that industry did not attract foreign companies to Portugal. With the exception of the gunpowder production only a cork-industry company came, the London and Lisbon Cork Industry Company Limited, operated in Lisbon by Henrique Mitchell, with £100,000 in capital.

Failures were frequent, as was the case in other small host countries. A well-known failure, The Lisbon Steam Tramways Company Limited, formed to build a Larmanjat railway system from Lisbon to Sintra, was founded in London in 1871 under the Portuguese Duke of Saldanha's patronage: it has been thoroughly studied in Vieira.²⁹ But it was only a case of speculative business, as its agent in Lisbon, E. Pinto Basto & Company, never laid any rails at all. Further speculative business occurred with the Spanish firm Sociedade Alcobenda & Company, which opened an office in Lisbon in 1882 under the name Construtora Hispano-Portuguesa. The company advertised in Portuguese newspapers fixed interest rates from 12 to 18% or even 24%, guaranteed by land and capital. As it was not a joint-stock company, the Portuguese government could only forbid its business because of the exclusive rights previously given to the Banco de Portugal to establish savings banks in the country. In the banking sector another case occurred with the Banco Popu-

lar Espanõl, which obtained authorisation to do business in Portugal but never opened any office in the country.

Using the discretionary power in the law on joint-stock companies passed by the Portuguese Parliament, the Portuguese government refused authorisation to the French insurance company La Centrale to operate in Portugal in 1882. This company had been based in Paris since 1863. Permission was denied because its statutes did not allow for the possibility of establishing business abroad, and French authorities could use this fact as an argument to ignore any Portuguese diplomatic claim against the company. The company was founded in Paris and maintained offices in Italy from 1866 and in Spain from 1880.³⁰

Despite these failures, many corporate companies were normal business cases achieving commercial success in Portugal. In the Stock Exchange Official Intelligence of 1908 fourteen nineteenth-century foreign companies are quoted, a fact that proves a strong rate of survival.³¹ It is even surprising that the rise in the number of foreign joint-stock companies was greater than that enjoyed by Portuguese firms during the 1870s both in absolute and in relative terms. At the time of the law on foreign corporations (1867) there were 115 Portuguese joint-stock companies on the Portuguese mainland (and two more in the islands) and four foreign joint-stock companies. Ten years later, in 1877, 135 Portuguese joint-stock companies had begun new business (and one more in the islands) while the number of new foreign joint-stock companies now amounted to 29: the Portuguese had gained 20 (17% rise) and foreigners 25 (620% rise).

This means that the corporate economy in Portugal was being pushed from the outside, if one remembers that total investment was proportional to the numbers of companies, be they national or international. In fact, entrepreneurial initiatives to create new companies were predominantly from abroad. Great Britain, Spain and Switzerland were the leaders among the countries of origin, followed by France, Sweden and Brazil.

Diversifying into modern sectors from diversified countries of origin

During the 1880s foreign companies diversified into modern sectors and preferred telegraphs, telephones or gas and water provision. If one seeks to explain the determinants of capital inflow, it will be necessary to say that although a small economy has a weak pulling power, these were new economic sectors using modern technologies not available in Portugal at that time.

The Edison-Gower-Bell Telephone Company of Europe Limited was authorised in 1884 to install and operate telephone networks. The American British and Continental Cable Company Limited from London obtained immediate authorisation from the Portuguese government to lay the communication cable from Lisbon to the Azores and from there to America.³² The Saint Michael Gas Company Limited was created to provide light to the city of Ponta Delgada in the Portuguese Atlantic island of S. Miguel (Azores) in 1886.³³ In the next year the British engineer Jonathan Ireland founded the Gas and Light Company of Portugal Limited in London to supply Portuguese cities in general particularly Vila Real de Santo António.

The Anglo-Portuguese Gas and Water Company Limited was established in London in the same year and obtained its licence to do business in the country providing gas and water to Portuguese cities, particularly to Figueira da Foz, under monopolistic conditions. The British engineer Frederic Briffault, living in Figueira da Foz, was the chairman of this company in Portugal.³⁴ Another British firm, the Anglo-Portuguese Telephone Company, was set up in London in 1887 to provide telephones and telegraphs in the country.³⁵ The Société Anonyme de l'Éclairage du Centre from Brussels was also authorised to do business in Portugal in the same year.

Of course, a few other companies preferred the more traditional and established sectors of insurance and mining. In mining, the British Barancannes Copper Mining Company Limited was based in London and received authorisation to work the Portuguese mine

of Barancannes near Almodôvar under the governorship of Joseph Garland, who lived in Almodôvar. The Palhal Mining Company Limited was created in Glasgow in 1883 and began working the lead mine of Palhal in 1884, a business previously run by the Lusitanian Mining Company Limited. The British Lixa Mining Company was authorised in 1888 to operate mines in the environs of Lixa. The Tinoca, from Glasgow, obtained a similar authorisation for mining in the same year.

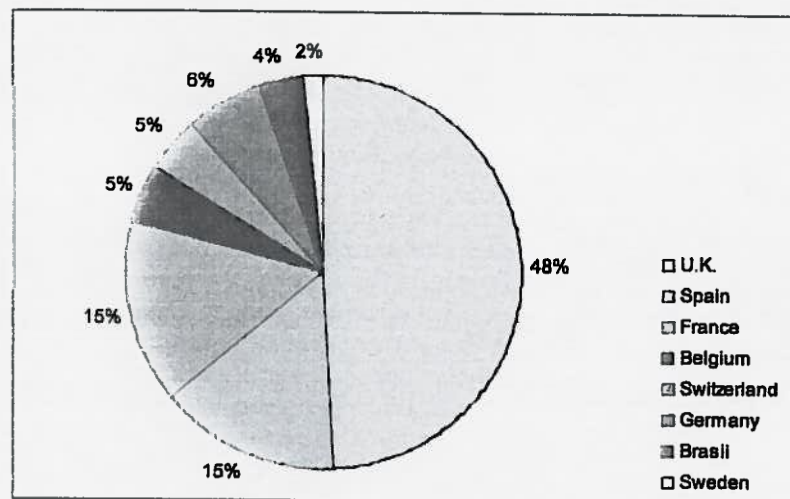
In the insurance sector the Commercial Union Assurance Company Limited, working in London since 1862, obtained authorisation in 1886 to do business in Portugal in life, fire and transport insurance. Francis Curteis Rawes, a British merchant living in Oporto, was its agent in Portugal.³⁶ The office of the insurance company opened in Oporto. From Paris, L'Urbaine opened an office in Lisbon for life insurance in 1883 and for fire in 1885. Two years later the Northern Assurance Company from London also received authorisation to come to Portugal.³⁷ From Hamburg the Nord-Deutsche Versicherungsgesellschaft was authorised in 1888 to run their insurance business in Portugal. In the same way, the Swiss transport-insurance company Federal, with home office in Zurich, was authorised to operate in Portugal in 1889 for 50 years: Sousa Lara & Company, whose business was mainly concentrated in the Portuguese colony of Angola, represented the company in Lisbon.³⁸

Although foreign businesses also penetrated small countries' colonial empires because colonial businesses were flourishing at this time, this is not the subject of this chapter. We may remark, however, that Africa was becoming a coveted continent for all European countries, particularly after the Berlin Conference.

To sum up, there was a clear diversification. From three basic sectors, insurance, railways and mining, firms spread to new and sophisticated sectors including telegraphs, telephones, water, gas and electricity provision as well as urban transport. Most of these required modern technologies and engineering skills: Britain was the world leader in inventions and patents, while the splendid engineering schools in France and Germany were the envy of the world.

Spanish corporate firms were very numerous, but English companies were the largest and most powerful. French, Belgian, Swiss

Figure 4: Distribution of the number of Companies by countries of origin (1867–1914)



and German affiliations were also present in Portugal, but on a more modest scale (Figure 4). Geographical proximity to Spain, the only neighbour of Portugal, can explain why Spanish firms undertook the enlargement of their markets to the whole Iberian Peninsula, as economic relations had always been conspicuous, particularly throughout the border regions of northern and eastern Portugal. Good political relationships between the two countries reinforced these economic ties, although the plan for a political union under the single crown of Fernando II failed.

However, the role performed by Great Britain in globalisation explains the larger number (and greater importance) of British joint-stock companies in foreign countries. This is the case, moreover, in small countries having good relationships with the British Isles: one might consider the traditional commercial relationships between Portugal and England dating back to the Middle Ages which were accompanied by good political relations between the two countries under successive diplomatic alliances through the centuries. In the 1850s the two royal families had close family ties: Maria, the Portuguese queen, married Fernando of Saxe-Coburg, becoming a very

close friend of Queen Victoria. Their long and detailed letters telling of their children, feelings and political concerns, regularly exchanged on a monthly or even weekly basis illustrate the excellent relationship between the two thrones which was echoed by the two countries' businesses.³⁹ These friendly political relationships persisted into the second half of the nineteenth century, and were only impaired in 1890 due to the political competition in defining colonial borders in Africa. The British Ultimatum gave rise to anti-British feelings among the Portuguese people, particularly in Lisbon, where the British consulate was stormed by a mob,⁴⁰ and also in Oporto where the Liga do Norte movement inveighed against British citizens living in Portugal.⁴¹

These events might indicate discouraging conditions for British companies working in Portugal, but it is difficult to assess their impact on the history and success of British firms. However, a complaint to Her Majesty's Minister in Lisbon from the Anglo-Portuguese Telephone Company is perhaps revealing. The complaint described ill will and persecution on the part of the Municipality of Lisbon, obliging the company to replace all the telephone cables hanging from the walls of the houses because they damaged private property. Predictably the company feared the costs involved in posts, labour and time to move them.

Despite these problems in Anglo-Portuguese diplomatic and political relationships, the British firms working in Portugal continued under the juridical background established in the law passed in 1867 for all foreign companies. No effects can be observed from the 1890 events in terms of British corporations coming out to Portugal, either in that year or in those that followed. In 1890 among eight foreign joint-stock companies authorised two were British, Henry Bucknall & Sons⁴² and the Cork Company. Cork was a very important material, particularly since at this date artificial substitutes for it were still to be found. Portugal was (and is) one of the few world producers, along with Spain and Greece (the main Mediterranean European countries with a climate fit for cork trees).

Of the other six foreign companies three were French, two were German and one was Belgian.⁴³ Le Phénix from Paris⁴⁴ and La Nationale were devoted to the insurance business. The Parisian industrial company founded by Émile Roulet, Sociedade Geral Franceza

de Conservas Alimentícias⁴⁵ came to Portugal to can sardines in olive oil. It used the currently available technology and enlarged its equity from 500,000 to 1,200,000 francs in order to operate in Portugal and on the Istrian coast. The main reason for the choice of the Portuguese and Istrian coasts was the lack of raw material along French coasts, due to the unpredictability of the sea routes of sardine schools. The Deutsche Lloyd Transportversicherungs-Aktiengesellschaft from Berlin, existing since 1870, came to Portugal,⁴⁶ as well as the Preussische National Versicherungsgesellschaft from Stettin. They were both insurance companies. At last, a mining company founded in Brussels (although having its main office in Paris), the Sociedade Geral de Minas de Estanho de Bragança, with Portuguese, Belgian and French capital, was also authorised to work the mines of Bragança in Portugal for 30 years, an earlier company with those rights, the Sociedade Belga-Portuguesa Arrendatária das Minas de Bragança, having gone into liquidation.

The pattern of the foreign companies coming to operate in Portugal did not change in the 1890s. Among the traditional sectors, many insurance companies added their business to the other companies operating in Portugal. Good examples are Wilhelma from Magdeburg, the Alliance Insurance Company from London,⁴⁷ the Badische Schiffahrts-Assekuranz-Gesellschaft from Mannheim,⁴⁸ the Lloyd Bavaro from Munich,⁴⁹ L'Union Maritime from Paris, the British Palatina Insurance Company, Limited⁵⁰ and the Nouveau Lloyd Suisse from Winterthur.⁵¹

During the second half of the 1890s the Credit Franco-Portugais began managing exchange and banking operations in Lisbon, linked to the French Crédit Lyonnais, which proved successful.

The European and Azores Telegraph Company, Limited proposed to operate the telegraph business.⁵² The Parisian Sociedade Torlades was accepted for commercial, industrial and financial operations, excepting discount and deposits.⁵³ As usual, only a small number of foreign industrial companies decided to operate in Portugal. Timothy L. Alborn suggests that 'most successful Victorian companies were in sectors like financial service, or transport and utilities'.⁵⁴ This fact may perhaps explain the larger presence of British companies working in these sectors in Portugal. Wilkin's theory on clusters seems to apply to the Portuguese case only in manu-

facturing, tropical colonial foodstuffs and cork. Distillation and sugar refining brought small companies and French technology: La Raffinerie Privilegiée du Portugal was founded in Brussels and in 1896 obtained a monopoly to refine sugar in Portugal. The Robinson Bros. Cork Growers, Limited came to process cork.

In the twentieth century before the First World War private flows of capital continued coming to Portugal. Two Brazilian companies based in Rio de Janeiro obtained authorisation for insurance business in Portugal: the Companhia Sul Americana and the Companhia de Seguros Marítimos e Terrestres 'Mercúrio'. For shipping and transport insurance La Marine Marchande was founded in the Havre. This company included Portuguese capital, particularly from the Azores-Lisbon firm Bensaúde & C^o. The presence of Portuguese names in some companies mean that there was a participation of Portuguese capital in the business, but also a need for foreign partners to run it.

Technological innovation coming to Portuguese industry from foreign industrial companies can hardly be considered to be very significant, even though the country did not have a notable industrial tradition.⁵⁵ Foreign joint-stock companies came in a small number (13) to industry and preferred two specific labour-intensive industrial sectors, cork and canned fish, because of comparative advantages – exceptional raw material conditions together with abundant cheap labour. Portugal's abundant resources in cork, fish and olive oil can explain this foreign migration to Portugal, rather than any perceived need for commercial expansion or internationalisation in these sectors. It is possible to suggest a horizontal technology transfer in the introduction of the boiling-steam machine to replace the intensive male labour force in the cork industry: but in fish canning the boiling technology coupled with soldered tin cans and a female labour force were already the rule. Sometimes expertise was a relevant point. It seems to be the case with the British firm Baldwins, Limited, who came to Portugal for mining, smelting and amalgamation. Alfred Baldwin, an English MP,⁵⁶ founded this company with three steel-producers.⁵⁷

The impact of foreign capital on the Portuguese economy

Foreign capital and emigrants' remittances played a decisive role in the Portuguese economy because of the seemingly permanent trade-balance deficits of the period. From 1850 to 1890, Portugal's accumulated trade deficits amounted to £44 million according to Lains,⁵⁸ and £80 million according to official data.

It is difficult to estimate foreign private investment. As less than 100% of sums invested actually reached Portugal (particularly in fields where free-standing companies did not dominate), a rough estimate may depart from Hobson. On showing that for all European countries together the British new capital publicly issued was about £200 million, Hobson attributes to Portugal some £8.136 million,⁵⁹ giving Portugal as much as France and a good deal more than Germany:

Table 2: *Destination of British new capital publicly issued (Amounts in £)*

Italy	12,440,000
Portugal	8,136,000
France	8,020,000
Germany	6,364,000

Source: Hobson, 'British overseas investments', p. 30.

Cramon is less optimistic over Portugal in his computation of British real amounts going abroad, but even disregarding Portuguese-issued external bonds and considering only corporate stocks and miscellaneous investments (except for railways), he concluded that mainland Portugal received accumulated direct private British investments amounting to £5 million with a £6.5 million market value.⁶⁰

Sir George Paish⁶¹ estimated⁶² an annual British investment amounting to £100,000,⁶³ and his estimates were widely accepted and often repeated. Platt remarks: 'Paish's figures [...] are to be found behind nearly every stock figure for Britain's investments overseas (portfolio and direct) at the outbreak of the First World War.'⁶⁴ These data do not include investment in Portuguese colonies.

To sum up, foreign investment in Portuguese government bonds amounted to £40.769 million, in railways to £12.9 million and British investments in corporations, mines and miscellaneous undertakings to at least £6.5 million. According to Paish from the end of the century to the First World War a further £100,000 arrived from Britain annually (giving a total of £1.4 million). This does not include non-British foreign investment in sectors other than railways. A similar amount of £7.9 million (6.5 plus 1.4) can be postulated if we assume that non-British companies invested in the same proportion as the British (52% of the companies were non-British). For this estimate it is enough to remember that in this period the average per company did not depend on nationality. If Mark Casson⁶⁵ is right in his control theory, equity exercised control over foreign operations, and 'If such a control existed, then the statistics of [...] foreign investment should clearly be revised upwards' to more than £70 million in order to include the free-standing companies' equity as direct investment.⁶⁶

Of course, repatriation of interest and wages may have made the net inflows of capital very small. Even so, globalisation effects were powerful because of technology spillovers. Perhaps a certain proportion of 'foreign investment' was actually domestic in the sense that it was amassed in Portugal, was remitted abroad and then returned as 'foreign': but in any case, if it was remitted abroad it was out of the Portuguese economy. So, any decisions to enter the Portuguese economy must be considered as foreign-portfolio investment. With joint-stock companies the accumulation of capital from small savers and its placement on international markets could supply the huge Portuguese needs for investment in most sectors. Limited liability made investment more attractive due to the limited risk involved: stock-exchange markets in the main European cities cleared the demand and supply of funds among shareholders. Internationalisation was the rule.

Considering the limited availability of savings in a small and underdeveloped country such as Portugal, the estimated average annual inflow of gross foreign capital of about £1 million was surely very significant and beneficial for compensating the permanent deficit in the trade balance. As a small country, Portugal received with foreign investment not only capital to stimulate economic growth

in the globalisation context but also technical advice, technology transfer (railways and telephone technology, for example) and know-how on management and corporation culture. Cheaper transatlantic conveyance of goods and mail and access to export markets, insurance underwriters and financial institutions were made available as externalities. As economists like to say, vertical demand chains are channels of technology transfer.⁶⁷ Moreover, Portugal received corporations from a largely diversified group of European countries and from Brazil. On examining European entrepreneurial achievements, Alfred Chandler identified three European business cultures. According to him, the business culture of the Anglo-Saxon world emerged from the acceptance of inequality and the middle-class values of individualism, freedom and self-interest. The Germanic corporation developed a cultural context of co-operation, training and education. The Latin-area cultural environment seems more attuned to institutional potential. More recently Kalthoff *et al.* have added a Scandinavian corporate culture.⁶⁸ If we believe that Europe has a dense European culture, national differences in corporate culture become very relevant. Portugal tasted the entire range of business culture that the European corporate economies could afford. The USA was not yet exporting capital, technologies or cultural influences and was still receiving them from the old world, the great source of all relevant cultural influences at that time. The mixed national origin of foreign companies coming to Portugal afforded the country the benefits of plural approaches to business. Family-run firms may be regarded as typical European businesses, managed by the founder or by the entire family in a consensual way. Free-standing companies usually had decentralised leadership with prominent local Portuguese directors. The most successful firms needed to hold fast to firm political strategies and long-run goals, as well as maintain good relationships with central and local political authorities. In a certain way, the role of the State in defining the general legal framework and in imposing regulations gave rise to a close relationship between it and foreign companies working in Portugal. They depended on government authorisation to run their businesses and were very often facilitated thereby in decisive ways.

The principle of association of capital took on a number of faces: innovation is essentially creative and rational. For most of the com-

panies, their coming to Portugal was itself an innovation, as they could achieve the aims of the firm in a different way by enlarging their geographical operations and by profiting from scale economies and interactions with a different society. They also spread the fundamental idea that a business needs a vision, a pre-understanding of market opportunities to raise money on the stock exchange, as well as a capacity for action, for putting information together. Domestic companies worked sometimes as agents for foreign companies (a good example is the shipping sector). Each company is a conceptualisation of an ideal following a meticulous reflection on opportunities. Insurance followed mainly the scheme of a multinational firm getting subsidiaries or affiliates, whilst railways, mining and colonial businesses followed the free-standing company model. All of these models were instrumental in satisfying investors' search for superior returns, and were attuned to the realisation of the social values included in the pre-World War I vision for business.

Conclusion

In a small peripheral economy such as Portugal nineteenth-century globalisation brought the ideal of achievement as a driving factor into material progress. Greater capital availability coupled with emigration made possible increasing labour productivity. Dreams and projects to emulate the core European businesses animated the Portuguese intelligentsia and the political parties of the day. Pragmatism and fascination for modernity were hallmarks of the epoch in Portugal.

Before 1892 a freer trade policy also eased competition, increasing the integration of Portugal into the nineteenth-century global market. A real free-trade policy would only be put in place during the prosperity of the post-Second World War years – in the 1960s when Portugal joined the EFTA and more recently with Portugal's entry to the EEC. In a long-term perspective this is, however, a recent push towards globalisation, as significant flows of labour and capital in the past, particularly before the First World War, had al-

ready provided strong ties with the core European countries. The implementation of these ties led Portugal into fifteenth place in the ranking of the most globalised countries in 2000, according to some globalisation indexes.⁶⁹

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I am grateful to the Portuguese *Fundação para a Ciência e a Tecnologia* and the *PRAXIS XXI* Programme for their financial support for travelling to European archives for the research. I thank the EUSSIRF programme for a visit to the BLPES. I thank Bruno Fritzsche, Lars Svenson, Jaime Reis, Pedro Lains, Nuno Valério, Maria Ioanis Baganha, Joaquim da Costa Leite and Jorge Alves for discussion in this issue. I thank the staff of the Archive of the Portuguese Ministry of Public Works for the assistance I received. I thank Dr. John Huffstot and David Edmonds for helping with the English. Errors, omissions or faulty interpretations are my own.
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- 30 The application to open an office in Portugal was submitted on 29 November 1881 (Archive of the Portuguese Ministry of Public Works, DGCI-RCI-1-S-S.A. estrangeiras, caixa 1).
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- 32 *Diário do Governo*, 31-5-1884. The statutes were registered in Somerset House on 1 December 1883, when six British gentlemen and the French Count Alfred Xavier de La Chapelle founded the company in London. Simon Charles Hadley was the director of the company in London and Caetano Augusto de Sousa Carvalho (a merchant) his representative in Lisbon.

- 33 Decree 5-2-1886.
- 34 The directors were Robert Laidlaw and Herbert Percy Munday, aided by John Milton Smith. The Public Record Office preserves the claims of the Company against Portuguese duties in 1889 (F.O. 63-1213, F.O. 63-1214, F.O. 63-1220).
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- 36 The company was founded on 3 November 1862 according to the Act 748 Victoria c. 110, but became a joint-stock company on 8 August 1885.
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- 39 Ruben Andersen Leitão, *Novos documentos dos Arquivos de Windsor, Coimbra* (Coimbra Editora Lda, 1958).
- 40 This riot is documented in F.O. 63-1222, Public Record Office. The British consul in Lisbon reported this assault on the British Consulate at Lisbon in Rua de Santa Martha 94 to Her Majesty's Minister on 13 Jan. 1890. He wrote: 'Sir, I have the honour to report to you that last night about 9 o'clock, the British Consulate was surrounded by a numerous mob who pelted the windows with large stones breaking every pane of glass as well as part of the frame-work. The Coat of Arms was wrenched off from its place and dragged through the streets. The small force of police are at present guarding the Consulate, but as all the windows are broken, the shutters are being closed and a large number of people still about the building, and fearing fresh demonstrations of a similar nature. I have resolved to keep the office closed for the day, pending your instructions. C. O'Donnell'.
- 41 The British consul at Oporto reported to Her Majesty's Minister G. Petre in Lisbon the fears of British ladies to walk the streets of Oporto and told of a particular case concerning a lady: 'This lady was in a tram-car full of people when one of the mules fell. Upon which a passenger dressed like a gentleman said looking hard at the English lady: "Esta mula é uma ingleza: Todas as inglezas são mulas" [This mule is English, all English ladies are mules]. From a Portuguese with the habitual courtesy and *retenue* of the Portuguese - nothing could be more gross and insulting than these words, yet they elicited not a murmur of disapproval from the other passengers' (F.O. 63-1222, Public Record Office). The British consul at Oporto also referred to a letter of protest from the English Colonel Sandeman, as well as other cases published in *The Times*.
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- 46 *Diário do Governo*, 21-7-1890. The interest of insurance companies in coming to Portugal may be related to the opportunity to insure ships and their cargoes from Lisbon to the Portuguese African colonies. At this time the Portuguese government established the rules for regulating subsidies for monthly linked shipping routes. The equity of the company amounted to DM 3,000,000.
- 47 *Diário do Governo* of 14-5-1892. This life and fire insurance company was founded on 4 August 1824 to work in the U.K. and abroad.
- 48 *Diário do Governo*, 15-12-1893. This transport-insurance company was created in 1840 with equity of £500,000 which was enlarged now to DM 4,000,000.
- 49 *Diário do Governo*, 15-3-1892. This transport-insurance company had equity amounting to DM 4,000,000.
- 50 *Diário do Governo*, 23-4-1894. The company had offices in Manchester.
- 51 *Diário do Governo*, 10-1-1894. This land and sea transport-insurance company was founded on 14 June 1882 for 50 years. It had equity amounting to Fr. 4,000,000 and enlarged it to Fr. 5,000,000.
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